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GREEN TO GONE? HOW INSTITUTIONAL LOGICS IMPACT THE SURVIVAL OF SOCIAL ENTREPRENEURS



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ABSTRACT

We extend the social entrepreneurship literature by introducing three types of sociocultural munificence for hybrid social ventures in an emerging industry sector: 1) social movement alignment, 2) social norms alignment and 3) political norms of needs versus merit-based resource allocation. Moreover we argue that the influence of sociocultural munificence on social entrepreneurs' survival depends on overall economic munificence. Across a large multi-year panel of hybrid social entrepreneurship ventures we find the survival rate of social entrepreneurs is positively impacted by alignment with regional social movements and regional social norms. In addition, we find that political norms of need-based resource allocation insulate social entrepreneurs from negative economic conditions, whereas political norms of merit-based resource allocation amplify the impacts of economic munificence. Our theory and findings contribute to the entrepreneurship, social entrepreneurship, and organizational ecology literatures.

INTRODUCTION

Social entrepreneurship has emerged as a mechanism by which organizations solve social and environmental problems in an economically sustainable manner (Battilana & Dorado, 2010; Miller, Grimes, McMullen, & Vogus, 2012; Moss, Short, Payne, & Lumpkin, 2011). Researchers have studied social entrepreneurship in a number of context such as recycling (Lounsbury, Ventresca, & Hirsch, 2003), micro-lending (Battilana & Dorado, 2010), renewable energy (Sine & Lee, 2009; Meek, Pacheco, & York, 2010), and grass-fed meat (Weber, Heinze, & DeSoucey, 2008).

However the factors that lead to the survival of such ventures have not yet been systematically examined. Scholars have suggested that social entrepreneurs are more determined than their traditional entrepreneur counterparts (Austin, Stevenson, & Wei-Skillern, 2006), which may increase their chances of survival. On the other hand, social entrepreneurs may be more likely than traditional entrepreneurs to fail because their businesses are not single-mindedly focused on maximizing firm value, but have an additional goal of generating positive externalities for society (Santos, 2012). From this perspective, social entrepreneurs' ventures occupy the messy middle ground between being purely non-profit charities and for-profit (Austin et al., 2006). Given these conflicting viewpoints, and the fact that social entrepreneurship is an increasingly important vehicle for addressing social and environmental problems, a critical examination of the drivers that impact firm survival is warranted.

We theorize that in the context of social entrepreneurship, regional levels of *sociocultural munificence*, which we proxy using measures of regional social norms, can have a significant impact on firm performance. First, extending prior literature (e.g. York & Lenox, Forthcoming) which has shown that *industry-specific regional social norms* increase the entry rates of social entrepreneurs; we

show that such norms can also have a *direct* positive impact on firm survival. Second, we demonstrate that the broader *resource allocation norms* in a region can also *indirectly* impact firm survival by moderating the impacts of industry economic munificence. Resource allocation norms in a region impact how distributing resources to social ventures is deemed legitimate, and whether resources tend to be distributed to ventures based on merit- or need-based norms. In sum, we find that that when regional economic conditions in an industry are favorable, social entrepreneurs are more likely to survive in regions that allocate resources based on merit. However, when economic conditions are harsh, we find that the opposite is true-social entrepreneurs are more likely to survive in regions that allocate resources based on need. By theorizing and providing evidence for a mechanism by which sociocultural munificence impacts the survival of social entrepreneurs, our study answers the call to identify predictors of social entrepreneurial survival (e.g., Dacin, Dacin, & Tracey, 2011), beyond the equivocal impact of economic munificence.

Industry Economic Munificence

Most social entrepreneurship research has examined the motivations of social entrepreneurs (Dacin et al., 2011; Miller et al., 2012), saying little about how macro conditions may influence the persistence of the social ventures they initiate. Economic conditions in a focal industry can have a significant impact on the chances of survival for startups (Geroski, Mata, & Portugal, 2010; Hiatt & Sine, 2013), particularly for social entrepreneurs that typically focus on a local/regional market. Such new ventures are challenged because they typically do not have a track record, and face stiff competition from incumbent firms (Carroll & Hannan, 2000). Furthermore, because new ventures in general have less slack, they are also likely to be disproportionately affected by conditions in their economic environment, (Hiatt & Sine, 2013).

We suggest that, like all entrepreneurs, social entrepreneurs must secure resources in order to have their ventures succeed; the ability to grow and secure a resource base is clearly one hallmark of successful, versus failed entrepreneurs (Pfeffer & Salancik, 1978). The impact of regional economic munificence should be particularly pronounced in the context of social entrepreneurship because social entrepreneurs typically seek to create positive externalities in their environment that are overlooked by current market offerings (Santos, 2012). Drawing the investment and talent needed to succeed may be significantly more difficult for social ventures because only the suppliers, customers, investors, and employees who are willing to forego appropriating some economic value in favor of creating social value will be available to them (Austin et al., 2006). Hence, not only are social entrepreneurs subject to the liability of newness (Stinchcombe, 1965), but the pool of resources available to them is limited to those provided by stakeholders who are willing and able to commit to the social mission of the venture without requiring the maximum financial return they would expect from a commercial venture.. Integrating these arguments, we expect that the impacts of regional industry economic conditions will be readily seen among new social ventures, thus:

Hypothesis 1: Regional economic munificence in an emerging industry will be positively related to the survival of social entrepreneurs in that industry.

Industry Sociocultural Munificence

In addition to economic conditions, firms are the product of the sociocultural environments in which they are embedded (DiMaggio & Powell, 1983). In contrast to the rational, opportunity-based influence of economic munificence the sociocultural environment consists of decentralized institutions enforced through normative legitimacy (e.g., Scott, 1995).

Following recent work on institutions and entrepreneurship we define the sociocultural environment as the unwritten “rules of the game” as represented by the prevalence (or absence) of social norms (Meek et al., 2010; York & Lenox, 2014). The sociocultural environment provides legitimacy that a firm is doing the “right” thing and is engaged in a morally desirable endeavor (Aldrich & Fiol, 1994).

However, our understanding of how social norms affect specific opportunities and practices in an industry is less well understood. For example, the degree to which regional norms endorse the activities of an industry as normatively correct and important could be an important determinant of resource allocation, and hence firm survival. Prior research has indicated that environmental social norms differ significantly across regions (Mazur & Welch, 1999) and impact entrepreneurial entry in the solar energy (Meek et al., 2010) and green building (York & Lenox, Forthcoming) sectors. However, it gives no indication of whether such entrants are more likely to *survive* than those in less socio-culturally munificent regions.

We propose that environmental social norms may influence the survival of social entrepreneurs in ecologically relevant industries by encouraging actors within a region to support entrepreneurs both economically through their patronage, but also psychologically by assessing what they are doing as normatively “right.” Recent work has also shown that social identity, that is, how individuals view their membership in groups such as environmentalists, drives the types of opportunities pursued, by entrepreneurs as well as endorsement by the audiences that they engage with (Fauchart & Gruber, 2011). When entrepreneurs can align their identity, and the opportunity they pursue, with regional norms we would therefore expect they are more likely to be endorsed by local stakeholders, a factor that has been found to be critical in the survival of new ventures (e.g. Amezuca, 2013). Thus we argue:

Hypothesis 2: Regional social norms supporting an emerging industry (i.e. high levels of industry sociocultural munificence) will be positively related to the survival of social entrepreneurs in that industry.

Resource Allocation Norms

Beyond the clear linkage between environmental social norms that are relevant to the opportunities pursued in an ecologically related industry, we also anticipate that broader, more diffuse, sociocultural norms of resource allocation, will determine how a community believes valuable capital should be allocated, and may hence also influence the ability of social entrepreneurs to survive.

There are three main resource allocation norms – equality, merit and need (Deutsch, 1975). The default distribution norm is equality but groups tend to deviate from the equality norm – and distribute resources based either on group member needs or merits. For example, assume a group has \$100 to distribute among the members. The default norm is to distribute it equally so that each group member gets an equal share of the \$100 (Deutsch, 1975). However, some groups tend to give a greater share of the resources to their highest performing members (i.e. merit resource distribution norm), and other groups tend to give a greater share of the resources to their most needy members (i.e. need resource distribution norm; Deutsch, 1975).

Politically liberal regions tend to distribute resources based on need (Grote & Clark, 1998). Individuals abiding by a need-based resource allocation norm tend to feel responsibility for meeting others’ needs (Clark & Finkel, 2005), have greater concern for those around them (Eagly & Steffen, 1984), and tend to be more willing to harm their own economic self-interest in order to help others (Thompson & DeHarpport, 1998). Because social entrepreneurs are expected to have broader goals than pure profit-maximization, they may feel especially obligated to provide resources (e.g. employment,

contracts) to individuals in their region based on need rather than merit (Khayesi & George, 2011). Thus, the need-based resource allocation norms resulting from political liberalism may act as a double-edged sword, buffering social entrepreneurs from the economy in bad economic times, and draining their resources in good economic times.

In contrast, politically conservative areas tend to have a merit-based resource allocation norm. This merit-based resource allocation norm produces a positive feedback loop between success and resources, such that successful individuals are able to claim more resources from those around them, which fuels further success and even more resources. We expect regions with strong conservative political norms to have a strong merit-based norm of resource allocation (Khayesi & George, 2011). A regional norm of political conservatism is then a type of sociocultural burden in difficult economic conditions because it diminishes entrepreneurs' abilities to claim a greater share of the region's resources. However, regional merit-based resource allocation norms resulting from political conservatism may act as a form of sociocultural munificence during favorable economic conditions. Integrating these two sets of arguments, we therefore hypothesize that:

Hypothesis 3: Economic munificence will be more positively related to social entrepreneurs' survival when a region has high levels of political conservatism norms; that is political conservatism will increase social entrepreneurs' survival chances when economic munificence is high, and decrease social entrepreneurial survival chances when economic munificence is low.

DATA AND METHODS

Study Context and Sample: We test our theory utilizing a unique panel of 861 entrepreneurial social ventures in the green building supply industry, over the period 1999-2007. We utilized the *GreenSpec Directory* of green building products and suppliers published over this time period to identify firms at risk of failure. Following prior work in entrepreneurship (e.g., McDougall, Oviatt, & Shrader, 2003) which has designated new firms to be those 5-8 years old, we parsed the data based on a founding date of 1994 or later. The US Green Building Council was founded in 1994, allowing this to be used as a starting point for the emerging sector.

We chose this industry as a representative context where new entrants could be considered to be social entrepreneurs by addressing "neglected positive externalities" (Santos, 2012). Second, the industry does have reliable and reasonably detailed data on firm entry and exit. Third, because we were specifically interested in the impact of the sociocultural environment, it was necessary to identify a well-defined context representative of a larger social norm (e.g. environmentalism). The resulting dataset consists of 2,868 firm-year observations over the 8 year observation period.

Measures: We aggregated data at the state-level consistent with prior research on environmental social norms and entrepreneurship (Meek et al., 2010; York & Lenox, Forthcoming). Our dependent variable in our study is *Firm Exit*, which is coded annually when a firm is no longer listed in the GreenSpec directory. We measured *economic munificence* specifically in green building by the count of newly certified LEED buildings in a state during a given year. Norm measures were computed from the Sensitive Data Files of the General Social Survey (GSS). For our measure of *industry sociocultural munificence*, we followed existing research (e.g. Meek et al., 2010; York & Lenox, Forthcoming) and utilized a direct measure of the social norm of environmentalism. For our measure of *resource allocation norms*, we utilized predominance of citizens identifying with liberal or conservative values again following the existing literature (Graham, Haidt, & Nosek, 2009).

We also included a range of control variables. At the state-level we controlled for *population, energy prices, green-building organizational density, and commercial building construction activity*. To account for supportive regulatory and cultural-cognitive institutions we controlled for *state policies in renewable energy, USGBC membership, and sierra club membership*. At the firm-level we merged our data with that from the D&B NETS database to control for *firm sales* and the *number of employees*.

Model and Analysis: We used a Cox proportional hazard regression model to estimate the likelihood of firm exit. Our model is structured so that we have a set of annual observations for each firm, allowing for model covariates to vary by time, and accounts for right-side truncation (Allison, 1995).

RESULTS

Our descriptive results indicate 278 of the 861 firms exited during our observation window. Therefore, while an exit is relatively infrequent for any given year (~9.6%), 29% of the firms in the sample failed over the course of the study period. The results of the multivariate analysis are shown in table 1 below. In model 1, we estimated the main effect of *industry economic munificence* in combination with control variables. In moderate support of hypothesis 1, we find that an increase in industry economic munificence by 1 standard unit decreases the probability of firm exit by 8% (coefficient=-0.31, odds ratio=0.73, p=0.078). In model 2, we estimated the main effects of the *industry-specific normative sociocultural munificence*. In strong support of hypothesis 2, we found that a 1 unit increase in environmental social norms decreased the probability of firm exit by 7% (coefficient=-0.32, odds ratio=0.73, p=0.02) in a given calendar year. Lastly, in model 3, we estimated the conditioning effects of political norms in a state (i.e. the degree to which states are liberal or conservative), as a proxy of generalized sociocultural norms towards resource allocation. We found that political norms in a state condition the negative relationship between industry economic munificence and firm exit (coefficient=-0.51, odds ratio=0.60, p=0.03), lending strong support to hypothesis 3.

Figure 1 graphically illustrates the dynamic tested in hypothesis 3 by plotting survival curves for each of the conditions (high economic munificence-conservative norms, high economic munificence-liberal norms, low economic munificence-conservative norms, and low economic munificence-liberal norms), where high and low conditions refer to variable values 1 standard deviation above and below the mean value respectively. As can be visually observed, the presence of conservative norms amplifies the negative relationship between industry and economic munificence and firm exit, while an increase in liberal norms dampens this relationship (a large gap between the solid and dashed line vs. the two dashed lines respectively). Hence, hypothesis 3 is also supported.

CONCLUSIONS

Our findings make a novel theoretical and empirical contribution to the social entrepreneurship literature (e.g., Dacin et al, 2011), by providing a robust examination of new venture firm failure in the context of the green building industry. We also contribute to the broader literature linking businesses to the natural environment literature (Bansal & Hoffman, 2012), and that examining the role of institutions in entrepreneurship (Tolbert, David, & Sine, 2010) by showing that informal, decentralized institutions (i.e. social norms) may be important considerations for new firms' survival in ecologically relevant industries, above and beyond the formalized institutions and economic munificence that have been traditionally explored in the literature.

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Table 1. Hazard model predicting likelihood of survival for social entrepreneurs

VARIABLES	Model 1	Model 2	Model 3
Industry Economic Munificence (Leed Certified Buildings)	-0.31* (0.17)	-0.32* (0.18)	-0.38** (0.18)
Industry SocioCultural Munificence (Environmental Social Norms)		-0.27** (0.12)	-0.29** (0.12)
Resource Allocation Norms (Need Vs. Merit)			-0.32 (0.21)
Industry Economic Munificence * Resource Allocation Norms			-0.51** (0.23)
State-Level Controls			
State Population	0.24 (3.91)	1.04 (3.96)	-0.09 (4.02)
Energy Price in State	0.17 (0.27)	0.23 (0.28)	0.21 (0.28)
Green-Building Density	0.08 (0.12)	0.07 (0.12)	0.04 (0.12)
Commercial Building Construction Activity	0.04 (0.32)	-0.00 (0.32)	0.24 (0.35)
State Policies for Renewable Energy	0.07 (0.20)	0.11 (0.20)	0.02 (0.21)
USGBC Membership	-1.84*** (0.61)	-1.88*** (0.62)	-1.89*** (0.63)
Sierra Club Membership	-4.64** (2.27)	-5.04** (2.29)	-2.76 (2.49)
Firm-Level Controls			
Firm Sales ^a	-0.30 (0.22)	-0.30 (0.22)	-0.30 (0.22)
Number of Employees ^a	0.22 (0.14)	0.22 (0.14)	0.23 (0.14)
Observations	2,868	2,774	2,774
Firms	861	832	832
Failures	278	269	269
Model Chi-square	89.91	93.48	98.61

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

^aWe replaced missing values for firm-level controls with the industry mean (by year).

All variables were mean-centered and standardized. Given constraints in the availability of data for our measures of social norms, we test our hypotheses on a sample of 45 U.S. states when utilizing this data (we exclude Nebraska, New Hampshire, Nevada, Rhode Island, and Utah).

Figure 1. Contingent impact of resource allocation norms on the economic munificence-survival relationship.

