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THE EFFECTS OF ENTREPRENEURIAL EXPERIENCES AND SOCIAL IMPACT ON MARKET DRIVEN OPPORTUNITY EXPLOITATION BY SOCIAL VENTURES



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ABSTRACT

In this paper, we used a vignette study to examine the effects of entrepreneur specific human capital and social mission impact on market based opportunity selected by social enterprise leaders. We manipulated the estimable probabilities of loss and gain for alternative market based opportunities aligned to social missions and collected additional data on the entrepreneurial experience, decision policies, and other attributes of the study participants and the social enterprises they lead in the real world. We argue that social enterprise leaders are more open to pursuing market-based options to achieve social missions that have higher levels of uncertainty and probability of loss. We further argue that subjective goals for maximizing social mission impact moderate this effect at higher levels of uncertainty and probability of loss. We test these hypotheses with a sample of 195 real world CEOs and Executive Directors of social enterprises from the central United States. Our findings support both hypotheses and raise interesting questions for social entrepreneurship research, policy and practice.

INTRODUCTION

To survive the competitive environment for constrained governmental and private donor support, social ventures are increasingly becoming engaged in market driven entrepreneurial behaviors (Gras and Mendoza-Abarca, 2014) and are using multiple forms of venture creation to do so (Gartner, 1985; Mair and Marti, 2006). Simultaneously engaging in social and economic value creation, however, is a complex task, made more challenging by stakeholder accountability for social value creation and shareholder accountability for financial performance and sustainable enterprises (Foster and Bradach, 2005). Social enterprises risk sanctions each time they depart from their social missions to pursue market-based entrepreneurial opportunities (Foster and Bradach, 2005) and these sanctions may arise irrespective of financial returns. Additionally, stakeholders expect social enterprises to use the economic returns from exploiting market-based opportunities as vehicles to create social value for targeted members of society (Leadbeater, 1997). These complexities draw attention to the important role of the entrepreneur leader in balancing multiple stakeholder demands.

In this paper, we use a vignette study to examine how 195 real-world CEOs and Executive Directors of social ventures approach decisions to pursue market-driven entrepreneurial opportunities. In each vignette, the investment of organization resources was the same but we varied probabilities of exploiting the opportunity at a deficit, breakeven or surplus and the magnitude of loss or gain. We captured the entrepreneurial experience and decision policies of the study participants. Building on prior research about the ability of entrepreneurs to connect the dots of complex scenarios (Baron, 2006), we hypothesize that social enterprise leaders with

prior entrepreneurial experience are more likely than their counterparts to select market-based options with higher levels of risk and uncertainty. We further hypothesize that subjective goals for maximizing social mission impact moderate the effects of prior entrepreneurial experience at higher levels of risk and uncertainty. This is because the dominant logic for market based opportunity exploitation by social enterprises is social mission impact. How social enterprise leaders define successful performance therefore may heavily weight toward social mission impact more so than toward financial returns (Binari et al., 2015).

We find support for both hypotheses. The study findings demonstrate the value of entrepreneur specific human capital to social enterprises. The study findings also demonstrate that trading off social mission impact for financial returns from market based prosocial opportunities may not make sense to leaders of social enterprises. Considering the growing roles of social enterprises in economic development, our study findings provide timely insights into the nexus of strategic leadership and the social entrepreneurship context (Simsek, Jansen, Minichilli and Escriba-Esteve, 2015).

HYPOTHESES DEVELOPMENT

Douglas (2013) calls for researchers to pay attention to how different attributes of opportunities interact with the different attributes of individual entrepreneurs. Building on this sentiment, we believe that entrepreneurial experience play a role in how social enterprise leaders make sense of market-based opportunities to impact their target communities (Ireland, Hitt and Sirmon, 2003). Experienced entrepreneurs comprehend the broad environment in which they operate, and may even contribute in shaping those environments to support their goals (Bloom and Dees, 2008). Additionally, experienced entrepreneurs differ in their imaginative capacity and cognition to envision the future and deal with ambiguity in decision-making contexts (Baron, 2008; Foss and Klein, 2005). As such, we suspect that the leaders of social enterprises with entrepreneurial experience will use 'rules of thumb' and previously gathered information to make sense of market based opportunities. Accordingly, our first hypothesis states that social enterprise leaders with entrepreneurial experience have less aversion to exploiting market based opportunities with higher levels of risk and uncertainty.

Although we hypothesize that social enterprise leaders may have less aversion to risk and uncertainty, there is still the question of social mission impact to consider. Hynes (2009) conducted four case studies of social entrepreneurs to gain an understanding of their perceptions of 'growth' in this context. The researcher found that growth perceptions align to the vision of entrepreneurial leaders for social mission impact. Hynes (2009) also suggests that economic returns can be neglected when leaders focus on their broader strategic vision for mission impact (Bornstein, 2004; Doherty, Haugh and Lyon, 2014). Perhaps more so than for-profit entrepreneurs, the leaders of social enterprises formulate success measures that relate to some sort of social betterment and with financial returns being a necessary but not overarching concern (Doherty, Haugh and Lyon, 2014). We suspect that prior entrepreneurial experience will not a significant differentiator in this regard. Accordingly, our second hypothesis states that the goal of maximizing social mission impact negatively moderates the effects entrepreneurial experience on aversion to exploiting market based opportunities with higher levels of risk and uncertainty.

SAMPLE AND METHOD

RESULTS

Calculated means, standard deviations, and correlations are shown in Table 1. We tested items for multicollinearity with none approaching the critical value (Zellweger, Sieger, & Halter, 2011).

Sample	195 CEOs and Executive Directors of social enterprises from the central United States
Vignette Profiles	Risk Uncertainty ROI New Venture 1 Low LowLow New Venture 2 High LowHigh New Venture 3 High HighHigh
DV	Choice of new venture selection. Nominal variable with three levels.
IVs	Prior entrepreneurial experiences
Moderator	Social Mission Impact
Controls	Organization size (budget managed by the executives), risk tolerance, safeguarding resources, reputation impact, and sanctions
Statistical Analysis	Multinomial Logistic Regression

Hypothesis One states that social enterprise leaders with entrepreneurial experience have less aversion to exploiting market based opportunities with higher levels of risk and uncertainty. Models 1a and 1b show partial support for this hypothesis. In Model 1a, we find when compared to a high risk/high uncertainty venture (Venture Three), previous entrepreneurial experience decreases preference for Venture One (Beta = -1.729, $p < .05$). In Model 1b, we do not find a relationship between entrepreneurial experience and preference for a high risk/low uncertainty venture (Venture Two) (Beta = -1.418, $p > .05$). Based on these results we see a demarcation of when previous entrepreneurial experience is an effective moderator of aversion. More specifically, we find previous entrepreneurial experience of social enterprise leaders to moderate aversion to risk but not necessarily uncertainty. For both models fit was highly significant (log-likelihood = 223.475, $X^2 = 49.562$, $p < .001$) and the Nagelkerke R^2 was .340.

Hypothesis Two states that social mission impact moderates entrepreneurial experience influence on the proclivity for market based options with higher levels of uncertainty and risk. Models 2a and 2b support our hypothesis. In Model 2a, we find when compared to a high risk/high uncertainty venture (Venture Three), previous entrepreneurial experience decreases preference for a low risk/low uncertainty option (Venture One) (Beta = -3.996, $p < .05$). However, when considering previous entrepreneurial experience and the desire to enlarge mission impact preference moves in the opposite direction (Beta = 3.484, $p < .05$). In Model 2b, we find when compared to Venture Three, previous entrepreneurial experience and the desire to enlarge mission impact changes preference towards a high risk but low uncertainty choice (Venture Two) (Beta = 4.775, $p < .01$).

Based on these results we see a limitation of when previous entrepreneurial experience is an effective moderator of aversion. More specifically, we find previous entrepreneurial experience when crossed with a desire for mission impact changes alters the preferences of social enterprise leaders away from uncertainty and risk. For both models, fit was highly significant (log-likelihood = 212.931, $X^2 = 60.375$, $p < .001$) and the Nagelkerke R^2 was .400.

Table 2: Means, standard deviations and correlations

	Mean	S.D.	1	2	3	4	5	6	7
1. Vent 1 = 1 Vent 2 = 2 Vent 3 = 3	1.61	0.67							
2. Exp = 0 No Exp = 1	0.53	0.05	-0.16*						
3. Mission Impact	4.33	0.70	0.12	-0.08					
4. Organization size	\$13.8M	\$60.5M	0.15*	0.02	-0.06				
5. Risk	3.44	0.77	0.17**	-0.14*	0.05	-0.00			
6. Safeguard Resources	4.37	0.69	-0.30***	0.08	-0.02	-0.18**	-0.13*		
7. Reputation Impact	3.79	0.96	-0.19**	0.01	0.13*	-0.13*	-0.05	0.40***	
8. Stakeholder Sanction	3.59	0.98	0.03	0.02	0.16*	-0.07	0.00	0.29***	0.43***

* $p < .05$

** $p < .01$

*** $p < .001$

DISCUSSION AND IMPLICATIONS

In this paper, we used a vignette study to examine the effects of entrepreneur specific human capital and social mission impact on market based opportunity selection. Using vignettes, we manipulated the estimable probabilities of loss and gain for alternative market based prosocial opportunities. We also collected additional data on the entrepreneurial experience, decision policies, and other attributes of the study participants and the social enterprises they lead in the real world. When we examined the decisions of the social enterprise leaders, the results support our argument that market-based opportunity choices are influenced by both the entrepreneurship specific human capital and the strategic goals of the social enterprise leader for expanding mission impact on community stakeholders.

Our finding of a moderating effect of individual strategic goals to expand mission impact demonstrates that the leaders of social venturing projects are similar to leaders of corporate venturing projects, in that they have different measures of success that are antecedent to opportunity selection (Biniari, Simmons, Monsen et al., 2015). We believe that this finding also informs the weakly held assumption that social entrepreneurs have lower economic returns from market-based opportunities because they share economic returns with community stakeholders.

This assumption may be a derivative of the wrong questions being asked. Based on our study findings, interesting questions to ask in future studies may be whether social entrepreneurs have preferences for market-based opportunities with low or high economic returns and under what conditions.

Table 3: Results of multinomial logistic regression analyses

Variables	Model 1a <i>Venture 1</i>	Model 1b <i>Venture 2</i>	Model 2a <i>Venture 1</i>	Model 2b <i>Venture 2</i>
<i>Controls</i>				
Organization Size	0	0	0	0
Risk Tolerance	0.1	0.375	0.339	1.049
Safeguarding Resources	2.001**	1.606*	1.865**	1.442*
Reputation Impact	-0.017	-0.631	-0.172	-0.808
Stakeholder Sanctions	0.428	0.661	0.829	1.086
<i>Independents</i>				
Entrepreneurial Experience (prior experience= 0)	-1.729*	-1.418	-3.996*	-3.615*
Mission Impact	0.488	.1211*	-0.107	-0.026
<i>Interaction Effect</i>				
Prior Experience x Mission Impact	-	-	3.484*	4.775**
Intercept	-9.586*	-12.045**	-5.972	-5.867
Log-likelihood	223.475***		212.931***	
Likelihood-ratio chi-square	49.562***		60.375***	
Nagelkerke R-square	.340		.400	

*p < .05, **p < .01, *** p < .001

a Venture 3 is the reference category

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