INNOVATION, FINANCIAL INDEPENDENCE OR BOTH – WHAT DRIVES SOCIAL IMPACT THE MOST? EMPIRICAL EVIDENCE OF SOCIAL ENTERPRISES (SUMMARY)

Christiana Weber
Leibniz University, Hanover, Germany, christiana.weber@ufo.uni-hannover.de

Jeffrey Overall
Leibniz University Hanover, Germany

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Principal Topic

At the core of any social enterprise is the generation of social impact. Given its importance, we aim to understand what drives social impact the most. We therefore refer to Dees and Anderson (2003, 2006) who suggest three types of social enterprises along the intersection of two schools of thought: (1) social enterprise (John 2006), (2) social innovation (Zahra et al., 2009), and; (3) a hybrid. To analyze which of these is most likely to result in social impact; we build clusters and test the underlying assumptions of each model by measuring financial independence, degree of innovation, increase in innovation, social impact, and network support.

Method

We analyzed data from 363 social enterprises worldwide. Surprisingly, our results not only conflict with the social enterprise (John, 2006) and social innovation schools of thought (Zahra et al., 2009), but also with Dees and Anderson’s (2006) hybrid approach. Considering that the suggested types are not supported, we endeavor to understand those variables that eventually lead to the highest social impact. By applying a structural equation model, we demonstrate that the increase in innovation is the most important contributor to social impact. Interestingly, we found a negative relationship between financial independence and social impact, which contradicts the social enterprise school of thought. Indeed, the relationship between financial independence and social impact is non-linear and when self-generated revenue exceeds the tipping point of 50% of total income, social impact begins to decline.

Results

With these results, we make three contributions. First, we demonstrate that neither the degree of innovation nor the financial independence significantly influence social impact. Second, we show that the increase in innovation is the most important aspect of social innovation. Third, with the negative relationship between financial independence and social impact, we contradict previous assumptions (Bacq & Janssen, 2011) and support those who called for more caution regarding a strong financial orientation (Dacin et al., 2010). It can be inferred that when enterprises become too focused on generating income, they appear to lose focus of their social mission. Striving for financial independence seems to be a wise decision at the beginning. However, this reaches a point of marginal utility in that increasing financial performance beyond a certain level results in a decline of social impact. In summary, the ideal model to reach the highest social impact incorporates some financial independence, an increase in innovation, and a supportive network.

CONTACT: Christiana Weber; christiana.weber@ufo.uni-hannover.de; Leibniz University Hanover, Germany.