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PICKING UP THE SLACK: SOCIAL VENTURE CREATION UNDER MARKET FAILURE CONDITIONS (SUMMARY)

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≈ SUMMARY ≈

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UNDER MARKET FAILURE CONDITIONS**

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Principal Topic

Though scholars have suggested that entrepreneurs respond to certain socioeconomic conditions by engaging in social venturing activity, compelling empirical evidence is lacking. A prevalent explanation of social venture creation is the market failure perspective. This perspective holds that social ventures are created to address social issues that the market and the government have failed to deal with effectively. In this study, we delve into the market failure perspective to explain social venture creation rates and provide an empirical test at the macro-level. We focus on situations in which neither the government nor commercial entrepreneurs are able to correct market failures, thus giving rise to opportunities for social venture creation.

Method

The sample for this study consists of all 88 counties in the state of Ohio and covers the period from 2003 to 2007. While we acknowledge that social ventures can be created under any legal form, we focus on nonprofit organizations to assess social venture creation rates in each county. Data accounting for the creation of 28,836 new nonprofit social ventures were gathered from the Internal Revenue Service. Data on socioeconomic indicators and government spending was gathered from a number of secondary sources including the Ohio Department of Development and the Bureau of Economic Analysis, among others. Random effects GLS regression was employed to account for the panel nature of our data. Temporal lags and a number of control variables were included.

Results and Implications

Our results support the market failure perspective by suggesting that social venture creation rates increase in situations in which suboptimal economic conditions exist and the government is unable to address social issues. The findings also suggest that social venture creation rates are higher when government failure is high, regardless of the socioeconomic conditions. However, under poor socioeconomic conditions, social venture creation rates seem to increase even when the government engages in efforts to correct these conditions. This suggests that social ventures may complement government efforts to address market failure, which gives rise to possible implications regarding cross-sector collaboration. It may be that explicit partnerships with the public sector would lead to better solutions to enduring social problems.

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