FINANCIAL ASYMMETRIES AND COUNTERACTIVE STRATEGIES OF SOCIAL ENTERPRISES- A QUANTITATIVE ANALYSIS (SUMMARY)

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SUMMARY

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Principal Topic

With regard to the nature of social enterprises to blend business and philanthropic approaches, Froelich (1999) speculates whether “greater emphasis on commercial strategies lead to reduced efforts and outcomes in the traditional arenas [of funding]” (p. 264). While the discussion about the emphasis on commercial income by social enterprises is mainly focused on (dis-)advantages of philanthropic versus commercial income to our best knowledge there is no publication in the emerging social entrepreneurship literature that answers the question which strategy social enterprises actually apply to achieve financial independency. Thus, drawing on resource dependence theory (Pfeffer/ Salancik 1978/ 2003), we suggest two alternative strategies for social enterprises to move toward commercial market-based (earned) income and phrase these strategies accordingly in two mutually exclusive hypotheses.

Method

We build our analysis on 193 international social enterprises from the Schwab Foundation’s “Social Entrepreneur of the Year” award covering the application periods from 2001 to 2007. We take “financial supporters” as dependent variable, “percentage of earned income of total budget” as independent variable and control for size of the organization, area of activity and context of the social enterprise as well as amount of previous experience in the field of the founder. To investigate the sample we choose regression analyses.

Results and Implications

The discussion about the social enterprise’s financial (in)dependency is currently dominated by and mainly reduced to calls for generating earned income to gain higher flexibility and autonomy. Our findings demonstrate that a higher proportion of earned income per total budget induces a lower number of financial supporters. This result suggests that social enterprises not only increase their earned income by commercialization efforts, but also seem to cut relationships to financial supporters to decrease financial asymmetries. This strategy implies a reduction of the absolute amount of external income substituted by an increase of earned income.

Moreover, income strategies in the social entrepreneurship literature are basically described as a one-dimensional income continuum ranging from exclusively external to exclusively earned income. The discussion about income generation of social enterprises is therefore mainly reduced to the two ends of this income continuum, namely the (dis)advantages of external versus earned income. Our study adds a further dimension to this discussion: the number of income sources. Combining these two dimensions – “proportion of external to earned income” and “number of financially supporting sources” – a wide range of new potential income strategies becomes available to social enterprises.

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