Social Entrepreneurship as a Relational Concept:
Testing an Interactive Model

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Social entrepreneurship remains a widely discussed topic in both the public and private sector and despite the lack of a clear or agreed upon definition some consensus exists around the idea that social entrepreneurship is about finding new and path breaking solutions to persistent and pressing social issues (Mair & Marti, 2006). Furthermore, social entrepreneurship research have emerged as a subject that not only crosses and integrates a number of academic disciplines but also challenges and transcends public and private sector boundaries (Austin, Stevenson & Wei-Skillern, 2006). This paper conceptualizes social entrepreneurship as a nonprofit organizational function and discusses how this function relates to two other core features of nonprofit organizations: management and governance. By exploring how these three functions align and interact the purpose of this paper is to introduce a framework from which new insights can emerge that bring clarity into how social entrepreneurship contributes to competitive and high-performing nonprofit organizations (Weerawardena, McDonald & Sullivan Mort, 2010; Weerawardena & Sullivan Mort, 2001, 2006).

Towards a functional and relational understanding of social entrepreneurship
To date, much social entrepreneurship research have concentrated on the contributions and characteristics of individual social entrepreneurs (Dacin, Dacin & Taylor, 2011). Using powerful stories and narratives, social entrepreneurs are portrayed as individuals with special personal qualities that fight social problems and change the world (Bornstein, 2004). Others have argued that social entrepreneurship research should focus more on what the social entrepreneur accomplishes and not who the social entrepreneur is. Put differently, what matters is the outcome and impact of socially entrepreneurial action (Martin & Osberg, 2007). This impact-oriented approach also highlight the importance of broadening the scope of social entrepreneurship research beyond individuals to include how organizations, teams, networks etc. help generate such outcomes (Light, 2006). A third approach is to recognize social entrepreneurship as an organizational function that allows nonprofits to prosper and flourish. Thus, rather than perceiving social entrepreneurship as personal traits or a particular outcome the starting point for this paper is to emphasize the functional and relational properties of social entrepreneurship.

In the business management literature, studies of the entrepreneurial function within established firms is a well-accepted and heavily researched area (Ireland, Covin & Kuratko, 2009), and
empirical findings also support the notion that organizations with a strong entrepreneurial posture are associated with higher firm performance (Rauch, Wiklund, Lumpkin & Frese, 2009). Early findings by nonprofit scholars suggest a positive relationship between social entrepreneurship and improved nonprofit organizational performance (see Pearce, Fritz & Davis, 2010) yet little is known about how nonprofits effectively build and leverage internal capabilities and resources that impacts performance. Furthermore, conceptualizing social entrepreneurship as process of change within existing organizations raises the question of how existing functions and structures align and affect this change process. As Kistruck and Beamish (2010, p. 736) ask, “Are certain structural configurations more successful than others at navigating this change?” In other words, studying how social entrepreneurship aligns with other functions and structures within nonprofit organizations appears to be conducive in generating a better understanding of how social entrepreneurship contributes to nonprofit organizational performance.

Three nonprofit organizational functions

**Governance**

Governance is the process of providing strategic leadership to a nonprofit organization and the key function of setting strategic direction, making decisions policy and strategy, overseeing and monitoring organizational performance, and ensuring overall accountability (Renz, 2004). Governance is primarily the province of an organization’s governing board, often known as a board of directors or board of trustees. In addition to determining the long-term strategic direction/goals and being accountable for the agency’s conduct one of the board’s primary tasks is to recruit, select, hire, and set compensation for the executive director. There is a rich theoretical and conceptual literature acknowledging the critical role of the governance function in generating high-performing nonprofit organizations and empirical evidence supports the existence of a close relation between board effectiveness and nonprofit organizational effectiveness (Green & Greisinger, 1996; Herman & Renz, 2008). Still, maintaining well-functioning boards and a strong governance function requires continuous adjustments and improvements as the organization evolves and its environment transforms (Renz, 2004).
Management

Drucker (1954 p. 3) describes management as “the life-giving element” of any enterprise. According to Drucker, management is an integrative function that brings key organizational elements and resources together in order to accomplish desired long and short-term goals. Thus, nonprofit management can be considered the specific function that enables an organization to generate results and outcomes or as Anheier (2005 p. 244) describes it: “[nonprofit] management makes an organizational mission operational, and works toward achieving its objectives.” The management function in nonprofit organizations is widely discussed, debated and researched (Anheier, 2005; Handy, 1990; Letts, Ryan, & Grossman, 1999; Light, 2000), and while there is no unified nonprofit management theory it is often conceded that the management function in these agencies are intrinsically complex and challenging as nonprofit must balance multiple bottom lines and stakeholder interests (Chetkovich & Frumkin, 2003; McDonald, 2007; Weerawardena et al., 2010). Yet, the management function is essential for understanding organizational performance due to its integral action-oriented role (Ireland, Hitt, & Sirmon 2003).

Social entrepreneurship

According to Ireland et al. (2009, p. 20-21), the specific purpose of this function is “to continuously discover and leverage entrepreneurial opportunities for growth- and advantage-seeking purposes.” Even though the notion of entrepreneurship as a key organizational function originated in the business literature Hitt et al. (2011) suggests that it ought to be just as relevant for nonprofit organizations. For example, the more dynamic, complex or ambiguous an organization’s operating environment turn out to be the more pertinent the entrepreneurial function is assumed to be for the continuous well-being of the organization (Hitt et al., 2011). Hence, the social entrepreneurship function ought to be critical for most nonprofits given recent years economic turmoil, the growing marketization trend of civil society (Eikenberry & Kluver, 2004) and the shifting competitive and funding landscape facing the nonprofit sector (Chetkovich & Frumkin, 2003). As McDonald (2007, p. 256) has observed, the “success, and even survival” of nonprofit agencies are becoming more and more contingent upon their ability to be socially entrepreneurial.
**An interactive model**

Figure 1 shows the basic model that includes all three organizational functions: social-entrepreneurship, management and governance. The central premise of this model is that these functions are what allow a nonprofit organization to attain a stable foundation for its operations and provide the base for continued organizational development. By including social entrepreneurship this framework also explicitly acknowledges the importance of this function in affecting organizational performance and creating sustainable nonprofit organizations.

![Figure 1. The Function-Based Interactive Model](image)

As described above, each function has a significant distinct role but as indicated by the double-arrows in the model an equally important aspect to consider are the interactions between the different functions. A key assumption of this model is that the characteristics of the interactions are not predetermined or permanent but alterable and dynamic. A second assumption is that the nature of these interactions can be favorable, affirmative and complementary or unfavorable, difficult and tensional. Even though few nonprofits can be expected to have such clear-cut positive and/or negative distinctions the main point is that the relations between the functions can look very different in different nonprofits and that the nature of these interactions cannot be assumed ex ante.
**Interaction I: Governance - Management**

Understanding the nature of the relationship between governance and management represents an extensive research tradition in nonprofit organizational scholarship (Golensky, 1993; Heimovics & Herman, 1990; Kramer, 1985) and this relationship has also been frequently employed to frame discussions about nonprofit effectiveness and performance (Herman & Renz, 2008; Tsui, Fernando, & Gellis 2004). Perhaps the most important aspect to consider from a performance perspective is the board-executive relation that Golensky’s (1993) argues can be either a productive and reinforcing partnership or an unproductive and potentially detrimental power struggle. For example, negative influences on organizational performance include severe conflicts either within the board (Grissom, 2010) or between the board and the executive (Iecovich & Bar-Mor, 2007) whereas high trust and congruence between board members and executive are viewed as having positive effects on performance (Golensky 1993). Overall, explorations of the governance and management interaction in the proposed model must at a minimum consider the board role and responsibilities, the roles and responsibilities of the executive and board-executive interactions. Fortunately, nonprofit scholars can draw from a rich body of conceptual and empirical literature in conducting such explorations (Iecovich & Bar-Mor, 2007).

**Interaction II: Management - Social Entrepreneurship**

One of the fastest growing segments of the entrepreneurship literature explicitly acknowledges the management-entrepreneurship interaction as the most essential for high-performing organizations (Hitt et al., 2011). This literature is predominantly interested in explaining long-term performance and competitiveness by focusing on how the management function leverages the current advantages and resources of an organization, and the entrepreneurial function detects and explores new opportunities that can allow the organization to sustain its effectiveness across time (Ireland et al., 2009; Ireland et al., 2003). The key is to focus on the two functions jointly. In other words, the essence of this interaction is to recognize and investigate how nonprofits simultaneously address the dual challenges of exploiting current competitive advantages (the purview of management) while exploring for opportunities (the purview of entrepreneurship), which ultimately impacts performance.
Interaction III: Social Entrepreneurship - Governance

While scarcely researched, several scholars have begun to acknowledge the relevance of the interaction between the governance function and the social entrepreneurship function for nonprofit performance. Coombes, Morris, Allen and Webb (2011) point out that given the key role of governance in determining how nonprofits serve their social missions and manage stakeholder interests, the boards of directors appears an especially important resource in fostering, or constraining, social entrepreneurship within these nonprofits. The authors also make the observation that boards generally play a relatively more active and instrumental role in guiding and controlling a nonprofit than what is common in for-profit firms, which could mean that governance has a much more dominant role for the ultimate outcomes of socially entrepreneurial actions than previously believed. Existing empirical research also suggest that this interaction is significant but complex. For example, some studies report a positive relation between board capacity and nonprofit entrepreneurial behaviors (Coombes et al. 2011), and entrepreneurial nonprofits tend to have more engaged boards (Helm & Renz, 2008). However, others have described boards to be more or less insignificant for innovation and that boards of innovative agencies tend to be marginalized (Light 2008).

An empirical exploration using the interactive model

To help inform the discussion about the relationships and interactions between the different functions this section discusses findings from an empirical study based on a small sample of human service nonprofits operating in the Kansas City metro area. Please notice that the purpose of this empirical segment is first and foremost to serve as an illustration and a starting point for discussing the role of alignment and performance as it relates to social entrepreneurship.

Sample

The data were collected from a sample of 88 small human service nonprofit agencies operating in metropolitan Kansas City participating in a half-day workshop on capacity building conducted by two local community outreach/research centers. Each agency was represented by two individuals, one from staff/management and one from the board of directors. Multiple survey instruments covering a range of organizational characteristics including entrepreneurial
orientation, organizational capacity, and organizational life-stage were distributed during the workshop. 75 organizations returned at least one of the surveys and discrepancies were addressed via follow-up phone calls and email correspondence. For the purpose of this study two surveys had to be combined which decreased the sample to 69. Finally, given the intention to explore social entrepreneurship within established nonprofits, organizations in the start-up and early development stages (agencies 2 years or younger) were removed resulting in a final sample of 59 organizations, which represents a 67% response rate. The median age in the final sample was 12 years with an average of 2.5 full-time employees and average income of approximately $275,000.

Variables
The entrepreneurial behavior scale developed by Helm and Andersson (2010) that looks at three specific behaviors: innovation, proactiveness and risk-taking (ten-item scale) were used to capture the social entrepreneurship function. To capture governance and management, ten items were used from the organizational capacity survey distributed by one of the organizers of the workshop. Five items were used to construct the management function measure including the experience and management competence of the mangers and the extent to which the agency uses financial and operational data and planning tools in the day to day operations of the organization. Five items were used to construct the governance function measure including the extent to which the agency conducts environmental scanning, has a comprehensive and current strategic plan, and whether the board of directors effectively fulfills its duties. To be clear, determining what variables to use in order to best capture the different functional elements represent one of the most vibrant challenges for advancing the framework proposed in this article. While an in-depth discussion regarding the pros and cons in using different variable is indeed warranted there is no room nor is it the main purpose of this article to facilitate such a discussion.

Analysis
Given the primary purpose of examining how the social entrepreneurship function interacts and aligns with the other two functions a basic correlation analysis was conducted. Although such an analysis does not provide any casual information it is good indicator of both the strength and direction of the relationship between the different functions. First, a base model was created
using the all 59 organizations. The correlation coefficients for the base model are shown in figure 2.

![Figure 2. Base Model]

As depicted in figure 2, the base model displays two moderate and positive relationships between governance and management and management and social entrepreneurship, and a weak negative correlation between social entrepreneurship and governance. Still, this information is not particularly helpful as it provides no useful entry point or starting reference from which the different interactions can be contrasted. To complement the base model three additional models were created. To construct these models the sample agencies were first ranked from highest to lowest scoring for each function producing. Then, the agencies in the top twenty percent for each function were selected and the correlation coefficients were once again calculated. Figure 3 to 5 showcases the correlations for the agencies with the highest ranked governance function (fig. 3), social entrepreneurship function (fig. 4), and management function (fig. 5).
Please note that the above models were created using a very limited number of organizations. Yet, for the purposes of this paper it interesting to acknowledge that all models are somewhat different i.e. the patterns of alignment are not identical once the relative strength of the different functions are taken into account.
The governance model (fig. 3) is the only model that aligns the same way as the base model. Perhaps the most interesting characteristic of this model is the inverse relation between governance and social entrepreneurship suggesting that a stronger governance function is associated with a weaker social entrepreneurship function score. As mentioned earlier, the link between these two functions is complex, which is reflected by the fact that different theories of governance put different emphasis on what are the main roles of the governance function should be. According to Cornforth (2004), one key tension exists between the conformance and performance role of governance. The conformance role is largely reactive, focuses on control and monitoring activities, and tends to be risk averse whereas the performance role is more proactive, risk-willing, and focuses on how to develop new ways to fulfill the agency’s mission and vision. It is not difficult to imagine how these roles could impact the social entrepreneurship function. Thus, the inverse relationship between governance and social entrepreneurship suggest that a strong governance function (in this sample) may be associated with conformance rather than performance, and that such conformance appears to curb social entrepreneurship. The above finding is consistent with recent research about social enterprise boards indicating that such boards not only tends to be risk-averse but also displays a tendency not to engage in new and/or costly activities in favor of maximizing the efficiency of existing programs and efforts (Spear, Cornforth & Aiken, 2009).

When moving to the social entrepreneurship model (fig. 4) the negative correlation between governance and social entrepreneurship in the previous model is replaced with a weak positive correlation. Hence, organizations represented in this model somehow manage the tension between conformance and performance differently. To this end, Light (2008 p. 201) has suggested that entrepreneurial nonprofits may indeed use a different form governance mode but that more research is needed to confirm this assertion. Cornforth and Edwards (1999) explored how nonprofit organizations were able to prevent getting key long term and strategically essential items squeezed off the agenda’s of their boards, while at the same time not jeopardizing the conformance role and found that both the intensity and type of board involvement in the agency’s strategic making functions seemed to matter. Helm and Renz (2008) concluded that entrepreneurial organizations’ boards are more engaged with their organizations and that the
board-executive dynamic plays a significant role in shaping the internal entrepreneurial climate of nonprofit organizations. For example, executives of the entrepreneurial organizations tended to have greater trust of their boards. Also, the staff of the more entrepreneurial organizations tended to flag more opportunities and generate more innovative ideas – and then they were shared with the board for consideration and vetting. And the most entrepreneurial organizations generated a large number of ideas.

The notion that the management and social entrepreneurship functions are closely aligned is reflected by the fact that all models display moderate positive correlations between these two functions. What is somewhat noteworthy is that the management model (fig. 5), which has the strongest correlation between management and social entrepreneurship, is the only model with two inverse relationships. These findings are much in line with Light’s (2008) conclusion that in some entrepreneurial organizations the board of directors are much less active and engaged because the entrepreneurial function rests solely at the executive level. In fact, as Light concludes, entrepreneurial executives even view active boards as a hindrance to their vision and ultimately seem to prefer boards that are much less active.

Discussion

The empirical analysis of the three functions suggests that the nature of the relationships between them can vary significantly. It also caution against making a priori statements about the interactions between the different functions i.e. strong management does not guarantee strong governance, and strong governance is no guarantee for a well operating social entrepreneurship function. The question remaining is what this means for nonprofit performance? It seems feasible to imagine that different configurations can lead to different levels of performance. For example, in an organizational environment where all functions are weak one could hypothesize that performance would suffer. In an organizational environment where all the functions are strong and reinforce each other one could hypothesize that performance would be strong. However, between these two end points there are a number of configuration possibilities, and depending on the positive and/or negative nature of the interactions different configurations may have very different performance implications. Table 1 provides an outline of the different possibilities.
Table 1. Configuration Grid

<table>
<thead>
<tr>
<th>Social Entrepreneurship &amp; Management</th>
<th>Management &amp; Governance</th>
<th>Governance &amp; Social Entrepreneurship</th>
<th>Performance implication</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>+</td>
<td>+</td>
<td>High Performance</td>
</tr>
<tr>
<td>2.</td>
<td>-</td>
<td>-</td>
<td>Low Performance</td>
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<tr>
<td>3.</td>
<td>+</td>
<td>-</td>
<td>Toward Low Performance</td>
</tr>
<tr>
<td>4.</td>
<td>-</td>
<td>+</td>
<td>Toward High Performance</td>
</tr>
<tr>
<td>5.</td>
<td>+</td>
<td>+</td>
<td>?</td>
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<tr>
<td>6.</td>
<td>-</td>
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<tr>
<td>7.</td>
<td>-</td>
<td>+</td>
<td>?</td>
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<tr>
<td>8.</td>
<td>+</td>
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<td>?</td>
</tr>
</tbody>
</table>

The grid can be viewed as a starting point from which different hypotheses can be developed about the performance implications of the different configurations. An important initial aspect to consider is whether all functions carry the same weight or if one or two of the functions are more important in driving nonprofit performance? To give an example, one could argue that strong governance is the primary antecedent of effective organizations, especially in highly dynamic environments where strategic leadership and accountability must be combined to ensure high performance. Furthermore, the board of directors (a key actor related to the governance function) has legal authority in a number of areas, which gives them power of many key decisions such hiring or firing key executives.

Presuming that strong governance is essential for nonprofit performance I would argue that configuration 3, which is the same as the management model discussed earlier, is not likely to lead to high performance. This configuration seems to fit the notion of founder’s syndrome quite well. When strong and decisive social entrepreneurs become too dominant and controlling it also tends to undercut the accountability capacity of the governance function. Light (2008) expresses concern that, while this situation may offer these organizations and their executive(s) more freedom to maneuver, while concurrently consuming less time and other resources, this lack of engagement between management and governance (the board in particular) presents troubling vulnerability in this era of heightened demand for accountability. Moreover, an organization with a conformance oriented board can use its hiring and firing power to make sure that the executives in charge of the management function reflects this conformance orientation and is less prone to engage in entrepreneurial activities. Still, the risk of only embracing the conformance role in all
functional relationships is that agency ends up with configuration 2, which will only continue to lead to low performance.

In contrast to the potential downward spiral caused by too much emphasis on conformance, configuration 4 reflects an agency that has a good relation between its governance and management function as well as a more performance focused governance orientation. Here, the board can work together with the executives at the management level to try and take steps to improve the entrepreneurial capacity of the management function. I would argue that this configuration is likely to lead to high performance because the board is actively trying to stimulate and generate the type of climate that Helm and Renz (2008) found conducive to strong entrepreneurial management, which ultimately pushes the agency towards configuration 1.

The performance consequences of the remaining configuration possibilities are more difficult to predict but offers interesting opportunities for future research. For example, is it enough to rely on strong governance – management relations (configuration 7) to ensure good performance? According to the so called strategic entrepreneurship perspective (Ireland et al., 2009) the answer is no. While strong management and governance are vital elements in successfully leveraging current advantages and resources of a firm it cannot replace or compensate for the key role of the entrepreneurial function, which is to detect and explore new opportunities that allow the organization to sustain its effectiveness across time (Ireland et al., 2009; Ireland et al., 2003). In other words, from a firm perspective configuration 7 is likely to lead to lower performance over time. Is the same true for nonprofit organizations? Configuration 8 displays the opposite situation where managers and boards are positively aligned with the social entrepreneurship function but not with each other. Even though this situation will likely ensure a highly entrepreneurial agency it is questionable if it leads to high performance. This configuration indicates that the organization indeed possesses the ability to discover and explore new opportunities but on the other hand lacks the governance/management capacity to organize, develop and manage them, which will undermine the organization’s ability to exert the performance enhancing potential inherent in these opportunities.
In this article, I have painted with a broad brush rather than to drill down into a more nuanced consideration of specific variables in each function. In order to further explore the interactive model there are a number of areas for future research. To date, few nonprofit studies have explored the long term effects of socially entrepreneurial behavior and its impact on performance in part because there are few available and/or clear-cut measures of social entrepreneurship and nonprofit performance. We also know need a better understanding of why nonprofits engage in social entrepreneurship? What are the organizational antecedents that affect (either by promoting or impending) socially entrepreneurial actions to take place within a nonprofit at a certain point in time. Are there specific environmental triggers that cause nonprofits to engage in socially entrepreneurial activities?

To summarize, this paper has argued in favor of a relational and functional approach to study social entrepreneurship in nonprofit organizations. To date, social entrepreneurship research have primarily focused on individual social entrepreneurs, socially entrepreneurial outcomes or discussed these core functions of nonprofits separately. The model introduced in this article proposes three central functions: management, governance and social entrepreneurship that ultimately help determine the performance of nonprofits and by exploring them jointly we can gain new insights into how nonprofits find new and manages existing opportunities. Hence, depending on how these functions align the different combinations can lead to productive, unproductive or even destructive outcomes and as a consequence affect the performance of the organization differently. Ultimately, taking a more relational approach can help generate a more comprehensive understanding of social entrepreneurship as well as nonprofit organizational performance.
References


