



# Uncovering the influence of social venture creation on commercial venture creation: A population ecology perspective



Karla I. Mendoza-Abarca <sup>a,\*</sup>, Sergey Anokhin <sup>b,1</sup>, César Zamudio <sup>b,2</sup>

<sup>a</sup> Robert A. Foisie School of Business, Worcester Polytechnic Institute, 100 Institute Road, Worcester, MA 01609-2280, United States

<sup>b</sup> Department of Marketing and Entrepreneurship, College of Business Administration, Kent State University, P.O. Box 5190, Kent, OH 44242-0001, United States

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## ABSTRACT

This study takes a population ecology perspective to uncover the influence that social venture creation exerts on commercial venture creation. Data from 88 Ohio counties during 2003–2007 uncovered a negative relationship suggesting that social ventures compete for resources with commercial ventures at the time of founding. Additionally, we found that income levels in the county affected the inter-population dynamics between social and commercial ventures. Specifically, lower income levels exacerbated the competitive relationship between social and commercial ventures. Low levels of government spending on welfare were found to suppress commercial start-up rates.

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## 1. Executive summary

Social and commercial ventures play important economic and social roles in the environments in which they operate. Given their potentially complementary roles in society, these two types of organizations have led to scholarly investigation of the interactions between these organizational types through cross-sector collaboration (e.g., Di Domenico et al., 2009). Few studies, however, have investigated the dynamics between these organizations regardless of explicit collaboration. Since these organizations usually co-exist in a location without direct interaction, it is pertinent to uncover the possible influence that one group of organizations may have over the other. The growth in the size of the social sector makes it more pressing to investigate the influence that social organizations may exert on their commercial counterparts. In this study, we seek to uncover such influence.

Adopting a population ecology perspective (Hannan and Freeman, 1977), we investigate how social venture creation rates affect the creation of commercial ventures. We establish that the population of social ventures consists of organizations that are created out of collective-focused aspirations to create social value purposefully, while the population of commercial ventures consists of organizations that are created out of self-focused desires for the purpose of generating private gains (Lumpkin et al., 2013). We argue that social venture creation exerts a negative influence on the creation of commercial ventures and that this negative influence is exacerbated by harsh socio-economic conditions characterized by inadequate government spending on welfare and low income levels.

We conduct our empirical analysis at the county level by drawing on data from the state of Ohio. Our data consists of a panel of 88 counties over five years (2003–2007), which we gathered from a variety of archival sources. We test our hypotheses through a

\* Corresponding author. Tel.: +1 508 831 4130.

E-mail addresses: [kmendozaabarca@wpi.edu](mailto:kmendozaabarca@wpi.edu) (K.I. Mendoza-Abarca), [sanokhin@kent.edu](mailto:sanokhin@kent.edu) (S. Anokhin), [czamudi1@kent.edu](mailto:czamudi1@kent.edu) (C. Zamudio).

<sup>1</sup> Tel.: +1 330 672 1150.

<sup>2</sup> Tel.: +1 330 672 2170.

simultaneous system of equations that effectively controls for the concurrent influence between social and commercial venture creation. We estimate the system of equations by using a generalized least squares approach with full-information maximum likelihood estimation (FIML).

We contribute to the social entrepreneurship literature by uncovering a competitive relationship between social and commercial ventures at the time of funding. Specifically, results demonstrate that an increase in the rates of social venture creation decreases the rates of commercial venture creation. This stands in contrast to previous studies that have implicitly assumed a symbiotic (i.e., positive) relationship between these two types of organizations (e.g., [Estrin et al., 2013](#)). We also contribute to population ecology by demonstrating that environmental factors not only affect organizational creation rates but also the ecological dynamics between the two populations. Specifically, the competitive relationship between social and commercial ventures is exacerbated under low-income conditions. Implications for entrepreneurs consist of being aware that competition for startup resources also comes from organizations in different sectors.

## 2. Introduction

Social entrepreneurship refers to the pursuit of opportunities to address social needs and catalyze social change through the innovative combination of resources and/or the creation of new organizations ([Mair and Marti, 2006, 27](#)). Given that its main purpose is to create social value ([Moss et al., 2008](#); [Smith and Stevens, 2010](#); [Weerawardena and Sullivan Mort, 2006](#)), social entrepreneurship has the potential to address persistent social problems more effectively than commercial entrepreneurship. Though commercial entrepreneurship may create collateral social value through the invisible hand ([Smith, 1776](#)), social entrepreneurship seems to have greater potential to solve complex social problems by purposefully addressing them. As such, scholars have investigated what makes social entrepreneurship different from commercial entrepreneurship to understand whether social ventures are superior at creating social value ([Austin et al., 2006](#); [Bacq et al., 2013](#); [Dorado, 2006](#)).

Social and commercial ventures are created for different purposes yet coexist in the same environments. For this reason, studies in the social entrepreneurship literature have investigated how the two types of ventures influence each other through explicit collaboration ([Di Domenico et al., 2009](#); [Meyskens et al., 2010](#)). We argue that social and commercial ventures may also influence each other in the absence of collaboration. As an integral part of society, commercial ventures can capitalize on the benefits of the social value created by social ventures. For example, by alleviating social issues, social ventures may create better environments for commercial start-ups ([Peredo and Chrisman, 2006](#)). Indeed, [Estrin et al. \(2013\)](#) reported that, among individuals in the process of creating a new firm, as well as among individuals currently operating a young or established business, social entrepreneurial activity enhances commercial entrepreneurial activity across countries, suggesting a symbiotic relationship.

Note that the above research implicitly assumes that symbiosis may exist among both new and established ventures. This stands in contrast with a population ecology perspective, which encourages the study of organizational founding rates in entrepreneurship, since such approach provides a different lens for investigating the dynamics of organizational creation ([Aldrich, 1990](#)). By taking such a perspective, this article relaxes this implicit assumption by investigating whether the rate of creation of social ventures—captured at the moment in which the organizations are created as legal entities—enhances or undermines the creation of commercial ventures.

Given our focus on entrepreneurship as “successful venture creation” ([Gartner, 1989, 62](#)), we propose and empirically verify that symbiosis between social and commercial ventures is not likely to hold. Our main premise is that social and commercial ventures compete for similar resources upon founding, regardless of their ultimate goal. That is, creating social ventures may absorb resources necessary for the creation of commercial ventures, thus undermining their start-up rates. We also propose that competition between the two populations is exacerbated in environments characterized by low-income levels and governments that fail to address issues through traditional welfare mechanisms. Recent growth in the nonprofit sector highlights the timeliness of investigating this population’s influence on the ecological dynamics of commercial organizations. In the first decade of the new millennium, the nonprofit sector grew by 24% in terms of number of organizations and by 41% in terms of revenue generated ([Lambert, 2013](#)). Additionally, during the same period, nonprofits added jobs at an average annual rate of 2.1%, while commercial organizations lost an average of 0.6% jobs per year ([Lambert, 2013](#)).

The present study contributes to the population ecology literature by uncovering the inter-population dynamics between social and commercial ventures as well as the conditions under which such dynamics change. The findings also contribute to the social entrepreneurship literature by showing that nonprofit social ventures, though beneficial for society, may not be as beneficial for commercial venture creation in the short-term. Finally, the results also add to the new venture creation literature by demonstrating that the creation rates of other organizational populations, regardless of explicit ties, are antecedents of new venture creation rates. The results also show that the economy of a region has an impact on the dynamics between social and commercial venturing.

## 3. The population ecology of commercial and social venture creation

Population ecology is particularly relevant in entrepreneurship research, which has long been concerned with the creation of new ventures as evidence of successful entrepreneurship ([Baum and Singh, 1994](#); [Tucker et al., 1990](#)). This perspective “seeks to understand how environmental conditions and interactions within and between populations shape the diversity of organizations in society” ([Hannan and Freeman, 1987, 912](#)).

Understanding how different organizations compete or benefit from each other at the time they are created is a challenge, since it is difficult to determine how many organizations failed to be created because of competition. A population ecology perspective is

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