Social Entrepreneurship: From Definition to Performance Measurement

Semra F. Ascigil
Middle East Technical University

ABSTRACT

This article explores how performance evaluation of social entrepreneurs can be improved by comparing the concept with commercial entrepreneurship and not-for-profit organizations. Towards this objective collective efficacy and social capital concepts are discussed in their relevance and capacity to evaluate performance in attaining social missions. Collective efficacy indicates what members of a community will do with their knowledge. It is measured through two dimensions; social cohesion and informal controls. Social capital indicates the nature and the quality of relations as well as shared perceptions with the community. It is underlined that the improvements achieved in evaluations will contribute to fostering social entrepreneurship by maintaining its legitimacy. The final suggestion is the need to learn from other disciplines mainly from public administration.

Keywords: Social Entrepreneurship, Social Capital, Collective Efficacy

JEL Codes: O350, L26, E22
Introduction

Social entrepreneurship is a novel term whose definition is not completed yet. Recent views on the concept define social entrepreneurs in terms of their functions. The function assigned is to fill the gap left by government in bringing solution to social problems, a role that was supposed to be fulfilled partly by civil society organizations to support public institutions (Sud, VanSandt, & Baugous, 2008). Viewing social entrepreneurship as a risk for civil society, Eikenberry and Kluver (2004) shortly describe the trend as marketization of civil society. Yet other definitions picture social entrepreneurs as bringing solutions to social issues by using both market and social tools innovatively (Nicholls & Cho, 2006).

Despite of seeming similarity with not-for-profit organizations (NFPs) in regard to the mission pursued, Nicholls (2004) identifies that social entrepreneurs develop structures which differ from NFPs. They may be part of a company where they utilize the profits done by their for-profit subsidiaries. Alternately, in order to diversify stream of funding they may establish for-profit organizations which either partner with commercial corporations or compete for government grants.

In explaining what characteristics distinguish them from others, personal attributes of entrepreneurs may be referred to. Rarely associated with entrepreneurship is self-efficacy a cognitive skill that leads to entrepreneurial action (Arora, Hynie, & Laurance, 2011). However, rather than pursuing her/s own ends social entrepreneur pursues collective goals shared with the community. In a sense, social entrepreneur has to give up independence since there is dependency on the approval, involvement, and contributions of the community exposed to the social problem. The community needs to share the same feelings and view endeavors of the entrepreneur as legitimate so that social mission can be successfully accomplished. Thus, in measuring social entrepreneurship how entrepreneur enhances collective capacity and create connectedness in a community have to be taken into account.

The paper proceeds as follows; in the next section social entrepreneurship will be compared with commercial entrepreneurship and not-for-profit organizations. In doing this, different definitions of the concepts and their relationship will be portrayed. Having laid this foundation, some suggestions concerning
the evaluation of the performance of social entrepreneur will be discussed. The paper ends with conclusions and implications for research and managerial practice.

**Who Are The Social Entrepreneurs?**

Entrepreneurialism is a concept that has been attached diverse meanings in literature such as entrepreneurship, intrapreneurship, commercial entrepreneurship and the most recent of all social entrepreneurship. Since setting the differences is critical in understanding what a newly emerging concept is, firstly, the difference between commercial and social entrepreneurship will be explored in reference to the previous literature. One of the earlier definitions of entrepreneurship goes back to that of McClelland (1961) who focused on need for achievement motive bringing a psychological explanation of “who entrepreneurs are.” Need for achievement was viewed as central to economic development in continuity with the ideas of 20th century economist Schumpeter (1934) on the function of entrepreneurs in economic development. Commercial entrepreneurs are known by their risk-taking, proactiveness, and innovativeness (Stevenson & Jarillo, 1990), three mostly cited characteristics cultivated as a means for opportunity creation in the market. The innovativeness capacity is necessary both to identify the needs which are scarce (Austin, et al., 2006) and to meet them in a novel way to gain competitiveness.

In contrast to commercial entrepreneur who tries to identify a niche to gain a unique position in the market, social entrepreneur searches for innovative ways in meeting the unmet needs of community. These needs are quite evident in terms of their visibility and abundance. The most common among them are shortage of training, education and health services that normally form problems for a commercial entrepreneur to do business in a community. In contrast, social issues created by market failures create opportunity for social entrepreneurs (Weisbrod, 1977) who in a sense owe their existence to market failures. Another illuminating contrast is that social entrepreneur exploits the failures of the market to make use of opportunities for a collectivity including both his company and those who are deprived of social services. Towards this end, social entrepreneur harnesses a blend of both social and market tools (Nicholls & Cho, 2006) mobilized innovatively for public good. All the unmet needs which are voiced...
publicly comprise an opportunity for social entrepreneur. In response to these needs, social entrepreneur takes the initiative to generate novel solutions mostly together with the distressed community needing a service, thereby functioning as either substitute or complementary to the public welfare systems.

The main outcome of entrepreneurial endeavor is the profit generated. However, the efforts of social entrepreneur in solving problems such as poverty, lack of access to education create different outcomes known as social capital and cohesion in the community (Di Domenico, Haugh, & Tracey, 2010). Commercial entrepreneur exploits networks in creating opportunities and the relevancy of a network is defined by its economic value (Prashantham & Dhanaraj, 2010). Networks help entrepreneurs save time and energy in responding to market opportunities. However, the nature of relations with networks contains a broader meaning for social entrepreneurs since community perceptions are essential for legitimating their existence. The community plays the role of a partner and therefore gains more or less equal status with social entrepreneur in the process. Whereas legitimacy for a commercial entrepreneur typically rests on profitability, for a social entrepreneur legitimacy needs to be reconstructed. Functioning as a social agent who provides public welfare, the legitimating process for social entrepreneurship has to contain a focus on justice in identifying the social issues as well as provision of a service to various clients.

Social entrepreneurship can be discussed at multiple levels, one of which is the nature and the structure of the market/society with changing roles of institutional actors. With contraction of governments in the market economy mainly after 1980s, both private sector and not-for-profits found more room for activity in bringing solutions to pressing social problems. Ineffectiveness in eliminating the inequalities created by the market failures in a given society led erosion of the legitimacy of governments. Fairness is impaired whenever more individuals remain unproductive and not integrated to the market system. As a result, social problems escalate and disrupt the welfare system in a community. Although governments traditionally take primary responsibility on social planning, they increasingly leave identification and execution of social welfare projects to other actors. In response to these developments, social entrepreneurship is viewed as a new public management policy just as it is a market opportunity to cure
the system (Prahalad, 2005). From a different perspective, social entrepreneurship is viewed as a private economic initiative in overcoming market failures that creates more cohesion in a society by solving problems unmet by public welfare systems (Dees, 1998; LeGrand, 2003; Bovaird, 2006). With their explicitly stated social missions that is central to their activities, social entrepreneurs act like change agents (Nicholls, 2006) who are driven by an ethical character (Drayton, 2002; Velamuri, 2002) in empowering community solve its own social problems (Yunus, 2008).

When definitions are done by means of locating entrepreneur in a community setting, networks of action containing qualifications such as results orientation or pragmatic are used (Nicholls, 2010a). Commercial entrepreneurship leverages the use of network ties as a means to access new information, or complement limited human and informational resources. They somehow extract the benefits of the networks for the benefit of their own company (Tötterman & Sten, 2005), whereas the aim of involving networks for social entrepreneur is to empower network members to prosper sustainability of services.

Another attribute viewed as a critical antecedent of entrepreneurial action is self-efficacy (Arora, et al., 2011). Self-efficacy refers to the belief in one’s capabilities to organize and execute actions required to manage prospective situations (Bandura, 1978). It is also associated with opportunity recognition (Krueger & Brazeal, 1994) and is instrumental to satisfy some deeply felt needs for achievement. In contrast, since social entrepreneurship pursues shared goals with community, a public perspective needs to be incorporated in line with Nicholls’ suggestions (2006). Resonating with this perspective, a focus on collective efficacy can assure successful empowerment of community. Collective efficacy is “a sense of collective competence shared among individuals when allocating, coordinating and integrating their resources in a successful concerted response to specific situational demands” (Zaccaro, Blair, Peterson, & Zazanis, 1995, p.309). It can act as a predictor of whether sustainability can be achieved even in the absence of social entrepreneur, because collective efficacy determines what people will do with their knowledge and skills (Bandura, 1978).
Table 1

<table>
<thead>
<tr>
<th>COMMERCIAL ENTREPRENEURSHIP</th>
<th>SOCIAL ENTREPRENEURSHIP</th>
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<tbody>
<tr>
<td>Mission: Create personal or shareholder wealth, to realize an idea for making profit, for self-achievement (McClelland, 1961), “one who undertakes” (J. B. Say)</td>
<td>Mission: Create social value for public good, to solve a social problem (Dees, 1998)</td>
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<tr>
<td>Economic value creation</td>
<td>Innovative, Social value creating activity, Can be pursued through various means; nonprofit, business, government (Austin et al., 2006) Innovative use of social and market tools (Nicholls and Cho, 2006)</td>
</tr>
<tr>
<td>Playing according to the rules of the market</td>
<td>Opportunity abundance (Austin et al., 2006) Serving basic, long-standing needs Social returns</td>
</tr>
<tr>
<td>Opportunity scarcity, serving new needs (Austin et al., 2006)</td>
<td>Reason: Market failure (Weisbrod, 1977), public vs. private engagement in social welfare creation, new public management</td>
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<td>Economic returns</td>
<td>Reason behind existence: Public vs. private initiative arguments, free enterprise for economic development (Schumpeter, 1934)</td>
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<td>Aims to create individual (firm) competence</td>
<td>Aims to develop collective competence</td>
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The institutions established to stimulate development have changed as we trace the economic history of many countries. The responsibility of social welfare creation assumed by governments and shared generally with not-for-profit organizations (NFP) is recently being assumed by social entrepreneurs. What differentiates social entrepreneurship from other social endeavors such as NFPs? Such a comparison may help to elucidate the concept by bringing a different perspective. Not-for-profit organizations are defined as value guards, social capital builders, and service providers (Kramer, 1981). However, NFPs have been criticized for lacking operational and financial skills leading to inefficient use of resources. Recently, NFPs are forced to generate commercial revenues blurring the boundaries with for-profit organizations. In response to financial constraints and environmental influences such as pressures on NFPs to manage resources more effectively, social entrepreneurship emerged as a new variant of institutional structures serving common good (Eikenberry & Kluver, 2004).

In contrast to NFPs, social entrepreneurs are defined as having the abilities to recognize social value creating opportunities and aiming to provide best value using their business skills. The focus of NFPs is providing a service at a time. Mostly, the projects are terminated not because their mission is
accomplished, but because funds run out. On the other hand, NFPs work with donors or volunteers who are hardly the recipients of the service provided. The expectations of volunteers who donate their time or money influence the targets of projects. Besides, contact with the clients who will benefit from the service generally starts at the time of delivery of the service. Lack of empathic communication skills by the volunteers decouples NFPs from their mission.

However, the aim of a social entrepreneur is enabling social change on a permanent basis through enabling ownership of the problems by the deprived community members. The purpose of sustainability can only be achieved by innovative use of potential capacities of the community itself. The dependency of social entrepreneur is distinctive for their need to partner with those who need their service. In fulfilling its role as a change agent, social entrepreneur has to develop continuous relations with the community and empower them in achieving social goals. Social goals of combating with poverty and social exclusion can be achieved by making community members competitive and integrated to the society as well as the labor market by way of acquiring skills to solve their own problems. Eventually, social entrepreneur needs to be highly embedded in the context and the enduring nature of relations creates social capital that enables trusting relations (Coleman, 1990; Putnam, 1995, 2000). Trusting relations is both the input as well as the outcome of entrepreneurship process.

Social capital is defined along three dimensions; structural, relational, and cognitive social capital. In the context of social entrepreneurship, structural social capital implies the general structure and configuration of the overall relationships. Relational social capital is about the kind and quality of social entrepreneur’s relations such as trust that shapes the obligations and expectations in the network relations. The cognitive social capital concerns with the degree to which social entrepreneur shares common perceptions on narratives, language and codes with the community (Nahapiet & Goshal, 1998). According to Nahapiet and Goshal (1998) in relationships of high trust, people are more willing to engage in relationships exemplified as cooperative. Thus, the more social capital is used, the larger it becomes.
However, despite of such advantages, the literature at the same time cites some drawbacks of social capital (Portez & Landolt, 1996). Just as it appreciates under particular conditions, social capital depreciates under other conditions. Firstly, the embedded nature of social entrepreneur in the context may create disadvantage particularly in discerning new ideas. Secondly, the groups acclaimed with social capital may act in an exclusionary manner towards outsiders engaging only some selected members. Due to these weaknesses, values and relations which may be relevant for solving an issue may decay in time with discriminatory practices. Such negative tendencies may make the endeavors of social entrepreneurs lose their legitimacy over time. The resource dependency theory depicts that organizations need to cope with environmental constraints since they require resources for survival. Social entrepreneurs are dependent on the willingness of community members to participate and eventually take ownership of the social projects. Therefore, the trust established need to be refurbished on a constant basis. This can be realized by maintaining interaction with outsiders to assure continuous inflow of new ideas as well as prevention of exclusionary practices.

Throughout the life cycle of social entrepreneurial process, the networks used and their relevancy may change which in turn change the legitimacy perceptions of these groups. The marketization of civil society with an emphasis on developing commercial revenues and competition to win the tenders on a performance basis have created new rules and requirements leading to the emergence of social entrepreneurship as a new structure. According to institutional theory, these requirements of performance set the stage for various basis of legitimacy. Since agreement over identity of organizations is critical for all stakeholders, social entrepreneur need to acknowledge the fact that evaluation criteria used will influence the identity of their organizations.
Table 2

<table>
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<tr>
<th>NFP</th>
<th>Social Entrepreneurship</th>
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<tbody>
<tr>
<td>Social Mission</td>
<td>Social Mission</td>
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<tr>
<td>No wealth creation focus</td>
<td>Some wealth creation focus for reinvestment</td>
</tr>
<tr>
<td>Philanthropic</td>
<td>Entrepreneurship – Innovativeness, opportunity seeking</td>
</tr>
<tr>
<td>Weak in incorporating management approaches</td>
<td>Use of market/social tools for sustainable improvements</td>
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<td></td>
<td>Social entrepreneur attack on sources of problems rather than dealing with symptoms</td>
</tr>
<tr>
<td>Rely on volunteers, donators</td>
<td>Reliance on volunteers, donators, or profits Dependence on willingness of deprived community to participate and take ownership</td>
</tr>
<tr>
<td>Focus on provision of a service at a time</td>
<td>Focus on sustainability of service, reform and revolutionize an industry</td>
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Implications for Performance Management

The above aspects of social entrepreneurship that highlight multiple explanations create challenge in measuring its performance. How to capture the value created from the perspective of different stakeholders is a major problem in assessing performance of social entrepreneurs both in economic and social form. Social entrepreneurship mobilizes ideas, capacities, resources, networks to provide a sustainable solution to pressing social issues. Its major aim is sustainable capacity building towards maximizing public welfare. Since the sustainability mentioned is about provision of needs by the community in the long run, the survival of the firm itself may not be a strong indicator of social entrepreneur’s success.

Sustaining the impact and the value created through community members is the key to the performance of social entrepreneur. In this respect, social entrepreneur has to invest in social capital since it stabilizes mutual expectations and enable collective action. Combining the above summarized views, social entrepreneurship can be redefined as “how well combined efforts and resources can be orchestrated to create maximum collective good on a continuous basis.”

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Although the kind of performance criteria used by commercial entrepreneurs may be relevant for social entrepreneur in tracking performance, the social mission adopted necessitates new insights for social entrepreneur. The definition above highlights two new dimensions to consider in measuring performance of social entrepreneurship, i.e. collective efficacy and social capital. Collective efficacy concept rests on the works of Bandura (1978) and requires a structural context. According to Sampson, Raudenbush and Earls (1997) collective efficacy is social cohesion combined with the willingness to intervene on behalf of common good. Collective efficacy indicates what community thinks about their competencies and whether they will be willing to use it for the good of community. Collective efficacy is measured by social cohesion and informal social controls (Sampson, et al., 1997). In this regard, community members need to activate intervention processes using their capacities to achieve an intended mission. In its traditional meaning, entrepreneur’s performance is associated with individual efficacy (Arora et al., 2011). In contrast, members’ perception of the group’s performance capability is of question in social entrepreneurship. Collective efficacy indicates the existence of informal social controls whereby citizens control one another.

From donor’s perspective performance is measured by the returns on the investment done. Social capital is one of these critical returns sought for since it is a prerequisite for voluntary interventions by community members. Social capital has individual and public returns (Putnam, 2000), the latter creates a fertile context for realization of the social entrepreneur’s mission. Without trust and solidarity among community members, collective actions cannot be initiated to fight with social exclusion. However, the literature emphasizes the problems of social capital measurement. In support of these discussions, Putnam (2000) states that most of the time we measure the outcomes of social capital (such as enhanced social trust, lower economic and civic inequality) or predictors of social capital (such as altruism). From definitions it is evident that social connectedness increases with social capital. Scales measuring social capital have already been used by academic researchers. The aspects of trust, informality, and cognitive identification between partners, are evaluated by items such as sharing of common expectations and aims, lack of opportunistic
behavior, creation of common investments, development of informal relationships, and knowledge between business partners at a personal level can be cited (Yli-Renko, Autio, & Sapienza, 2001).

Combining these academic works with practice, percent of affected community members in execution of projects is another relevant performance criterion indicating inclusiveness. The change of volunteer profile from those who are mere donors (of money or time) to those citizens actually affected is another criterion for inclusiveness. Moreover, turnover among volunteers could be added to the list of performance indicators whereas low levels show perceived legitimacy and sustainability. The experiences and satisfaction of various stakeholders affected by social entrepreneurship are among suggested indicators.

The criticisms directed to social entrepreneurship focus on the risk of economic targets shadowing social goals. This necessitates a focus that maintains a balance between social and economic targets. The expectations of donors on efficiency plus a sole focus on profitability may risk legitimacy of social entrepreneur. Therefore, focus on the bottom line should not be the dominating criteria of performance. Use of social capital creation and collective efficacy therefore as performance criteria would attract attention to the importance of the beneficiary involvement. To play safe, different consequences of social capital need to be taken into account. Performance indicators need to evaluate whether social capital created is causing inclusive practices from the perspective of community. Including community members at the boards along with representatives of business and donors may be a policy enhancing legitimacy attainment and effectiveness of governance.

Conclusion

In any activity, performance assessment is a key to sustainable success. In this respect, private sector has developed tools to achieve sustainable profitability. However, domain of social entrepreneurship reflects a confluence of social and economic missions. The social mission of providing welfare overlaps with the traditional responsibilities of governments whose relations with citizens are defined by a social contract. A fair contract is the main expectancy of citizens concerning the responsiveness of public
administration on their demands. In case of social entrepreneurship, the market as a driver may create problems in prioritization of issues identified for social change projects. Gaining approval of community members and transparency in all steps therefore is crucial to maintain legitimacy. Moreover, social entrepreneur should develop processes assuring that beneficiary voice is heard at all stages.

Externality is a fact in public administration that makes performance measurement hard to achieve. Under such conditions, equity and distributive justice may be pivotal in evaluations of service satisfaction. Entrepreneurs working for a social mission need to learn these concepts from public administration. A triple bottom line approach tailored according to these concepts works since it embraces economic, social and environmental perspectives. This may at the same time serve as a meaningful substitute for cost benefit analysis that is commonly used by commercial entrepreneurs but subject to criticisms due to sole focus on economic goals.

The new philanthropy indicates close scrutiny by the donors of their investments (McCully, 2000). Social entrepreneurs are increasingly facing demands for transparency and use of objective performance criteria by the donors. Developing governance systems through which conflicting expectations of number of stakeholders can be aligned poses the greatest challenge for social entrepreneur. The social mission of social entrepreneur therefore can only be accomplished by being socially innovative yet financially viable. In order to address different goals, performance evaluation needs to be enriched using the experiences of public administration in bringing social welfare. As a final say, the indicators for social returns on investment need to be developed and used without the dominance of financial returns so that social entrepreneurship can improve its contentious legitimacy. The coercive isomorphism that may apply here is the one whereby social entrepreneurs may have to adopt same rules and structures with public organizations.
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