



# Institutional complexity and social entrepreneurship: A fuzzy-set approach<sup>☆</sup>



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## ABSTRACT

This study examines the local institutional complexity of social entrepreneurship. Building on a novel fuzzy-set analysis of 407 social entrepreneurs in the UK, the study identifies five configurations of local institutional forces that collectively explain the confidence of social entrepreneurs in successfully managing their business. The findings demonstrate that local authorities are a dominant condition; yet combinations of other complementary—more and less formalized—local institutions need to be in place to promote the development of social entrepreneurship.

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## 1. Introduction

Recent research on social entrepreneurship stresses the need to advance the knowledge on the institutional complexity that influences how social entrepreneurs think and behave (Dacin, Dacin, & Tracey, 2011; Felicio, Martins, & Conceicao, 2013). Similarly, scholars call for new studies that use large number of cases and more complex research techniques capable of examining which institutions play the most relevant role in the development of social enterprises (Estrin, Mickiewicz, & Stephan, 2013; Short, Moss, & Lumpkin, 2009). This study aims to contribute to current knowledge by conducting a fuzzy-set Qualitative Comparative Analysis (fsQCA) (Ragin, 2008) of the combined effects of local institutions on social entrepreneurship, which typically reflects a response to unmet needs in a local community (Di Domenico, Haugh, & Tracey, 2010).

Drawing upon research on institutional complexity (Greenwood, Raynard, Kodeih, Micelotta, & Lounsbury, 2011) and social entrepreneurship (Grimes, McMullen, Vogus, & Miller, 2013), the main rationale for hypothesis development posits that a social entrepreneur's local-opportunity context consists of a range of more or less central and formalized institutional conditions that jointly shape its opportunity confidence (Dimov, 2010; Doyle & Ho, 2010). This study tests a set of

configurational hypotheses by conducting a fsQCA of 407 social entrepreneurs in the UK who define their local area as the main operating context for their social venture. Building on necessity, sufficiency, and coverage analyses, this study makes causal interpretations regarding the relationship between different combinations of local institutional conditions and the opportunity confidence of social entrepreneurs.

This article contributes to business literature in two ways. One of the greatest challenges when facing social entrepreneurship scholars is data collection and measurement, in particular, when testing hypotheses that combine multiple factors with high explanatory power (Short et al., 2009). This research addresses this challenge by introducing a novel analytical approach to social entrepreneurship research that allows comparing configurations of institutional forces drawing from a large sample. This configurational approach allows observing complex paths under which opportunities in social entrepreneurship unfold (Doyle & Ho, 2010).

Second, the results contribute to the knowledge of the institutional embeddedness of social entrepreneurship (Estrin et al., 2013; Pache & Chowdhury, 2012) by explaining under which combinations of local institutional forces social entrepreneurs build opportunity confidence. The analysis demonstrates both the dominance of the influence capacity of local authorities and the need of other complementary—more and less formalized—institutional factors to form such convictions. Hence, a social entrepreneur's confidence to deliver their place-based social mission does not rely on simple legislative local interventions. Only when exploring dominant institutions in the context of complementary local institutions can one understand the institutional complexity involving social entrepreneurship.

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## 2. Theory and hypotheses

### 2.1. The influence capacity of authorities

Local opinion leaders and resource-rich actors can leverage power over the legitimacy of organizations by aligning the key discourses and norms of the community with their own interests (Marquis & Battilana, 2009). Local governments and public funding bodies represent the most powerful authorities facing social entrepreneurship, because they shape local evaluations of and structure the opportunity context for new social enterprises (Nicholls, 2010). Accordingly, the influence capacity of local authorities over social enterprises can serve as the dominant condition in the formation of a social entrepreneur's belief that the (social) third-person opportunity at hand can be achieved (McMullen & Shepherd, 2006).

**Hypothesis 1a.** The influence capacity of local authorities is a dominant condition in the formation of strong opportunity confidence for social entrepreneurs.

**Hypothesis 1b.** The influence capacity of local authorities is necessary and sufficient by itself to form strong opportunity confidence for social entrepreneurs.

### 2.2. The complementary influence of less formalized institutions

Strong social relationships and support networks can increase a social entrepreneur's confidence (Dimov, 2010; Doyle & Ho, 2010). Katre and Salipante (2012) support this argument by showing that successful social entrepreneurs can conduct in-person interactions and form close partnerships with leaders of local organizations who deal with a similar client base. After the creation of the social venture, the ongoing evaluation of the ease or difficulty of accessing informal support networks might support or undermine the social entrepreneur's belief of being able to achieve their venture's mission (McMullen & Shepherd, 2006).

A relevant normative institutional feature is social legitimacy, which reflects the extent to which key local stakeholders, opinion leaders, or governmental bodies evaluate social entrepreneurship as “desirable, proper or appropriate” (Suchman, 1995, p. 574). The legitimacy of social entrepreneurship in a community thus indicates the demand for, supply of, and allocation of resources to social enterprises, which can influence the entrepreneurs' confidence in successfully operating their business (Kibler, Kautonen, & Fink, 2014). New social enterprises not only create new goods and services but also face and must deal with legitimacy issues in the community (Nicholls, 2010) to overcome entrepreneurial uncertainty and the liabilities of newness, and to increase their prospects of survival (Shepherd, McMullen, & Jennings, 2007).

**Hypothesis 2.** Combinations of complementary, less formalized institutional factors are necessary to form social entrepreneurs' strong opportunity confidence.

### 2.3. The complementary influence of more-formalized institutions

Local key public actors organize more-formalized institutional structures that can influence social entrepreneurship through a variety of regulative incentives (Nicholls, 2010). The existing literature suggests that complex regulatory and bureaucratic processes tend to discourage entrepreneurial activity. Lim, Morse, Mitchell, and Seawright (2010) also demonstrate how low regulative complexity can support the formation of entrepreneurial opportunity beliefs.

Similarly, local regulative frameworks, which ease the access to funding and provide highly flexible reporting formats, help social entrepreneurs to develop strategically their venture in line with their specific objectives and resource limitations (Nicholls, 2010). Thus, local formalized structures, which provide a range of accessible funding

opportunities and less complex funding bureaucracy, may enhance a social entrepreneur's confidence to overcome uncertainty and to mobilize successfully entrepreneurial action (McMullen & Shepherd, 2006).

The literature also associates more-formalized institutions that shape entrepreneurial processes with the institutional support in labor recruitment and training (Marquis and Battilana, 2009) and the availability of financial advice and services (Lim et al., 2010). Katre and Salipante (2012) suggest that successful social entrepreneurs are able to seek competent workers that commit to and can bring in key resources for meeting the social venture's aims. Thus, formal institutional structures supportive of labor recruitment in a community may strengthen a social entrepreneur's confidence to recruit valuable workforce, which increases the likelihood of future success.

Similarly, a greater presence of public services that offer particular support in applying for funds or bidding for contracts can reflect a strong contextual incentive for social entrepreneurs to meet successfully the venture's social mission (Dorado & Ventresca, 2012). The latter can further strengthen the social entrepreneur's confidence to overcome financial uncertainty and thus their convictions regarding the value of the opportunity under pursuit (Dimov, 2010).

**Hypothesis 3.** Combinations of complementary, more-formalized institutional factors are necessary to form strong opportunity confidence of social entrepreneurs.

## 3. Data and methods

### 3.1. Method

Explaining how social entrepreneurs build up opportunity confidence entails complexity and arguably involves many relevant institutional conditions. This study draws on conjunctural causality and systematic comparison by using fsQCA. This method systematically compares different combinations of causal and outcome conditions and produces combinations of causes that collectively explain the outcome under examination (Ragin, 2008). Instead of searching for antecedent conditions common to all instances of the outcome, fsQCA focuses on the possibility that the same outcome can follow from different combinations of conditions (Ragin, 2008). FsQCA allows analyzing complex causality and testing the hypotheses on the dominance, necessity, and sufficiency of particular conditions. Dominance occurs when a certain condition emerges as a core condition in most of the solution terms. A given condition that is both necessary and sufficient for a particular outcome is the one that simultaneously shows two attributes: (1) every time the outcome is present, the condition will be present (i.e. the outcome requires the condition); (2) every time the condition is present, the outcome will be present (i.e. the condition's mere presence produces the outcome). Although QCA was originally an inductive method useful for analyzing small numbers of cases, recent studies (e.g. Huarng, 2015; Schneider, Schulze-Bentrop, & Paunescu, 2010) demonstrate its methodological robustness when dealing with configurational hypotheses expressing complex causality.

### 3.2. Cases selection and data collection

The data stems from the 2008–2009 National Survey of Third Sector Organizations in the United Kingdom. Following fsQCA requirements for sample selection (Ragin, 2008), the study reduces the original sample of more than 14,000 respondents according to three criteria. First, the procedure separates social enterprises from other types of third-sector organizations according to the following definition: “Social enterprises are businesses with primarily social objectives that reinvest their surpluses for social purposes in the business or community rather than trying to maximize profit for shareholders and owners” (Cabinet Office, 2010). Second, social entrepreneurs are different to established social

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