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SOCIAL VENTURES AND THE EFFECTIVENESS OF HYBRID LOGICS



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ABSTRACT

Hybrid organizations attempt to integrate elements of multiple institutional identities. One challenge facing hybrids is communicating with their numerous stakeholders the multiple purposes, identities, values and norms of their various identities. This paper investigates the ways that external stakeholders make commitments to hybrid organizations based on the level of decoupling or coherence manifest by the organization. We focus on a particular type of hybrid, microenterprises, and examine the relationship between a microenterprise's expressed hybridity and the time needed to fund its microloans through prosocial crowdfunding. Findings suggest that ventures emphasizing an economic logic are funded more slowly, as are ventures which emphasize a balance between economic and social logics.

INTRODUCTION

Over the last decade, neo-institutional theorists have increasingly focused on the challenges that organizations face as they manage the multiple elements of their social environment (Friedland & Alford, 2002; Kraatz & Block, 2008; Greenwood et al., 2011; Davis & Marquis). Organizations facing this form of pluralism simultaneously operate in more than one institutional sphere are "subject to multiple regulatory regimes, embedded within multiple normative orders, and/or constituted by more than one cultural logic... a participant in multiple discourses and...thus possesses multiple, institutionally derived identities which are conferred upon it by different segments of its pluralistic environment" (Kraatz & Block, 2008, p. 243). Organizations that occupy this position of persistent complexity are most often referred to as hybrids. Examples of hybrid organizations include hospitals struggling with patient care and financial aims (Scott, D'Aunno), chemical companies looking to attenuate their environmental impact (Hoffman, 1999) and ventures seeking to achieve both social and economic gains (Battilana & Lee, 2014). Hybrid organizations are different than other organizations struggling with multiple institutional pressures. They most often exist where institutions have moderate elements of compatibility and comparable amounts of power over organizational activities (Besharov & Smith, 2014). As a result, they are consistently challenged to find ways to combine their multiple aims and operate as a coherent organization, remaining institutionally legitimate and managing the expectations of their multiple stakeholders (e.g., Selznick, 19xx; Kraatz & Block, 2008; Suchman, 1996).

Hybrid organizations generally approach this challenge in one of two ways: through decoupling or coherence. Decoupled hybrids separate the incompatible elements by only partially or symbolically adopting incongruent practices, separating them from one another or from the organization's core operations (Lounsbury, 2001; Thompson, 1967). Just like posting a home security sticker on a house without a system (Belvins et al., 2012), decoupling allows for organizations to limit their investments

in a particular set of institutional practices without fully investing in them, symbolizing legitimacy while generating targeted stakeholder symbols (e.g., Fombrun and Shanley 1990; Stiglitz 2000; Weigelt and Camerer 1988). The second approach involves the much more complicated task of conforming to multiple sets of institutional rules and successfully embodying multiple institutional aims by developing a coherent “whole” that exists beyond the sum of each individual part. Further, the coherent hybrid must simultaneously convince multiple audiences as to the validity of holding those multiple aims and its ability to achieve them.

Yet it remains unclear as to whether, or under what conditions, hybrid organizations benefit from decoupling or integrating their multiple institutional constitutive elements. Are hybrid organizations more likely to garner the support of external constituencies when they selectively balance their hybrid elements, or by fully embodying them, despite the more complex messaging required to do so? We test these alternate hypotheses in a sample of microenterprises funded through the prosocial crowdfunding website Kiva. Kiva works with microfinance organizations around the world in order to help them raise loan money for local small businesses and social initiatives. Ventures are positioned to potential funders as ways for ordinary people to contribute to the greater social welfare of others by lending money to the poorest of the poor. However, these social aims are not singular, as the Kiva platform has implicit economic aims by focusing on lending rather than pure charitable giving. As a result, the dual goals of these microenterprises are to help disadvantaged members of society and generate economic returns (Battilana and Lee, 2014; Thornton et al., 2012). We seek to empirically uncover whether these microenterprises are more likely to be crowdfunded by embracing and communicating their hybridity, or focusing on one of their multiple aims. Are microenterprises crowdfunded more quickly if they are positioned according to the social benefit they would accrue, their economic viability, or a combination of the two?

HYPOTHESIS DEVELOPMENT

Microenterprises are hybrid organizations that serve both economic and social goals. They are often necessity-based businesses operating on a very small scale, frequently as sole proprietors. These small organizations seek funding from MFIs in order to accomplish both social and economic aims by generating improved living conditions for themselves and their families and communities by building sustainable livelihoods (Battilana and Dorado, 2010; Meyskens et al., 2010). Hybridity is challenging for microentrepreneurs as they struggle with the inconsistencies of viewing their enterprises as purely commercial entities that exist for the creation of profits and viewing them as a source of social change for themselves, their families, and communities.

Hybrids are likely to deal with such inconsistencies by either decoupling or by developing an integrated coherent identity. We consider how decoupling and coherence may influence the ways that hybrid microenterprises can signal their underlying values to potential lenders and develop hypotheses regarding the impact of that framing on the effectiveness of crowdfunding. We suggest that these particular hybrids struggle with the balance between their social impact and the economic value of their initiative. As a result, we develop two ways of conceptualizing these microenterprises: a social value orientation and an economic value orientation. Microenterprises will have a social value orientation (SVO) when they emphasize the accrual of non-monetary benefits, such as education, health, independence from assistance from non-governmental organizations or community development. This positioning signals to potential investors that the enterprise is focused primarily on the social value that the enterprise creates. In contrast, microenterprises with an economic value orientation (EVO) emphasize the accrual of monetary benefits, such as profitability, loan repayment,

reinvestment or growth. This positioning signals to potential investors that the enterprise is focused primarily on the economic value that the enterprise creates. We posit that these two dimensions are continuous and orthogonal. Each microenterprise may be high or low simultaneously on both dimensions, displaying variance in the degree of hybridity of the venture. We consider how a microenterprise's relative emphasis on an SVO and/or EVO will influence its ability to be crowdfunded. In practice, social and economic value orientations permeate the narratives that potential funders assess through crowdfunding websites. Whether intentional or not, the loan descriptions signal important information about the underlying value orientation and degree of hybridity of the microentrepreneur and his/her venture.

Although prosocial crowdfunders will respond positively to both economic and social value orientations, we suggest that they will be particularly attracted to social ventures with a stronger SVO relative to EVO. The act of engaging in crowdfunding in and of itself guides these investors toward a social orientation (Allison et al., 2013, 2015). These are individuals who are seeking out ways to use small amounts of their own money in order to improve the lives of others (Pache & Santos, 2010). Although there is an inherent link between economic and social value creation in these microenterprises, the economic value is likely to be viewed as a means through which social goals are achieved. If a microenterprise is more efficient in its operations (lower cost structure), it will be more profitable and has greater opportunity to reinvest in the business or in the welfare of their families. Microfinance social investors are willing to accept a lower financial return because their primary focus is the intrinsic return they receive from benefiting microentrepreneurs and their families (Brau and Woller, 2004; Copestake, 2007). Not only will microventures that espouse an SVO be more attractive to crowdfunders, but this lending is likely to occur more swiftly. The investors motivated by SVO are likely doing so for less rational and more emotional reasons, and they will therefore be more likely to seek the "warm glow effect" brought on by doing good (Allison et al., 2013). Thus;

Hypothesis 1: Crowdfunders will respond more quickly to microenterprises that emphasize an SVO over an EVO.

Focus or Coherence: Alternate Signaling Approaches for Hybrids

One of the key challenges of a hybrid microenterprise orientation is managing the pluralistic demands of operating with multiple sets of values, norms, identities and structures. The ideal hybrid organization will find a way to create a common organizational identity that fuses the disparate elements into a way that transcends each individual one. Battilana and Dorado (2010) explain that hybrid organizations need to create a common organizational identity which strikes a balance between the conflicting social and business identities. However, even if an organization is able to strike such a balance in its identity, and signal it outside of the organization, external stakeholders (signal receivers) may become confused with simultaneous signals of the economic and social orientations. In fact, signal consistency is an important facet of the efficacy of signals. Stakeholders are likely to view a venture more favorably when there is agreement among the multiple signals it sends (Gao et al., 2008). Yet striking for hybrid organizations, there is an inherent lack of inconsistency required to truly reflect a venture's multiple orientations. We propose competing hypotheses for this, the central quandary of hybrid orientations and signaling.

On the one hand, we follow signaling theory arguments which suggest that targeted and consistent messaging is more likely to generate confidence in a microventure. Battilana and Lee (2014) propose that hybrid organizations which combine business and charity logics may face funding difficulties because they do not relate to well-understood categories. External stakeholders

may themselves be embedded in conventional logics based on socially constructed categories (Hsu, Koçak, & Hannan, 2009) which prioritize a business logic over a charity logic (or vice versa). As a result, these stakeholders may be more apt to crowdfund a microenterprise which emphasizes an SVO over an EVO (or vice versa). Thus, organizations emphasizing both an SVO and an EVO more evenly may signal uncertainty to a more EVO-minded crowdfunder as to that organization's future actions (Battilana & Lee, 2014). Thus:

Hypothesis 2a: Microenterprises which balance their emphasis on an SVO and an EVO are negatively related to crowdfunder commitment.

On the other hand, we argue that based on pluralism, organizations that integrate their multiple orientations will be more positively evaluated by stakeholders. Although emphasizing an SVO over an EVO (or vice versa) might be more important to external stakeholders, there is a tight link between economic and social value creation. Hybrid microenterprises may face conflicting demands from different stakeholders (Pache and Santos, 2010). Different stakeholders prioritize their corresponding goals and interests in distinct ways according to their own hybrid logics (Greenwood and Hinings, 1996). That some stakeholders place more emphasis on economic returns and others on social benefits suggests that in order to attract these stakeholders, hybrid microenterprises must emphasize both their economic and social value orientations. This line of reasoning is consistent with signaling theory's assumptions of signaling quality (Connelly et al., 2011). A quality signal from a hybrid organization is one that would be consistent with its core identity—that both economic and social aspects are present and balanced in the hybrid signal. In comparison, a strictly for-profit organization or charity that presents a hybrid signal might be perceived as inconsistent because signal receivers would expect them to emphasize strictly an EVO or an SVO, respectively. Funders on crowdfunding sites are considered to be prosocial with both economic and social goals (Galek et al., 2011; Allison et al., 2015), so it stands to reason that hybrid signals would be more appealing to such funders. Thus:

Hypothesis 2b: Microenterprises which balance their emphasis on an SVO and an EVO are positively related to crowdfunder commitment.

METHODS

The sample for this study includes over 83,000 entrepreneurs in 60 countries who used the crowdfunding platform Kiva to access capital for their ventures in 2012. The data were acquired from the website <http://build.kiva.org/docs/data/loans>. Kiva's crowdfunding and repayment process contains a number of steps, as outlined on their website.

The dependent variable used to gauge the influence of external stakeholders on microenterprises is *loan funding time*. Loan funding is measured by the length of time it took to fund a loan, gauged by the moment when a loan was displayed on the Kiva website to the time it was fully funded by crowdfunding lenders, in days and minutes. The repayment data were then log-transformed as they were positively skewed.

To measure the independent variables, we used computer-aided textual analysis (CATA) to analyze the entrepreneur/microenterprise description, as shown to potential investors on the Kiva crowdfunding website (Short et al., 2010). Loan descriptions are written by MFI field staff in conjunction with the microentrepreneur and with general guidelines from Kiva. Entrepreneurs are interviewed about items such as location, family history, purpose of the loan, effect of the loan on

their livelihood, and aspirations for the future. We applied CATA to gauge the extent to which the descriptions emphasized an SVO and/or an EVO. We thus use the language in the loan descriptions as a proxy measure that reflects the SVO and EVO constructs. We followed the multi-step process suggested by Short et al., (2009, 2010), and Payne et al. (2011) in the orientations literature in developing our proxies by first using a deductive, theory-based process followed by an inductive process in which loan descriptions were systematically checked for EVO and SVO language via CAT Scanner software (McKenny et al., 2012). Output of the CATA process was continuous data indicating the level of emphasis a microenterprise placed on an SVO and EVO. The SVO and EVO independent variables were then mean-centered (via *z*-scores) before calculations as per Aiken and West (1991). *EVO/SVO Emphasis* was calculated as the ratio of EVO to total EVO+SVO, in which higher values indicate a greater emphasis on EVO and lower values an emphasis on SVO. *EVO/SVO Balance* was calculated by the equation $|EVO - SVO|$, then reverse-scored. Values closer to zero indicate less balance while higher values indicate greater balance.

We also included a variety of control variables in our analyses that could influence the results, similar to other studies using Kiva as a data source (e.g., Allison et al., 2013, 2015; Galak et al., 2011; Moss et al., 2015). These included the fourteen *industry sectors* listed on the Kiva website using dummy variables; the five dimensions of an *entrepreneurial orientation* (EO) and the six dimensions of a *virtuousness orientation* from a study of prosocial lending (Moss et al., 2015); *loan amount* (in USD); Kiva's 5-star *risk rating* (with 0.5 star increments) to control for the effect of MFI partner on loan funding and repayment; a dummy variable for *individual/group* loan; and the *sex* of the venture's leader, or in the case of a group loan, the sex of the responsible person leading the group, male (1) and female (0).

We used multi-level modeling (MLM) to account for the nested nature of our data. MLM controls for the nesting of over 83,000 loans within 119 MFIs, and MFIs within 60 countries. We used random linear effects to control for random variation that occurs in these different levels. We estimated our models using the *xtmixed* command in Stata, with MLE and robust standard errors.

RESULTS

Hypothesis 1 predicted that an SVO was positively associated with speedier loan funding than an EVO, and was supported ($\beta = 0.040$, $p < 0.001$). Loans emphasizing an EVO over an SVO took longer to fund. Hypothesis 2a predicted that microenterprises which balance their emphasis on EVO and SVO would be funded more slowly, while the competing Hypothesis 2b predicted that greater balance would be associated with faster funding. Results support Hypothesis 2a ($\beta = 0.045$, $p < 0.001$).

DISCUSSION AND IMPLICATIONS

We make a number of contributions to the literature on hybrid organizing. First, while there is consensus that different organizational *forms* vary in their hybridity (such as social enterprises, MFIs, corporations, etc.), only recently have scholars formally theorized the dimensions that characterize hybridity of organizational forms (Battilana and Lee, 2014). Yet it stands to reason that individual organizations *within* an organizational form vary in their degree of hybridity. We build on this insight and use it as the basis of our theorizing to explain the speed with which microenterprises are able to raise funds from the crowd. As such, our theorizing builds on hybrid organizing and signaling theory in the context of social ventures (e.g., Battilana and Lee, 2014; Connelly et al., 2011).

Second, we build on Battilana and Lee's (2014) conceptual model of the dimensions of hybrid organizing by empirically investigating how certain external stakeholder relationships impact hybrid organization financing. We empirically examine the effect of hybridity on one critical financing outcome: microloan funding through the crowdfunding site Kiva. Kiva is a popular online platform that allows individuals in the crowd (mostly in the developed world) to lend money to microentrepreneurs (mostly in the developing world) through a partner MFI. By studying foreign individual funders "in the crowd" as one critical stakeholder group, we empirically test a critical element of Battilana and Lee's (2014) model.

Finally, we further contribute to the hybrid organization literature by exploring whether decoupling or coherence are more important to resource acquisition by social ventures. Results of our competing hypotheses indicate that in our sample of social ventures, decoupling was a more effective means of acquiring resources from stakeholders. It appears that as these social ventures attempt to conform to different or even competing sets of institutional rules and logics—a coherence approach—prosocial crowdfunders may be unconvinced of the venture's ability to successfully achieve their diverse aims.

We build on the conceptual model of Battilana and Lee (2014) through our focus on inter-organizational relationships. Much work on hybrid organizations to date concerns the integration of the economic and social aspects within such organizations along the dimensions of culture, organizational design, workforce compensation, and organizational activities—an internally-facing perspective. Yet it is also important to understand how hybrid organizations interact with stakeholders—an externally-facing view. Battilana and Lee (2014) conceptually suggest that inter-organizational relationships have implications for organizational outcomes, which we empirically examine.

As with any study, ours has certain limitations stemming from our data source. We can only draw conclusions as to how the microenterprises are presented on the prosocial crowdfunding websites; we cannot make inferences regarding actual economic or social behaviors, identities, or value created by these microenterprises. Another limitation concerns potential bias in our sample regarding the relationship between crowdfunders, Kiva, MFIs and microenterprises. Ventures highlighted on the Kiva website may be exceptional in some way compared to non-Kiva ventures, but as yet Kiva is the only source of individual-level data, prohibiting such comparisons at this time. Finally, we do not have data on the prosocial motivation of the individual prosocial crowdfunding lenders to explore how the SVO and EVO portrayed in the Kiva narratives tap into their motivations.

Our results and limitations lead to a number of avenues for future research into hybrid organizations. First, future research could examine how other stakeholders impact hybrid organizations besides resource providers. Second, there are other ways in which loan descriptions could be explored. Future work could gauge the effect of language representing an orientation towards women in the microenterprise (Galak et al., 2011), and does a stronger focus on women have any correlation with hybridity? Third, studies could more thoroughly assess the effects of hybrid signaling on different organizational forms. For example, how does the degree of hybridity vary for different types of ventures? Do groups signal organizational hybridity differently than individuals? Finally, the crowdfunding process could be studied more closely to assess the types of investors who are funding projects, or possible variations in investment criteria between geographic regions.

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