

# **Essays on Social Value Creation in the Not-for-Profit Sector**

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## KURZFASSUNG

Weltweit drängende soziale Probleme und eine gleichzeitig steigende Wettbewerbsintensität zwischen NFP (Not-for-Profit) Organisationen um knappe Ressourcen erfordern eine zunehmende Effektivität und Effizienz des sozialen Sektors. Diese Entwicklung forciert unternehmerisches Denken und Handeln in NFP Organisationen. Der Verkauf von Produkten und Dienstleistung, methodisch anspruchsvolle Erfolgsmessung, gut durchdachte Wachstumsstrategien und gezielte Partnerschaften mit Sozialinvestoren, sozial verantwortlichen Unternehmen, staatlichen Einrichtungen oder anderen NFP Organisationen sind zunehmend im sozialen Sektor zu finden. Gleichzeitig nimmt der wissenschaftliche Diskurs zu diesen Themen in den Forschungsfeldern „Social Entrepreneurship“, NFP Management, Programm Evaluation und Corporate Social Responsibility zu. Die Forschungslücken sind zahlreich und umfassend.

Die vorliegende Arbeit befasst sich mit ausgewählten Managementprozessen in NFP Organisationen, die mit der Generierung sozialer Wirkung in direkter Verbindung stehen, und erörtert, wie diese Managementprozesse verbessert werden können, um soziale Wirkung effektiver und effizienter zu erzielen als bisher. Im ersten Beitrag wird die Messung und Vergleichbarkeit sozialer Wirkung thematisiert. Erfolgsmessung zum Vergleich sozialer Wirkung wird als eine der größten Herausforderungen in der oben genannten Literatur angesehen, die mit bisherigen Ansätzen noch nicht bewältigt werden konnte. Um zur Schließung dieser Forschungslücke beizutragen, wurde in der vorliegenden Dissertation ein konzeptionelles Modell entwickelt, das Managern von NFP Organisationen, Sozialinvestoren und Regierungseinrichtungen erstmals ermöglicht, die Effektivität von NFP Organisationen, die unterschiedliche Bedürfnisse von unterschiedlichen Zielgruppen in unterschiedlichen Ländern adressieren, sinnvoll zu vergleichen. Beispielsweise kann nun mit Hilfe des Modells die Effektivität einer NFP Organisation in Bangladesch, die Mikrokredite an Frauen unter der Armutsgrenze vergibt, sinnvoll mit einer anderen Organisation verglichen werden, die für hörgeschädigte Studenten in Deutschland Sprache zu Text in Echtzeit transkribiert.

Auf Basis eines Literaturüberblicks über sämtliche wissenschaftliche Buchbeiträge, Publikationen in Zeitschriften und Arbeitspapieren im Zeitraum 1992-2012 identifiziert ein

zweiter Beitrag die wesentlichen Erfolgsfaktoren und Strategien, die zur Steigerung sozialer Wirkung beitragen,. Publikationen in diesem Zeitraum behandeln die Fragestellung unvollständig und/oder nicht überschneidungsfrei. Daher wird ein komplexer, in sich konsistenter Bezugsrahmen entwickelt, der zentrale Hebel zur Steigerung sozialer Wirkung transparent macht und Wechselwirkungen zwischen Erfolgsfaktoren und Strategien aufzeigt.

Ein dritter Beitrag erörtert, wie „gemeinsame“ soziale Wirkung in Partnerschaften entsteht. Außerdem wird untersucht, ob das vorherrschende – bisher jedoch nur theoretisch konstatierte – Verständnis in der relevanten Literatur, das Partnerschaften zwischen unterschiedlichen Sektoren eine höhere Effektivität zugerechnet werden kann als Partnerschaften innerhalb eines Sektors, empirisch bestätigt werden kann. Dazu wurden Daten für 120 Partnerschaften bei jeweils beiden Partnerorganisationen erhoben, mit Hilfe einer linearen Regression unter Anwendung asymptotischer Bootstrapping Verfahren ausgewertet und die Robustheit der Ergebnisse durch eine ordinal logistische Regression verifiziert. Die Studie ergab, dass bei Partnerschaften herkömmliche Erfolgsfaktoren wie die Ressourcenausstattung und Opportunitätskosten einen signifikanten Einfluss auf die gemeinsam initiierte soziale Wirkung aufweist, jedoch nicht die Sektorzugehörigkeit der Partnerorganisationen. Damit stellt die Studie die Gültigkeit des dominanten Verständnisses in Frage, das postuliert, dass sich Partnerschaften von NFP Organisationen auf Sektorüberlegungen begründen sollten. Stattdessen sollten NFP Manager weiterhin herkömmliche Kriterien wie die Ressourcenausstattung oder den kultureller „Fit“ der eigenen Organisation zum potenziellen Partner bei der Partnerwahl berücksichtigen.

*Schlagwörter: Sozialunternehmertum, soziale Wirkung, Effektivität von Organisationen*

## SHORT SUMMARY

Pressing social problems worldwide and an increasing competition between not-for-profit (NFP) organizations for scarce resources require and increasing effectiveness and efficiency of the social sector. This development fosters entrepreneurial thinking and behavior in NFP organizations. More and more NFP organizations generate earned income through the sale of products and services, introduce or improve methods to measure and compare their social impact on society, search for success factors and strategies that are critical to increase their social impact more effectively and join alliances with impact investors, social responsible corporations, governmental institutions or other NFP organizations.

The current dissertation investigates selected management processes in NFP organizations, focuses on social value creation as dependent variable and elaborates on how these management processes can be improved to enhance effectiveness and efficiency of social value creation. The first article concentrates on the measurement and comparison of social value creation. Contributing scholars consider it a great if not impossible challenge to compare social value creation of different, unrelated heterogenous interventions. Indeed, our literature review revealed that current approaches neither clearly reflect social value creation nor specifically permit such comparisons. To help close this research gap, a conceptual framework is developed for comparing the social value creation of different and unrelated interventions that serve different needs of different treatment groups in different socioeconomic and institutional contexts in a meaningful way. This framework enables analysts to take a NFP organization that equips hearing-impaired students in Germany with real-time, voice-to-text transcription and compare it to a microfinance intervention for raising the income of poor women in Bangladesh.

Drawing on a comprehensive literature review of all articles on scaling social impact that were published in the period from 1992-2012 in academic journals, books and the Internet, in the second article, critical success factors and strategies for increasing social value are identified. Published concepts in the considered period are incomplete and/or inconsistent. In response, a complex, but consistent framework is developed in this article which outlines central drivers for scaling social impact and interdependencies between success factors and strategies.

In the third article, it is investigated how partnerships create joint social value. Additionally, it is analyzed if the dominant – but not yet empirically proven – understanding in the relevant literature assuming cross-sector partnerships are more effective than within-sector partnerships, can be verified empirically. For this purpose, data of a sample of 120 partner dyads have been collected from both partner organizations. The analysis was conducted by including an asymptotic bootstrapping procedure into the linear regression and by verifying the robustness of the analysis with an ordinal regression model. The results suggest that conventional success factors such as cost and benefit significantly influence partnerships' joint value creation, but not sector affiliation of the partnership organizations. Therewith, the results challenge the cross-sector “hype” dominant in the NFP literature. NFP managers should rather choose their partners on the basis of conventional criteria such as the partner's resource base or the cultural fit of the two partner organizations.

*Keywords: Social entrepreneurship, social value, organizational effectiveness*

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### III LIST OF ABBREVIATIONS

e.g.	Exempli gratia (for example)
et al.	Et alii (and other)
NGO	Non-governmental organization
n.d.	No date
NFP	Not-for-profit
p.	Page

## CHAPTER 1: INTRODUCTION

### 1.1 Understanding social entrepreneurship

The three essays on social value creation in the not-for-profit (NFP) sector are subsumed under research on social entrepreneurship. Today, the topic of social entrepreneurship fascinates researchers, politicians, business people and society around the world, but at the same time, it causes intense debates about its meaning, its necessity, its difference to related constructs and many other issues (Choi & Majumdar, 2014; Bacq, Hartog, & Hoogendoorn, 2013; Felicio, Goncalves, & Goncalves, 2013). The debates continue because social entrepreneurship research is a relatively young field (Short, Moss, & Lumpkin, 2009). Today, there is no generally accepted definition of social entrepreneurship (Nicholls, 2010), but, there are lists of thirteen to more than twenty definitions (Cukier, Trenholm, Carl, & Gekas, 2011; Dacin, Dacin, & Matear, 2010; Hervieux, Gedajlovic, & Turcotte, 2010; Mair & Noboa, 2003; Swanson & Di Zahng, 2010; Weerawardena & Mort, 2006; Zahra, Gedajlovic, Neubaum, & Schulman, 2009). Choi and Majumdar (2014) conclude “that social entrepreneurship can be regarded as an essentially contested concept and that a universal definition that would be accepted among different parties is, therefore, hardly possible” (p. 372).

Because of this diversity of understandings, scholars explain the meaning of social entrepreneurship using practical examples instead of outlining this construct’s distinct characteristics. According to Cukier et al. (2011), who have conducted a content analysis of 567 articles in the field of social entrepreneurship, the two most often cited practitioners’ cases are those of Grameen Bank and BRAC. These organizations provide microcredit, investment lessons and other products and services to individuals at the bottom of the pyramid to help them escape from poverty. However, this approach to explaining the meaning of social entrepreneurship often

leads to the question of “why individuals and organizations are classified as social entrepreneurs and more importantly why others in the same sector are not” (Cukier et al., 2011: 110).

Accordingly, a brief investigation of the historic origins of social entrepreneurship might help provide a more distinct, more differentiated understanding of the meaning of social entrepreneurship than a case study would do. Although “throughout history social entrepreneurs [may] have always been around” (Bacq et al, 2013: 52), several events in the last three decades have created an increasing need for social entrepreneurship practices. An event often mentioned in the relevant literature is cuts in public spending for social services, which cause financial constraints on and higher competition between NFP organizations related to funding (e.g., Bacq et al., 2013; Defourny & Nyssens, 2010; Kerlin, 2006; Zahra et al., 2009; Boschee, 2008; Weerawardena & Mort, 2012). As a consequence, NFP organizations have developed strategies to generate earned income through the sale of products and services (Boschee, 2008), joined alliances with commercial organizations or sector peers and applied for funding by impact investors, a new type of investor that explicitly invests in organizations with high levels of social performance (Mair & Hehenberger, in press).

Furthermore, “the movement towards market liberalization” (Zahra et al., 2008: 119; see also Kerlin, 2006; Zahra et al., 2009) disclosed market failures that excluded disadvantaged groups from access to basic services and products and induced “widespread disparities in income” (Zahra et al., 2008: 118). As a result, the NFP sector was confronted with their target groups’ increasing needs and with new target groups suffering from social deprivation (Weerawardena & Mort, 2006; Boschee, 2008). According to Zahra et al. (2008), “policy makers do not have the will, power, or means to effect reform or induce efficient market-based remedies to reduce persistent social issues” (p. 119). In response, NFP organizations search for success

factors and strategies that are critical to increasing their social impact more effectively and introduce or improve methods to measure and compare their social impact on society. All of these reactions by NFP organizations to changes in their socio-economic and institutional environments refer to entrepreneurial behavior and management practices that an increasing number of NFP organizations have applied.

Several reviews of social entrepreneurship research support this conclusion. They attribute entrepreneurial behavior such as risk-taking, innovative thinking and pursuing opportunities (e.g., Hervieux et al., 2010; Short et al., 2009; Weerawardena & Mort, 2006, 2012) to social entrepreneurship and highlight the improvement of management processes such as impact measurement and business model development (Mair & Marti, 2006; Zahra et al., 2009) in the NFP sector. Accordingly, social entrepreneurship is understood in this dissertation as the application of entrepreneurial behavior and the improvement of management processes in the NFP sector. The purpose of these applications is to improve the effectiveness and efficiency of social value creation (Felicio et al., 2013; Harris, Sapienza, & Bowie, 2009).

### **1.2 Research gaps in social entrepreneurship research**

Social entrepreneurship is an interdisciplinary field of research. The findings of a review of 152 articles conducted by Short et al. (2009) suggest, “the most common discipline contributing to the social entrepreneurship research was [strategic] management (26%), followed by entrepreneurship (11%), political science (10%) [and] ... economics (9%)” (p. 164). The authors also identify a discipline that they label “other business”. This discipline is composed of articles on non-profit and philanthropic topics and contains 16% of the reviewed articles. Accordingly, this literature is certainly also prominent in social entrepreneurship research (see

also Weerawardena & Mort, 2006). In this dissertation, my co-authors and I also draw on literature on program evaluation, subjective well-being and interorganizational relationships.

In addition to the lack of understanding of the social entrepreneurship construct itself, the young research field offers a wide range of research opportunities (e.g., Mair & Marti, 2006). According to Weerawardena and Mort (2012), “assessing social performance and the impact of social entrepreneurship is one of the greatest challenges for practitioners and researchers” (p. 92; see also Austin, Stevenson, & Wei-Skillern, 2006; Dacin et al., 2010; Emerson, 2003; Mair & Marti, 2006; Nicholls, 2009; Polonsky & Grau, 2011; Ryan & Lyne, 2008; Zahra et al., 2008; Zahra, et al., 2009). This research gap is addressed in Chapter 2 of this dissertation. Austin et al. (2006) outline a list of research gaps that remain relevant. The list refers to issues on resource mobilization, the influence of the socio-economic and institutional contexts on social entrepreneurship, among others, and also contains performance measurement. Choi and Majumdar (2014) also call for an “in-depth investigation of ... the measurement of social value creation in the context of social entrepreneurship” (p. 373) and “funding issues“(p. 374), among others. Another list of research opportunities is provided by Short et al. (2009), who suggest, for instance, “Innovation management in social ventures” (p. 174) or “Diffusion of social innovations” (p. 174) as potential topics for future investigation. Furthermore, frequent calls for research refer to scaling social impact (e.g., Bloom & Smith, 2010; Bradach, 2010; Dees et al., 2004), alliance building by social enterprises (e.g., Austin & Seitanidi 2012; Choi and Majumdar, 2014) and impact investments (e.g., Mair & Hehenberger, in press; Miller & Wesly, 2010; Scarlata & Alemany, 2010). Chapters 3 and 4 address the research gaps of scaling social impact and alliance building by social enterprises. The research gaps to which this dissertation

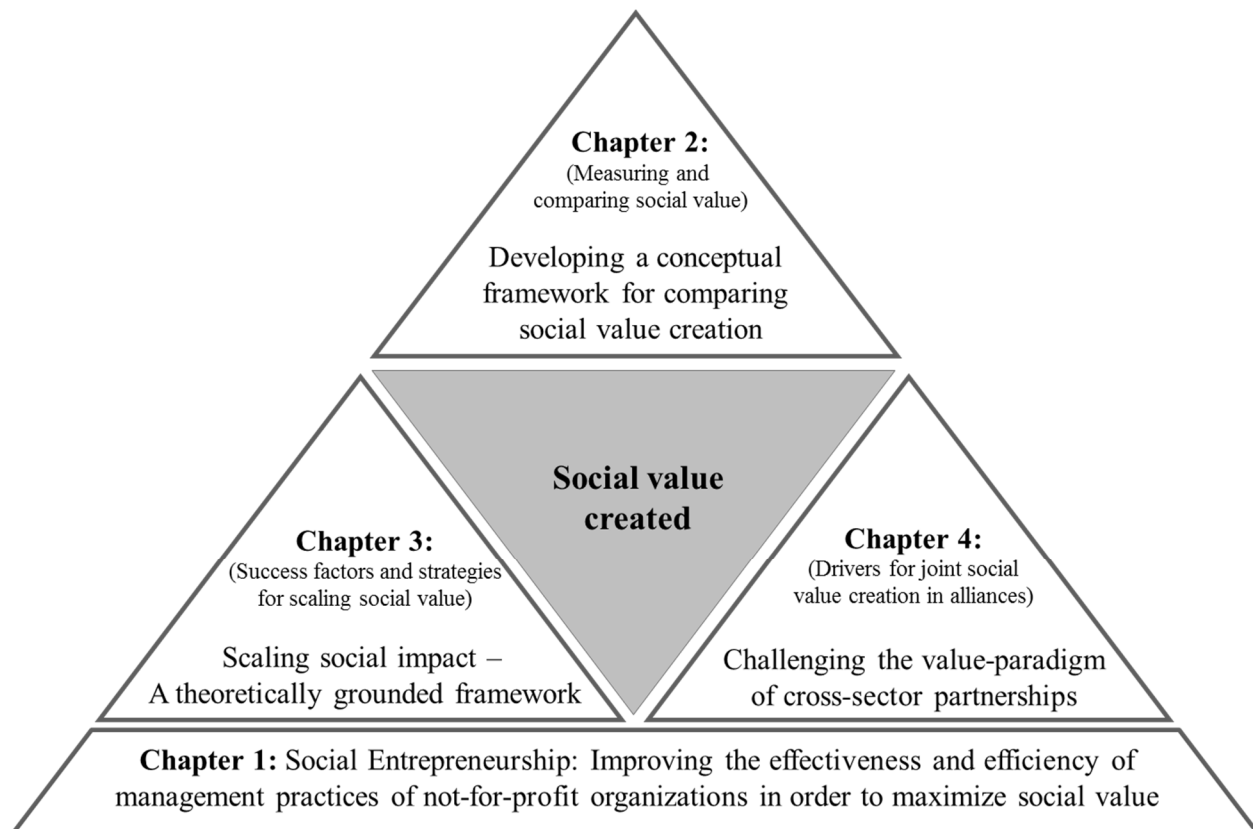


contributes are outlined in each chapter in detail and therefore do not require further discussion at this point.

### **1.3 Overriding research question and structure of the dissertation**

All presented research gaps have in common that findings may help NFP organizations improve the efficiency and effectiveness of their management practices. So do the essays in this dissertation. Additionally, the essays in this dissertation investigate social value creation as the dependent variable because social value creation is “the fundamental purpose of social entrepreneurship” (Austin et al., 2006: 3; see also Choi & Majumdar, 2014; Felicio et al., 2013; Hervieux et al., 2010; Mair & Marti, 2006; Trevis & Miller, 2008). Accordingly, the overriding research question that connects the essays in this dissertation is as follows: Which antecedents determine social value creation in the NFP sector and how can directly related management practices be improved? In the first essay, my co-authors and I concentrate on measuring and comparing social value created; in the second essay, we concentrate on scaling social value created; and in the third essay, we concentrate on creating joint social value in partnerships. The three essays build on and aim to develop research on social entrepreneurship. The structure of the dissertation is visualized in Figure 1. In sections 1.3.1, 1.3.2 and 1.3.3, a brief overview of each essay is provided.

**FIGURE 1: Structure of the Dissertation**



### 1.3.1 Chapter 2: Measuring and comparing social value created

In this chapter, my co-author and I develop a conceptual framework for comparing the social value creation of different and unrelated interventions that serve different needs of different treatment groups in different socioeconomic and institutional contexts.

For this purpose, we use subjective satisfaction ratings to offer a uniform measurement unit that social interventions from different sectors can apply to gauge their performance and compare themselves with their industry peers. We then take the concept of *mean life satisfaction (LS) in regions and countries*, which conventionally indicates the living standard of regional or national economies, and combine it with insights from the NFP literature. We conclude that social interventions primarily treat people below regional or national levels of mean LS. We can

thereby easily calculate the social need for different treatment groups in different regions or countries. Furthermore, we draw on organizational effectiveness theory—namely, the functional model (e.g., Cunningham, 1977: 468; Matthews, 2011: 84)—and adopt a basic understanding of value creation that enables us to posit a social intervention’s effectiveness as a relative construct. Accordingly, we define the effectiveness of a social intervention as the degree to which an organization reduces a treatment group’s social need. This degree can then be meaningfully compared to the degree of an entirely different social intervention that also reduces a treatment group’s social need.

These combined elements from each of the literature streams within the various components of our framework bring us to new concepts of what “social” means in the NFP context, of the social need in a region or country, and of the effectiveness of social interventions. These insights allow for comparison of unrelated heterogeneous social interventions. Our framework therefore departs from the prevailing view in the NFP literature that such comparison is impossible. We also contribute to the NFP and social entrepreneurship literature by introducing LS ratings—which conventionally indicate the living standard of regional or national economies—as a uniform measurement unit to assess the performance of interventions, regardless of the sector in which they occur. Moreover, our framework adds to the literature on program evaluation by providing a new method with which to contextualize program evaluation within the regional or national socioeconomic and institutional context for social interventions’ operations. Finally, we contribute to the study of organizational effectiveness by reintroducing the functional model, which has received decreased attention in the literature, into the NFP context.

The article is published in the Academy of Management Review (AMR), volume 39, page 513–540. According to the Thomson Reuters Journal Citation Reports® 2013, the AMR has an impact factor of 7.817, is “ranked first out of 172 journals in the category of ‘management’ and is ranked first out of 110 journals in category of ‘business’” (<http://amr.aom.org>; see also <http://thomsonreuters.com/journal-citation-reports>). The journal is published quarterly and contains five to ten articles per issue.

### **1.3.2 Chapter 3: Scaling social value created**

In this chapter, my co-authors and I develop a comprehensive framework to improve the understanding of the complex causalities and interdependencies of the factors affecting the scalability of social impact.

For this purpose, we conduct a comprehensive literature review of all of the articles on scaling social impact published in the period from 1992-2012 in academic journals, books and the Internet. We eventually ended with 88 articles or book chapters, representing the entirety of the existing literature during that period. We then screened this literature for success factors and strategies for scaling social impact, which were then coded and assigned to conceptual categories that we developed as the work progressed, comparing the categories for possible overlaps, inconsistencies, and contradictions. As a measure of intercoder reliability, analysis and categorization were undertaken separately. The final framework comprises eight success factors and four types of strategies for scaling social value creation.

With our framework, we provide several contributions to the literature on NFP management. First, we offer a common basis for understanding the central terminologies of scaling that have most often been used in an overlapping, inconsistent, or synonymous fashion.

Second, we provide a set of factors that covers all of the variables of scalability that have emerged from the literature so far. These key components might serve as a guiding structure and improve the understanding of what determines the scaling of social impact. Third, our framework expands the understanding of the complex causalities of the various factors involved in the scalability of social impact—including the trade-offs and interfaces between the key components. Fourth, we provide guidelines for scaling scenarios. Fifth, by identifying differences of scaling between the NFP and the commercial sector, we also contribute to the various attempts to distinguish social entrepreneurship from related constructs.

This article has been published in a similar version in the Babson College Entrepreneurship Research Conference (BCERC) 2011 Best Paper Proceedings (Weber, Kröger, & Lambrich, 2012) and has been printed in the book “Theory And Empirical Research In Social Entrepreneurship”, edited by P. H. Phan, J. Kickul, and S. Bacq published by Edward Elgar Publishing Ltd (Weber, Kröger, & Lambrich, 2014). Additionally, the framework developed in this paper formed the basis of two research projects conducted in cooperation with the Bertelsmann Foundation. Most of the aspects of the framework could be verified through a qualitative study of twenty-four social enterprises in Germany (Weber, Kröger, Kunz, Lambrich, Peters, & Labitzke, 2013). A sequential quantitative study of 228 social enterprises in six European countries is a work in progress.

### **1.3.3 Chapter 4: Joint social value creation in partnerships**

In this chapter, my co-authors and I investigate the research question of how joint value is created and whether partnerships between organizations from different sectors really matter. For this purpose, we apply Austin et al.’s (2006) framework and focus on its outlined antecedents for

social value creation, namely, people, capital and opportunity. We also investigate the influence of the partner organizations' sector affiliation. In our study, we apply a dyadic perspective and analyze a sample of 120 partnerships. This dyadic approach is particularly suitable because empirical studies on networks and partnerships claim to analyze dyads on the partnership level instead of on the individual organization's level (Provan et al., 1995). Our sample contains 73 within-sector and 47 cross-sector partnerships. We conduct the analysis using non-parametric tests, include an asymptotic bootstrapping procedure in the linear regression and verify the robustness of our analysis with ordinal regression modeling.

Our empirical findings offer several contributions that had been the subject of perpetual calls from prior research on interorganizational relationships. By adopting a dyadic perspective, we advance the research on interorganizational relationships and NFP management. First, we provide empirical evidence that a joint resource base is a key driver for joint value creation. Therewith, we verify previous findings from studies that investigate success factors for organizational performance at the single-organization level and transfer them to the dyadic level. Second, we demonstrate that joint value is opposed by significant losses due to missed alternative opportunities. Furthermore, evaluating joint opportunity costs offers a new approach to measure joint value creation in partnerships. Finally, we challenge the dominant view of cross-sector partnerships' superiority. We provide empirical evidence that cross-sector partnerships do not perform any better than within-sector partnerships, and we conclude that scholars should investigate partnerships' performance in a more differentiated manner instead of advocating for cross-sector partnerships in general.

The article is currently a working paper. My co-author and I will present it at the 11<sup>th</sup> Annual Social Entrepreneurship Conference in November in Boston and intend to submit it to a special issue of the Journal of Management Studies on Sustainability, Ethics, and Entrepreneurship.

## **CHAPTER 2: DEVELOPING A CONCEPTUAL FRAMEWORK FOR COMPARING SOCIAL VALUE CREATION**

Co-authored with: *Christiana Weber*

This article has been published in the *Academy of Management Review* 2014, 39: 513–540 (Impact factor 7.817, ranked 1<sup>st</sup> out of 172 journals in the category of "Management", ranked 1<sup>st</sup> out of 110 journals in the category "Business" according to 2013 Journal Citation Reports).

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## **CHAPTER 3: SCALING SOCIAL IMPACT – A THEORETICALLY GROUNDED FRAMEWORK**

Co-authored with: *Kathrin Lambrich* and *Christiana Weber*

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### 3.1 INTRODUCTION

Scientific interest in social entrepreneurship is growing (Dacin et al., 2010; Short et al., 2009; Zahra et al., 2009). Like traditional entrepreneurs, social entrepreneurs see an opportunity to satisfy some unmet need, establish new organizations, develop and implement respective programs, and organize or distribute new products or services. They set themselves apart from traditional entrepreneurs primarily by following a social mission and by focusing on social needs — in areas such as education, welfare, the environment, and health care—that the state and the private sector do not or cannot adequately meet (Austin et al., 2006).

To accomplish their social mission, social enterprises generally aim to maximize their social impact (e.g., Sherman, 2006). They do so by maximizing social well-being of their targeted “underserved, neglected, or highly disadvantaged population” (Martin & Osberg, 2007: 35). The complexity of efficiently and effectively scaling social impact (the *raison d’être* of the firm), though, is a challenge for social enterprises (Bloom & Smith, 2010; Bradach, 2003; Dees, Anderson, & Wei-Skillern, 2004). This explains why the investigation into key conditions that enhance or limit the potential for scaling the impact of social enterprises has generated great interest in the theory and practice of social entrepreneurship equally (Bloom & Smith, 2010; Jenkins & Ishikawa, 2010; Sherman, 2006). The difficulty is compounded by the fact that scaling in the social sector diverges somewhat from that in the more comprehensively elaborated commercial sector because the organizational and contextual conditions of these two areas differ (Austin *et al.*, 2006).

In the emerging literature on scaling social impact concepts discussed tend to oversimplify the complex relationships between the integral elements enhancing or limiting the potential for scaling the social impact of social enterprises. However, the literature does indicate

growing complexity in scalability research, a trend that calls for a comprehensive structure within which to develop a multilayered process model of scaling. To our knowledge, there are no studies systemizing or classifying all theoretical insights regarding strategies, drivers, and barriers of scaling social impact. Therefore, the aim of this chapter is to fill this gap and to develop a scalability framework with which to classify, integrate, and relate the major theoretical and empirical findings in this field.

The remainder of this chapter is organized as follows: We start with an overview of the relevant literature in order to identify all potential drivers, barriers, and strategies that have been considered important in the discussion of scaling social impact. In a subsequent coding procedure, we condense the resulting 241 key drivers to nine clusters, from which we deduce key components of scaling social impact. In addition, the various scaling strategies suggested in the social entrepreneurship literature are categorized into four different types of strategies. We develop interrelations between the key components of the scalability framework and the four strategy types, exploring and pointing to alternative scaling paths for social enterprises. Our scalability framework is intended as a significant contribution to improving the understanding of the complex causalities and interdependencies of the various factors that bear on the scalability of social ventures in theory and practice.

### **3.2 LITERATURE REVIEW**

We based our review of the literature on those articles or book chapters whose titles or abstracts contain at least one word from each of two sets of vocabulary essential to our study. The first set consisted of *scaling, replication, growth, leverage, and expansion*; the second set, of *social enterprise or social entrepreneurship, social innovation, social mission, social change,*

*social sector, social purpose, NGO, nonprofit, not-for-profit, social program, and social impact.*

We chose the review period from 1992-2012 as this is the time span in which the number of publications grew most rapidly due to the increase of “social” actions of entrepreneurs (e.g., Desa, 2012; Dacin, Dacin & Tracey, 2011; Zahra et al., 2009). In the process of literature research we searched appropriate internet homepages like Google Scholar and the journal databases Science Direct, EBSCO, Emerald, and JSTOR as well as journal homepages and conference proceedings, looking for the respective combinations of the two sets of vocabulary. For the books and book chapters we scanned the library and the internet for sources matching our predefined vocabulary. To expand our initial list of relevant sources, we went through each reference list and searched for further publications which might fulfill our criteria. The quality of the identified literature differs significantly as it reaches from highly ranked journal articles over book chapters to conference papers. This diversity reflects/displays the typical development of a new research field. In its early stage, this research was comparatively unknown and considered less relevant as it is nowadays. Accordingly, many academics had difficulties to publish their work in highly ranked journals and therefore often went for book chapter in a handbook (e.g., Edwards & Hulme, 1992b) or internet publications (e.g. Sherman, 2006). We therefore undertook a systematic expansion of our search and included internet publications into our analysis. Only some years later when the field of social entrepreneurship had developed further, researchers were able to publish their findings in such journals (e.g., Winter & Szulanski, 2001); a fact that reflects the increased relevance of social entrepreneurship as research domain. Today, social entrepreneurship research is published in high-quality journals (e.g., Mair et al., 2012; Meyskens, Robb-Post, Stamp, Carsrud, & Reynolds, 2010). Having said this and in line with similar recent contributions in rather young fields of research (e.g., Greer & Lei, 2012; Frosch,

2011), a weighting of the identified publications matching our criteria has not been conducted. We eventually ended with 88 articles or book chapters that we integrated into our analysis. These studies appeared within the past 20 years – representing a steady increase of publications. Drawing on this literature, the today's entirely existing literature on scaling social impact, we start with a review on the various ways researchers and practitioners have approached the topic so far.

This review revealed inconsistent understandings and definitions of the central terms *scalability*, *transferability*, *replicability*, and *adaptability*. The research questions in this literature can be roughly differentiated into two main research streams, one on scaling strategies and the other on success factors or drivers of scaling. All three topics are addressed in this chapter.

The discussion of the scalability of social enterprises is still relatively heterogeneous (Dacin et al., 2010). Social enterprises mostly strive to maximize social impact by scaling their business model (Boschee, 1998; CASE, 2006b; Dees et al., 2004). Mulgan (2006) even explains that “many ideas fail not because of inherent flaws but because of the lack of adequate mechanisms to promote them, adapt them, and then scale them up” (p. 156). Hence, scalability of the business model is a core determinant of the growth and expansion of social enterprises. Although little theoretical and empirical work has been done on the scalability of social business models to date, a broad variety of definitions exists in today's literature (see also the literature review from CASE, 2006a). CASE (2008) takes a broad approach by defining scalability as “increasing the impact a social-purpose organization produces to better match the magnitude of the social need or problem it seeks to address” (p. 18). For the purpose of this chapter, we adopt his definition. Despite the range of definitions of scalability and scaling, the literature on social

entrepreneurship seems to reflect a broad consensus that replicability, adaptability, and transferability of the operational model are key components of scalability (Bradach, 2003; Winter & Szulanski, 2001). This perception is also supported by commercial scalability literature (von Krogh & Cusumano, 2001; Zook & Allen, 2003).

Another contribution stems from Bradach (2003), who focuses on replication as an important dimension of scalability to “move an organization’s theory of change to a new location” (p. 2). Bradach sees replication as the nonprofit counterpart to franchising, which contrasts with other definitions of this term in the field. According to Bloom and Smith (2010), for example, replicability “reflects the effectiveness with which the organization can reproduce the programs and initiatives that it has originated” (p. 134).

In this chapter we define replicability, adaptability, and transferability as follows. *Replicability* means the capacity to reproduce or adopting the social enterprise’s structures, processes, products or services, and habits (Alter, 2007; Dees et al., 2004; Winter & Szulanski, 2001). *Adaptability* means the capacity to adjust the social enterprise’s structures, processes, products or services, and/or its habits (Chakravarthy, 1982; von Krogh & Cusumano, 2001; Wilson, 2003). *Transferability* unifies replicability and adaptability on the basis of the following reasoning. In keeping with previous research (Josiah, 2001; von Krogh & Cusumano, 2001; Zook & Allen, 2003), we state that pure replication (e.g., to new geographic locations without any adjustment) is comparatively rare because current knowledge and processes almost always have to be adapted to new conditions (Nonaka & Takeuchi, 1995). We doubt that all determinants of a basic operational model can be copied to the social enterprise’s new site. The replicability of the operational model to a new geographic area must therefore be considered first and only then the necessary adjustments for successful adaptation to the new site. Breaking

transferability down into the two separate key components of replicability and adaptability thus allows us to analyze the scaling process in a more differentiated way.

Beyond the various efforts to define the scalability of social entrepreneurship, several theoretically and empirically grounded approaches and models that suggest strategies and key components for determining the scalability of social impact have emerged in recent years. Nonetheless, literature focusing on the *strategies* that social enterprises use to maximize their social impact (scaling strategies) is scarce (Austin et al., 2006; Bradach, 2003; Seelos & Mair, 2004; Weerawardena, & Sullivan Mort, 2006). Of the 88 articles or book chapters we identified during our literature review, 31 contribute to the discussion of scaling strategies and are presented in this chapter (see Table 2).

Besides scaling strategies, success factors and drivers of scaling are heavily discussed in the relevant literature. We found a wide range of terminologies for factors that accelerate the scaling process, expressions such as *scalers* (e.g., Bloom & Chatterji, 2009; Bloom & Smith, 2010), *drivers* (e.g., The Bridgespan Group, 2005), *success factors* (e.g., Ratliff & Moy, 2004), and *capacities* (LaFrance et al., 2006). Like Uvin, Jain and Brown (2000), we use the term *key component* to describe success factors of scaling social impact, emphasizing the integral elements of our scalability framework. In keeping with Bloom and Chatterji (2009), Bloom and Smith (2010), and Dees et al. (2004), we regard key drivers as accelerators and catalysts that indirectly facilitate the scaling of social impact by influencing the key components.

32 of the 88 scientific articles we reviewed address the issue of key drivers for the scaling of social impact. The various researchers differ not only in their particular scientific backgrounds

**TABLE 1: Relevant Scaling Strategies of Social Enterprises**

<b>Author(s)</b>	<b>Scaling Strategies</b>				
<b>Alvord <i>et al.</i> (2004)</b>	Movement-building	Capacity-building	Package dissemination		
<b>Billis and MacKeith (1992)</b>	Expanding Operations	Community Mobilization	Lobbying and Advocacy		
<b>Bradach (2010)</b>	Build Networks	Blend Service with Advocacy	Use Intermediaries	Develop Leaders	Convert Bricks to Clicks
<b>CASE (2003)</b>	Change Perceptions of what is Possible Branches	Strengthen the sector Affiliates	Alter Attitudes and Behaviors Branching + Affiliation		
<b>CASE (2006b)</b>	Organizational Branching Organizational Affiliation Capacity-Building	Knowledge Dissemination Associations & Networks Packaging, Licensing	Advocacy Technical Assistance Direct Advocacy & Lobbying	Influencing Public Awareness Technology Delivery Volunteer Engagement Expansion	Research & Public Policy Development Partnerships, Alliances
<b>Curtis (2001)</b>	“Behavioral” Change	“Mechanical” Change			
<b>Dees <i>et al.</i> (2004)</b>	Branching	Affiliation	Dissemination		
<b>DeJong (2003)</b>	Organizational Expansion	Catalyzing Others	Diffusion	Influencing Policy and Legislation	Mainstreaming in Development

**TABLE 2 (Continued)**

<b>Author(s)</b>	<b>Scaling Strategies</b>				
<b>Edwards and Hulme (1992)</b>	Operational Expansion Network	Lobbying and Advocacy	Cooperation with Governments	Supporting Local Initiatives	
<b>Fojcik (2009)</b>	Branching Capacity Building	Affiliation	Franchise	Dissemination	Network
<b>Hackl (2011)</b>	Franchising				
<b>Hodson (1992)</b>	Advocacy	Working with Government	Grassroots Mobilization	Networking	Expansion of operational programs
<b>Jenkins and Ishikawa (2010)</b>	Whole Pyramid Approach	Capacity-Building	Networking	Collaboration	
<b>Josiah (2001)</b>	Capacity-Building Partnerships	Scaling-up Networks	Multiplication Arrangements	Replication	Influencing
<b>Jowett and Dyer (2012)</b>	Mandated replication	Franchise replication	Staged replication	Concept replication	Network replication
<b>Lagace (2005)</b>	Network Strategy	Functional Scaling-up		Organizational Scaling-up	
<b>Lister (2001)</b>	Quantitative Scaling-up	More directed diffusion by 'parent' organization	Takeover or emulation by more powerful organization	Organizational growth	
<b>Mulgan <i>et al.</i> (2007)</b>	Uncontrolled diffusion				



**TABLE 2 (Continued)**

<b>Author(s)</b>	<b>Scaling Strategies</b>				
<b>Oster (1995)</b>	Branching	Franchising			
<b>Perrini and Vurro (2006)</b>	Branching	Affiliation	Dissemination	Partnerships	Networks
<b>Pick <i>et al.</i> (2008)</b>	Create political support	Develop personal lines of communications and trust	Negotiate with opposition groups	Prepare for changes in government personnel	
<b>Quilley (2010)</b>	Knowledge Dissemination Engagement Expansion	Transition— Going Viral Resilience through Re-localization Expansion	Networking	Partners, Affiliates	Franchising
<b>Robinson (1992)</b>	Collaboration with Government	Expansion	Replication		
<b>Sezgi and Mair (2010)</b>	Branching	Affiliation	Dissemination		
<b>Taylor <i>et al.</i> (2002)</b>	Dissemination	Learning Network with Shared Principles and Goals	Package and Sell Your Programs		
<b>Uvin (1995)</b>	Political Scaling-up	Functional Scaling-up	Quantitative Scaling-up	Organizational Scaling-up	
<b>Uvin <i>et al.</i> (2000)</b>	Expanding Coverage and Size	Increasing Activities	Broadening Indirect Impact	Enhancing Organizational Sustainability	

**TABLE 2 (Continued)**

<b>Author(s)</b>	<b>Scaling Strategies</b>				
<b>van Oudenhoven and Wazir (n.d.)</b>	Mandated Replication	Staged Replication	Concept Replication	Spontaneous or Endogenous Replication	
<b>Waitzer and Paul (2011)</b>	Smart Networking	Open-source Change-making			
<b>Westley and Antadze (2010)</b>	Expansionary Innovation	Uncontrolled Diffusion	More Directed Diffusion by “Parent” Organization	Licensing	Organizational Growth
	Multiplication	Franchising	Evolutionary Innovation	Incremental Growth	Total Innovators
<b>Wils (1996)</b>	Institutional Transformation The BINGO Option	Multipliers	Planned Diffusion of NGO Alternatives through Seminars and Publications	Multiactor Programming: Widening the Horizon	Mainstreaming

**TABLE 2: Success Factors and Key Drivers of Scaling**

Author	Success Factors and Key Drivers of Scaling
<b>Aspen Institute (2008)</b>	six key drivers: adaptation of traditional business model, confrontation with tensions implicit in scaling-up, opportunities for earning revenue, engagement in strategic partnerships, use of subsidies effectively, practice of solid business fundamentals
<b>Billis and MacKeith (1992)</b>	qualitative study of organization/management in British NGOs and the authors’ accumulated knowledge of voluntary organizations in the UK leads to key organizational challenges: hierarchy vs. democracy in decision making processes, raising money vs. raising awareness, staff capacity and career development, board capacity and governance, coordination and co-operation between departments, managing at a distance, evaluating effectiveness
<b>Bloom and Chatterji (2009)</b>	SCALERS model derived from case studies; seven “key drivers” for scaling social impact: staffing, communication, alliance-building, lobbying, earnings generation, replication, stimulating market forces; several situational contingencies determine shape and importance of their specific impact; reciprocal influences and synergies between scalers
<b>Bloom and Smith (2010)</b>	empirical test of the proposed SCALERS model and its suggested relationships (five of seven drivers are valid, except of alliance-building and lobbying)
<b>Bradach (2003)</b>	three critical success factors for scaling social impact: definition of growth strategy, design of network, role of national (ensuring quality, promoting learning, and providing central services)
<b>Campbell and Louh (2005)</b>	case study on how an educational-services nonprofit manages growth and investigation of key drivers (e.g., performance measurement, setting growth targets, focused mission) as well as constraints of scaling (e.g., stunted growth, scaling up without sacrificing quality)
<b>Curtis (2001)</b>	examination of capacity building and replication in grassroots organizations and their “lessons from the street”: adequate resources, mechanical (processes and systems) and behavioral (key individuals) change, scientific evaluation, training, adequate funding, quality control, communication
<b>Dale <i>et al.</i> (2002)</b>	lessons learned during the successful implementation of the WAY (Work Appreciation for Youth) program: allow for ample start-up time, ensure clear communication of goals, provide sufficient, timely, and sustained resources, secure strong leadership from the federal, state, or local levels, pursue staff development, use data to improve performance

**TABLE 3 (Continued)**

<b>Author</b>	<b>Success Factors and Key Drivers of Scaling</b>
<b>Datar <i>et al.</i> (2010)</b>	investigation of scaling levers in the microfinance industry: the microfinance model itself, collaboration, communication, lobbying and alliance-building, donors' sophistication, organizational practices, the generation of earnings, and avoidance of mission drift
<b>DeJong (2003)</b>	focus of scaling up of NGOs in the context of HIV/AIDS and identification of key success factors in four manners: 1. trade-offs and difficulties, 2. six preconditions, 3. risks and challenges, 4. internal dimension of scaling up
<b>Drumwright and Duchicela (2010)</b>	case-history approach with focus on marketing aspects investigates five key drivers for increasing social impact: collaboration, mission fit, branding, messages, approaches to commercial marketing communications, grassroots movements
<b>Grant and Crutchfield (2007)</b>	six practices that high-impact nonprofits use to have extraordinary impact: serve and advocate, make markets work, inspire evangelists, nurture nonprofits networks, master the art of adaptation, share leadership
<b>Hassel and Steiner (2000)</b>	examination of two intriguing programs (Success for All and the Accelerated Schools Program) for lessons learned as they have grown: e.g., concerning leadership, funding strategies, commitment, quality control
<b>Harris (2010)</b>	Steps that nonprofits should follow in going to scale: 1. Readiness to scale 2. Select the best approach to bring the intervention to scale, 3. Select sites that are best suited to the intervention, 4. Develop the capacity and infrastructure to manage multiple sites, 5. Evaluating the scaling process, 6. Share promising practices and lessons about scale with other nonprofits
<b>Hodson (1992)</b>	personal experience and informal discussions with staff in a variety of NGOs during a period of 18 years leads to multifarious aspects of managing growth in NGOs: suspicion of hierarchy, participatory decision-making, trustee ownership, experienced and new staff, change of organizational culture, formalization/bureaucratization, involuntary and voluntary changes, resistance to growth, compromise solutions, training, effective leadership, cost effectiveness
<b>Hynes (2009)</b>	explicit focus on challenges of social enterprises growth add up to the following key drivers: consistent mission, workable strategy as having measurable outcomes, access to resources, a change in the role of the social entrepreneur, partnerships, measurement of financials

**TABLE 3 (Continued)**

<b>Author</b>	<b>Success Factors and Key Drivers of Scaling</b>
<b>Jenkins and Ishikawa (2010)</b>	14 client case studies on inclusive business; drivers for scaling: networks, technology, access to financial capital, partnerships; five major challenges of scaling: unrealistic expectations on time to reach scale, lack of access to adequate financing, difficulty adapting the initial business model to new geographies and scales of operation, lack of appropriate partners in new geographies of operation, lack of internal buy-in within firm
<b>LaFrance et al. (2006)</b>	seven organizational capacities critical to the scaling process of social entrepreneurs, namely: mission, structure, model, culture, data, resources, right decision making
<b>Lister (2001)</b>	six constraints to efficient and appropriate scaling-up: recruitment difficulties, lack of co-ordination, lack of disaster preparedness, inability to combine regional and emergency expertise within agencies, donor time limits, lack of advice and support to partners
<b>Majeska (1999)</b>	seven dimensions that leaders of social-purpose enterprises were asking at that time when expanding the size of the social enterprise: financial risks, established models to follow, leadership, the readiness of the board, timing (whether sufficient resources are available), internal knowledge and expertise, and required capital
<b>Mulgan et al. (2007)</b>	three challenges of growing organizations around social innovations: adaptable or replaceable leader(s), evolving organizational systems and roles, the right form of governance
<b>Ratcliff and Moy (2004)</b>	framework illustrating pathways to scaling (deduced from commercial enterprises); key drivers for scaling: diversified and complementary set of products, clear market gap, significant investments in infrastructure/technology, raising of capital, partnerships
<b>Robinson (1992)</b>	analysis of 16 detailed NGO project evaluations add up to several key success factors of scaling: cost-effectiveness/cost-benefit-relation, (financial) sustainability, genuine participation (of beneficiaries), strong/effective management and leadership, skilled and committed staff, favorable social and economic environment, plentiful resources, supportive local entities, overall vision of goals, constant quality, project identification, monitoring
<b>Sezgi and Mair (2010)</b>	instrumental case study documenting factors that assist the scaling of social impact: e.g., training of organizational members, mobility (rotation of organizational members), communication, sharing of knowledge

**Table 3 (Continued)**

<b>Author</b>	<b>Success Factors and Key Drivers of Scaling</b>
<b>Sherman (2006)</b>	identification of several factors for successfully scaling social impact by using qualitative data: e.g., social and business networks, a viable self-reinforcing resourcing approach, ability to build core organizational-level competencies
<b>Sherman (2007)</b>	further elaboration on key drivers that enable some entrepreneurial nonprofits to outgrow and outperform others: aggressive goals (e.g., as they increase learning, discovery and ingenuity), innovative approaches to financial resourcing, strong leadership
<b>Stone Foundation (2009)</b>	key scaling considerations for nonprofit organizations: e.g., experience, strong value proposition, simple and standard products, consider both quality and quantity, financially and sustainably business model, organizational capacity (finance, human resources, information technology)
<b>Taylor <i>et al.</i> (2002)</b>	identification of eight key drivers for scaling social impact: economies of scale, effects of the experience curve, effectiveness enhanced by specialization, mission consistent with the idea of scaling up into new communities, availability of the necessary resources, the infrastructure of investor financing, skill-building, sufficient market demand, technology
<b>The Bridgespan Group (2005)</b>	study on youth-serving organizations; key drivers: resource acquisition, consistent mission, quality control, unique branding, economies of scale, formal systems, performance measurement, diverse revenue base, redefining roles of members and board
<b>Trelstad and Katz (2011)</b>	Analysis of two successful land conservation organizations; identification of three paths to scalability and sustainability: mission (follow a clear mission), margin (gaining a positive margin), mandate (support from government, cooperation)
<b>van Oudenhoven and Wazir (n.d.)</b>	comparison of social enterprises' decentralization and centralization leads to factors supporting the scaling process: large-scale programs, quality standards, standards of effectiveness, training, networks, role of project initiator, consistent mission, standardization
<b>Waitzer and Paul (2011)</b>	six tenets that facilitate the scaling of social impact: liberate the core (return to the essence of their work), changing role of founder, refinement of core operational (and revenue) model before attempting further expansion, becoming a magnet (network of actors, common mission), "know when to go elephant hunting" (p. 148) (risky breakthrough), find ways to creatively recover some of the value you create

and the key drivers they single out but also in the level of analysis on which they focus when developing their key drivers for scaling social impact. Table 3 summarizes the results.

Overall, the different approaches and models presented above provide a valuable overview of important dimensions of and effects on the scalability of social impact. However, all but one of the studies (Sherman, 2006) either focus from the outset on a few preselected variables influencing scalability or limit the number of variables that through some incomprehensible process enter the model. This lack of scope might be explained, though not justified, by the fact that most of the research is based on qualitative, primarily comparative, case study analyses. Nonetheless, such an approach seems somewhat problematic because important variables known from traditional scaling literature (Barringer & Greening, 1998; Uvin, 1995; von Krogh & Cusumano, 2001; Winter & Szulanski, 2001) have frequently not been discussed in the relevant studies. The dangers that cultural differences pose to scalability in the context of international expansion have also gone unaddressed in that literature (Zahra et al., 2008). The interdependencies of these variables have not been considered, either. Not only are the key terminologies inconsistent and overlapping, the central components of scalability (e.g., replicability, transferability, and adaptability) and their different functions within the concept of scalability have not been clarified satisfactorily. For example, the scaling drivers have not yet been connected to the scaling strategies, and organizational and other contextual specifics have been disregarded. Therefore, in presenting our framework, we seek to rectify the omissions pointed out above and to contribute significantly to both theory and practice. Our goals are to (a) contribute to a common understanding of the key terminologies of scaling (in particular, replicability, transferability, and adaptability); (b) identify key components and specify their particular role in the process of scaling social impact; (c) illustrate the interplay between key

components for scalability; (d) link key components with scaling strategies; (e) align the scaling strategies to the respective social enterprise's characteristics; and (f) identify similarities and differences for scaling in the social rather than the commercial sector.

We thus aim to add to the understanding of the causalities and interdependencies of the various factors involved in the scalability of social ventures.

### **3.3 DEVELOPMENT OF A SCALABILITY FRAMEWORK**

#### **3.3.1 Development of Key Components of the Scalability Framework**

As mentioned above, 32 of the 88 scientific papers and book chapters deal with key drivers, scalars, or success factors in the context of social enterprises' scaling efforts. All in all, 241 key drivers were mentioned in the various articles. Many of them were entirely different; others were rather similar, overlapping, or even identical. To develop the scalability framework and reduce complexity, our aim was to bundle these key drivers into separate internally homogeneous clusters that are sufficiently heterogeneous between each other. All key drivers mentioned in the 32 articles were coded and assigned to conceptual coding categories that the researchers developed as this work progressed, comparing them for possible overlaps, inconsistencies, and contradictions. The analysis and categorization were undertaken separately—a measure of intercoder reliability.

All data was recoded when necessary. When new data led to new or inconsistent information, the categories, the emerging key components, or both were modified to take account of it. The process continued until theoretical saturation was achieved. An external professional participated in the coding stage, playing the role of questioner and devil's advocate. Nine coding categories resulted, which we eventually condensed to eight conceptual categories by merging



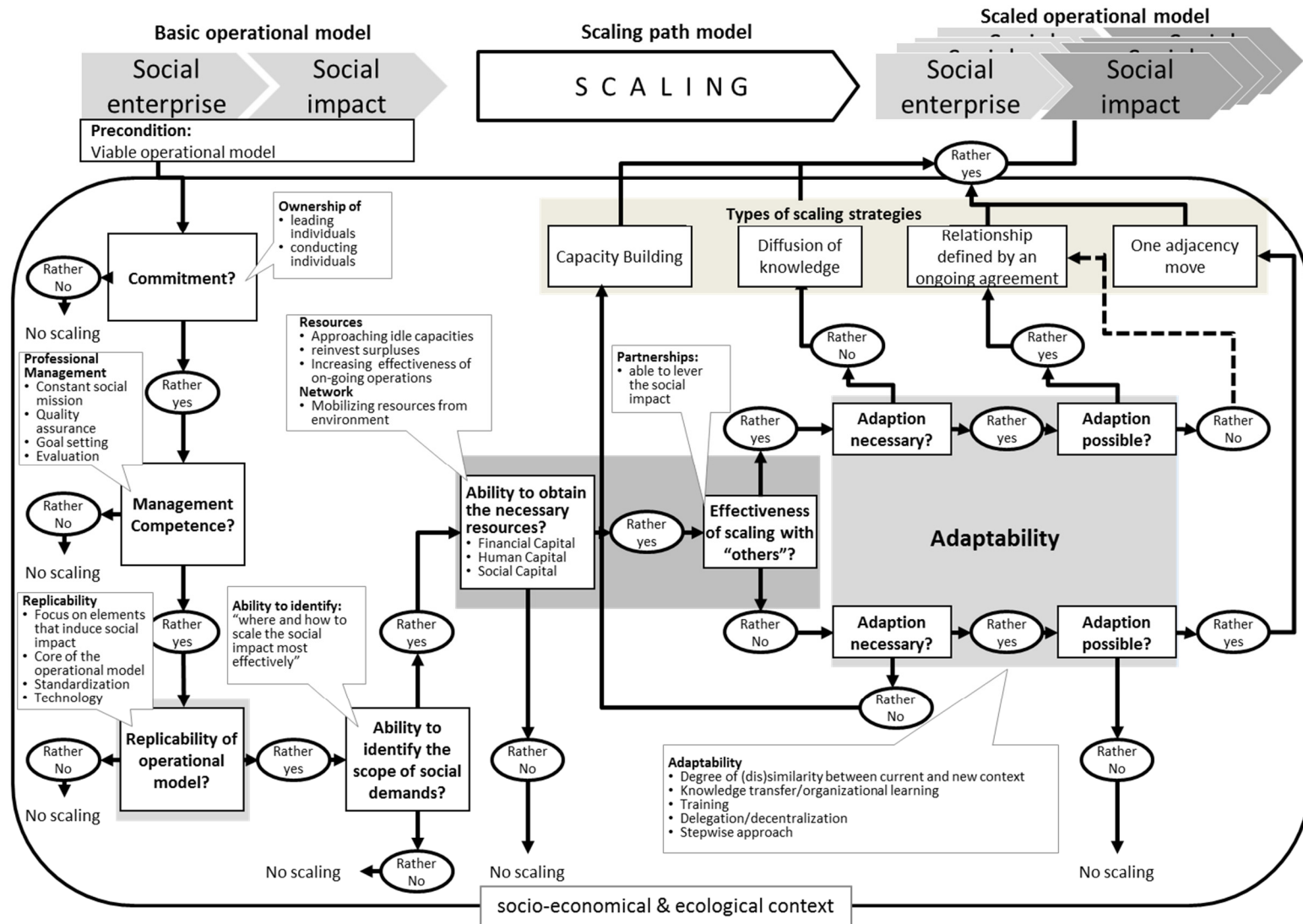
two coding categories—resources and capital (financial, human, and social)—which we had kept separate until the last stage because of their importance. The final eight conceptual categories, which we consider one precondition and seven key components, inform and guide the scalability framework (see Figure 6).

We elaborate on the interconnections and interdependencies between the previously identified elements (the precondition, key components, and key drivers, which are discussed below) by simultaneously exploring alternative types of scaling strategies in relation to the social enterprise’s specific organizational and contextual characteristics. The discussion brings out more or less critical decision points and scaling paths for achieving the goal of scaling social impact. In the next section we “walk” through the scalability framework, starting in the upper left corner, to explain how the different components and key drivers informed our reasoning.

### **3.3.1.1 Precondition: Viable operational model**

Based on Majeska (1999), Dale, Baker, and Racine (2002), Sherman (2006), LaFrance et al. (2006) and Aspen Institute (2008), and with respect to Ratliff and Moy (2004) who state that “scale cannot be achieved without sustainability” (p. 9) and CASE (2006b) who report that 91% of the social entrepreneurs answering the Scaling Social Impact Survey agree that “effectiveness and sustainability should come before scale” (p. 16), we identified a “viable operational model of the social enterprise that intends to scale” as the precondition of our framework. Scaling social impact requires a viable operational model that has already shown a proof of concept in effectively inducing social impact on the targeted population (Dale et al., 2002; Ratliff & Moy, 2004; Majeska, 1999; CASE, 2006b; Aspen Institute, 2008) and in ensuring “viable self-reinforcing resourcing” (Sherman, 2006: 1) at least in the long run (Waitzer & Paul, 2011). In

FIGURE 2: Scalability Framework



such an operational model the viable self-reinforcing resourcing is seen as a means to assure sustainability of the social activities that induce social impact. As there is a variety of literature available discussing different ways to structure the interrelation between the business model and the social activities (e.g. Alter, 2007) as well as different kinds and types of viable operational models for social enterprises (Mair, Robinson, & Hockerts, 2009; Diochon & Anderson, 2009; Chell, 2007; Weerawardena & Sullivan Mort, 2006; Seelos & Mair, 2007; Nicholls, 2008; Perrini & Vurro, 2006), our focus in this paper will not be how a viable operational model of a social enterprise looks like. However, while the establishment of an operational model is a necessary condition for scaling social impact, the initial social demand of the targeted population might be satisfied by the establishment of a viable operational model already. Having said this, we consider a viable operational model as a precondition for scaling social impact, but not as an integrated part of the scaling activities.

*Proposition 1: Only if a viable business model is in place, the scaling process itself should be initiated and is likely to be successful.*

### **3.3.1.2 Commitment of the Individuals Driving the Scaling Process**

The process of scaling social impact starts with the individuals driving it. Drawing on Billis and MacKeith (1992), Bradach (2003), The Bridgespan Group (2005), Dale et al. (2002), DeJong (2003), Drumwright and Duchicela (2010), Grant and Crutchfield (2007), Hassel and Steiner (2000), Hodson (1992), Hynes (2009), Jenkins and Ishikawa (2010), LaFrance et al. (2006), Majeska (1999), Mulgan, Ali, Halkett and Sanders (2007), Robinson (1992), Sherman (2007), van Oudenhoven and Wazir (n.d.), and Waitzer and Paul (2011), we identified “commitment of the individuals driving the scaling process” as the first key component of our scalability framework. Individuals driving the scaling process might be the founder, the management, or both (LaFrance et al., 2006); involved staff and volunteers of the

social enterprise; and members of the enterprise's network. It seems self-evident that charismatic "strong leadership and commitment of the founder and/or management may be particularly critical in achieving significant scale" (CASE 2003: 15; see also Dale et al., 2002; Grant & Crutchfield, 2007; Majeska, 1999; Sherman, 2007). This aspect is already known from the literature on commercial entrepreneurship (e.g., Wiklund & Shepherd, 2003). However, the strong commitment to the scaling of social impact might also lead to certain hurdles as it might push the decisions of the founder, the management, or both toward internal changes that will reduce their own influence on the strategy of the social enterprise (Hynes, 2009). For instance, the size of the social enterprise after the scaling efforts may henceforth preclude direct overview by the founder and/or top management. This outcome is particularly prevalent when new and more distant sites are opened (Majeska, 1999). Their effect might not be confined to the roles of the founder and/or management; it might increase or decrease responsibilities of staff and/or volunteers as well (The Bridgespan Group, 2005). Depending on how satisfied the founder, the management, the staff and/or volunteers are with their anticipated future role in the social enterprise, they might be less committed to the scaling of social impact than they previously were. We conclude that successful scaling of social impact is determined by the commitment of leading *and* executing individuals that drive the scaling process.

*Proposition 2: Only, if the individual/s who run the social enterprise's operations is/are committed to the idea of scaling, the scaling process itself should be initiated and is likely to be successful.*

### **3.3.1.3 Management Competence**

Whereas our previous component consists predominantly in the willingness of the individuals driving the scaling process, this one is the ability to manage the scaling process

professionally. We identified this component, labeled “management competence,” on the basis of Aspen Institute (2008), Billis and MacKeith (1992), The Bridgespan Group (2005), Campbell and Louh (2005), Curtis (2001), Dale et al. (2002), Datar, Epstein, & Yuthas (2010), DeJong (2003), Drumwright and Duchicela (2010), Harris (2010), Hassel and Steiner (2000), Hodson (1992), Hynes (2009), Jenkins and Ishikawa (2010), LaFrance et al. (2006), Lister (2001), Mulgan et al. (2007), Robinson (1992), Sezgi and Mair (2010), Sherman (2007), Stone Foundation (2009), Taylor, Dees, & Emerson (2002), Trelstadt and Katz (2011), and van Oudenhoven and Wazir (n.d.). Generally, social enterprises are required more and more to act in a business-like manner (for example goal setting, monitoring, evaluating, reporting, and budgeting), so the adoption of management competence for social enterprises is particularly important (Bull & Crompton, 2006; Dart, 2004; Sagawa & Segal, 2000). Because failure to meet this expectation raises the likelihood that the scaling process will be unsuccessful (The Bridgespan Group, 2005), management competence is a key component of our scalability framework.

Managing the scaling of social impact professionally implies constant preservation of the social mission (e.g., The Bridgespan Group, 2005; Hassel & Steiner, 2000; Hynes, 2009; Taylor et al., 2002; van Oudenhoven & Wazir, n.d.). Mission drift may jeopardize the legitimacy (Dart, 2004) and existence of the social enterprise, for the “fundamental purpose of social entrepreneurship is creating social value for the public good” (Austin et al., 2006: 3). With the social mission representing a substantial component of the social enterprise (Dees, 1998), management competence aims to guarantee the social mission’s preservation throughout the scaling process. Even if a large-scale program is intended, the preservation of the social mission is key, this is the quality of the products and services received by the beneficiaries have to remain constant (Curtis, 2001; Campbell & Louh, 2005; Hassel & Steiner, 2000).

*Proposition 3: Management competence is necessary to conceptualize, implement and/or speed up the scaling process effectively and efficiently.*

#### **3.3.1.4 Entire or Partial Replicability of the Operational Model**

Whereas our two previous components referred to the individuals driving the scaling process, this one has to do with the replicability of the social enterprise's operational model. We base this component on Bloom and Chatterji (2009), Bloom and Smith (2010), The Bridgespan Group (2005), Campbell and Louh (2005), Drumwright and Duchicela (2010), Hodson (1992), LaFrance et al. (2006), Ratliff and Moy (2004), Stone Foundation (2009), Szegi and Mair (2010), Taylor et al. (2002), van Oudenhoven and Wazir (n.d.), and Waitzer and Paul (2011) and on the differentiation between replication and adaptation as discussed in our literature review. Additionally, Bradach (2003) published an entire scientific article about the challenges of replicating social problems. Once it has been determined that the social enterprise's operational model is viable, the complexity of its operations should be reduced in order to facilitate the replication process. One way of reducing complexity could be to have social enterprises focus on core elements of their operational model (The Bridgespan Group, 2005; Campbell & Louh, 2005; Waitzer & Paul, 2011). They might then replicate only those elements that induce the social impact most effectively (Bloom & Chatterji, 2009; Bloom & Smith, 2010; LaFrance et al., 2006). Support for the importance of focusing on core elements also surfaces in the literature on commercial scaling (e.g., von Krogh & Cusumano, 2001; Winter & Szulanski, 2001). That body of research, however, differs from the social-scaling literature, in that commercial enterprises do not center mainly on those elements that induce the social impact, but on elements that scale the business model most effectively. Another key driver that helps social enterprises to foster replicability is formalization (Hodson, 1992; see also Sezgi & Mair, 2010; The Bridgespan Group, 2005). Manuals, job descriptions and up-to-

date templates (Sezgi & Mair, 2010) ease the communication of processes and “to articulate the organization’s theory of change” (Bradach, 2003: 20). Formalization also helps the social enterprise to ensure quality of its social program (The Bridgespan Group, 2005). Beside this recommendation to foster formalization of processes and routines, social scaling can borrow additional drivers from the commercial scaling literature which suggests, for instance, centralizing and standardizing administrative functions such as finance and accounting (Gaibraith, 1982; von Krogh & Cusumano, 2001). Accordingly, the social entrepreneurship literature underscores *standardization* as an appropriate means to facilitate replication (Bradach, 2003; Ratliff & Moy, 2004; van Oudenhoven & Wazir, n.d.). Bradach (2003) suggests focusing on those products or services that allow a high degree of standardization. Correspondingly, investments in *technology* often honed efficiency and saved costs (Ratliff & Moy, 2004; Sherman, 2006; Stone Foundation, 2009; Taylor et al., 2002), implying that products and services based on technology can be scaled in a rapidly dispersive, and effective manner.

*Proposition 4: Once the extent of replicability has been identified/clarified the further scaling options can be explored.*

### **3.3.1.5 Ability to Identify the Scope of Social Demands**

In Bloom and Chatterji (2009), Bloom and Smith (2010), Bradach (2003), Campbell and Louh (2005), DeJong (2003), Grant and Crutchfield (2007), Ratliff and Moy (2004), and Taylor et al. (2002), we described “ability to identify social demands” as the next component of our scalability framework. Whereas the component “replicability of the operational model” clarifies *which* elements of the operational model can be replicated, the ability to identify the scope of social demands determines *where* and *how* replication of the elements is able to scale the social impact most effectively. Just as the maximization of profit is a primary driver of

commercial entrepreneurs (Mair & Marti, 2006; Wei-Skillern, 2005; Zahra et al., 2008), the maximization of social impact is the primary driver of social entrepreneurs. Accordingly, social enterprises constantly screen their environment for unmet social demands (Bradach, 2003; Ratliff & Moy, 2004; Taylor et al., 2002). These demands tend to be significantly greater than the scope of a social enterprise's activities, for social enterprises address persistent social problems not yet satisfactorily met by governments or the market (Santos, 2012). The process of scaling designed to alleviate social problems is thus constraint less by absolute social demand – as is often the case for commercial entrepreneurs – (e.g., Tuck, Boasberg, & Brennan, 2005), than by the ability to pursue the social activities. Social enterprises are thus required to carefully decide where to allocate their limited resources in a way that allows the maximal increase of impact with their limited resources at hand. Hence, the ability to “[i]dentifying the [scope of] potential demand for a program and determining where the critical ingredients for success can be found” (Bradach, 2003: 23), not only determines the effectiveness, but also the efficiency of social enterprises to scale their social impact.

*Proposition 5: Once the scope of the social demand has been identified the necessary resources to fulfill these demands need to/can be raised.*

### **3.3.1.6 Ability to Obtain Necessary Resources**

Our following key component, “ability to obtain necessary resources,” contains two key driver clusters that we identified for the scaling of social impact. Considering the role of these clusters to be closely interlinked in the scaling process, we grouped them under the labels “resourcing” and “networks and supporters to obtain resources.” In the resourcing cluster we find key drivers discussed in almost every publication that investigates them in the context of scaling social impact. The cluster of “networks and supporters to obtain resources”



contains key drivers discussed in Bloom and Chatterji (2009), Bloom and Smith (2010), Bradach (2003), Datar et al. (2010), DeJong (2003), Grant and Crutchfield (2007), Harris (2010), Hynes (2009), Lister (2001), Robinson (1992), Sherman (2006), Stone Foundation (2009), Taylor et al. (2002), Trelstad and Katz (2011), and van Oudenhoven and Wazir (n.d.). Because the scaling of social impact implies activities and efforts in addition to the continual operations of the social enterprise, pursuit of these additional activities requires the “right” amounts of the “right” resources, which the operational model does not necessarily provide (e.g., Hassel & Steiner, 2000).

Hurdles already familiar from commercial entrepreneurship literature, such as the “liability of newness” (Stinchcombe, 1965) and the “liability of smallness” (Brüderl & Schüssler, 1990), generally confront enterprises with the challenge of acquiring resources necessary for growth. Unlike commercial enterprises, though, social enterprises cannot pay competitive prices for production factors (Oster, 1995). Social enterprises thus find it particularly difficult to generate the resources they need for scaling social impact such as financial or economic, human and social capital (Bourdieu, 1986), so they rely on different channels to acquire them (Austin et al., 2006).

For social enterprises to obtain the necessary resources, our literature review reveals the four following possibilities: (1) tap into idle capacities of the current activities; (2) reinvest surpluses generated by running current operations (e.g., Bloom & Chatterji, 2009; Bloom & Smith, 2010); (3) sharpen the effectiveness of the current operations (e.g., Aspen Institute, 2008; Bloom & Smith, 2010; Taylor et al., 2002; Tuck et al., 2005; Uvin, 1995); and (4) mobilize resources from the environment (e.g., Bradach, 2003; Grant & Crutchfield, 2007; Haugh, Di Domenico, & Tracey, 2010).

It is apparent that our resourcing cluster of key drivers subsumes the first three ways to obtain resources (with Bourdieu financial and human capital) and that the cluster of key

drivers called “networks and supporters to gain resources” contains the fourth alternative, the effort to mobilize resources from the environment (with Bourdieu social capital).

***Financial or economic capital.*** The most likely way for social enterprises to obtain other resources is to increase their financial capital. It enables them to finance their scaling activities and to acquire other resources necessary for the scaling of social impact (Curtis, 2001; Bloom & Chatterji, 2009; Bloom & Smith, 2010; Jenkins & Ishikawa, 2010; Ratliff & Moy, 2004).

***Social capital.*** If social enterprises raise capital from stakeholders in their environment, the ease with which capital providers can be attracted to finance the scaling efforts is determined by the amount of social capital inherent in the relations between the social enterprises and their external environment (Barringer & Greening, 1998; Bradach, 2003; Sherman, 2006; Weber & Kratzer, 2013; Wei-Skillern, 2005). Raising capital from stakeholders in the environment might saddle the social enterprises with restrictions that endanger the social mission (e.g., Bacq & Janssen, 2009; Rimal & Armstrong, 2005; Zietlow, 2001). A high chance of mission drift might hinder the social enterprise from mobilizing resources from the environment.

***Human capital.*** Social capital can also enhance the ability to access knowledge for scaling social impact (Adler & Kwon, 2002; Bradach, 2003). In this context, obtaining knowledge particularly facilitates the effectiveness of day-to-day operations by, for example, “improving the internal management capacity of the staff (such as through training or personnel development)” (Uvin, 1995: 929). Moreover, social enterprises interested in pursuing scaling activities might need to hire additional staff, attract volunteers, or both.

*Proposition 6: The ability to obtain scarce resources determines the extent to which a social enterprise should attempt to scale on its own or together with other organizations.*

### 3.3.1.7 Potential Effectiveness of Scaling Social Impact with Others

Our following component, “potential effectiveness of scaling social impact with others,” refers to bringing in other organizations, corporations, and/or institutions to help spread the social impact. We identified this component in Aspen Institute (2008), Bloom and Chatterji (2009), Bloom and Smith (2010), Datar et al. (2010), Drumwright and Duchicela (2010), Harris (2010), Hassel and Steiner (2000), Jenkins and Ishikawa (2010), Ratliff and Moy (2004), van Oudenhoven and Wazir (n.d.), and Waitzer and Paul (2011). Social enterprises can scale their social activities on their own or rely on other organizations, corporations, and institutions to obtain necessary resources (e.g., Perrini & Vurro, 2006). Involving others to spread their social impact, social enterprises either provide support and advocacy only to their partner or actively take a stake in a partnership or strategic alliance that runs social activities (e.g., Bloom & Chatterji, 2009; Bloom & Smith, 2010; Hassel & Steiner, 2000).

The social enterprise’s choice between scaling social impact on its own and relying on others is determined by social enterprises’ resources at hand and the effectiveness of each strategic alternative to that process. We assume that social enterprises will opt for the one that promises to be the most effective for scaling social impact; after all, maximizing that impact is a primary driver of the social entrepreneur’s ambitions (see section 3.1.4). For the same reason we assume that social enterprises will not choose any strategic alternative if mission drift is likely. Hence, the scaling of social impact is determined by how effectively other organizations, corporations, or institutions are able to lever the social *impact* achieved by the social enterprise. This leveraged potential might vary from one social enterprise to the next and is determined by the replicability of its operational model, the ability to meet social demands, the ability to obtain the necessary resources (Ratliff & Moy, 2004), the social

enterprise's attractiveness as a partner (Waitzer & Paul, 2011), and the existence of appropriate partners (Jenkins & Ishikawa, 2010), among other components.

*Proposition 7: Depending on the estimated potential of “scaling with other organizations” or “scaling by their own”, the social enterprise should opt for the alternative that promises to be most effective for scaling social impact.*

### **3.3.1.8 Adaptability**

Our scalability framework's last component, “adaptability,” is drawn from Aspen Institute (2008), The Bridgespan Group (2005), DeJong (2003), Grant and Crutchfield (2007), Harris (2010), Hassel and Steiner (2000), Hodson (1992), Jenkins and Ishikawa (2010), Ratliff and Moy (2004), Robinson (1992), Sezgi and Mair (2010), van Oudenhoven and Wazir (n.d.), and Waitzer and Paul (2011). Depending on the social demands that social enterprises intend to meet by scaling their social impact as effectively as possible (see p. 12), they might reach out for geographies, target groups, products or services other than those they have previously served. In this case, socioeconomic market requirements for the activities of social enterprises might change, depending on the degree of similarities or dissimilarities between the context in which social enterprises are active before scaling and the context they aim to scale to (e.g., Dees et al., 2004).

According to the literature on social and commercial scaling, dissimilarities in socioeconomic requirements refer not only to geographic scaling, but also apply to “cultural, administrative or political, and economic dimensions that can make . . . markets considerably more or less attractive” (von Krogh & Cusumano, 2001: 138; see also Edwards & Hulme, 1992a; Welter & Smallbone, 2011). The social enterprise's operational model might therefore no longer fit to the “new” market or customer conditions. Output and outcome of the operational model simply might not meet social and economic demands, and there might be

more efficient or more effective ways to pursue the market (Aspen Institute, 2008; Jenkins & Ishikawa, 2010). Institutional barriers, such as strict regulatory or policy environment, may hinder the social enterprise's attempts to scale social impact (The Bridgespan Group, 2005; Edwards & Hulme, 1992a; Ratliff & Moy, 2004). Consequently, the scaling of social impact requires not only the replication of the operational model but also the adaptation of the replicated model to a targeted context (Grant & Crutchfield, 2007; Jenkins & Ishikawa, 2010; Perrini & Vurro, 2006). If it is necessary to adapt the replicated model to a targeted context, then the scaling of social impact is determined by the ability of social enterprises to adjust their activities.

Such adaptation seems to hinge on factors like *knowledge transfer* between the social enterprise and the targeted context. Grant and Crutchfield (2007), for instance, highlight the ability of social enterprises to “listen, learn, and modify their approach” (p. 38; see also Ratliff & Moy, 2004). This knowledge transfer might be facilitated by building partnerships with established players in the targeted context. After training their employees, volunteers, and partners to ensure intimate familiarity with the operational model, social enterprises can delegate responsibilities for the scaled activities. This delegation provides a certain degree of independence to those individuals in charge of balancing the adaptation to local markets while also preserving those elements that made the original operational model successful (Hassel & Steiner, 2000; Uvin et al., 2000; von Krogh & Cusumano, 2001). This process of delegation—in harmony with the organizational structure—necessitates decentralization because headquarters would otherwise be overwhelmed by simultaneous responsibilities (Hassel & Steiner, 2000).

Further advice on fostering “adaptability” is found in the literature on commercial scaling. To calculate risks and reduce complexity, von Krogh and Cusumano (2001) suggest not scaling an organization's whole portfolio at once, but rather selecting only one product or

service to scale at first (von Krogh & Cusumano, 2001; Zook & Allen, 2003). Such a gradual approach might also help social enterprises to experience learning curves as they reach out for geographies, target groups, products, or services other than those they have served before.

By contrast, for some social enterprises, adaptability is less an issue for they deliberately seek out hostile institutional environments in order to pursue their social mission of initiating a systemic social change in them (Austin et al., 2006; Grenier, 2008). Systemic approaches to change environments aim to adapt contexts to new paradigms (e.g., Sherman, 2006). Therefore, the necessity of adapting the operational model attenuates (e.g., Barringer & Greening, 1998).

*Proposition 8: The extent of necessary adaptations to the respective new context determines which type of scaling strategy is appropriate.*

### **3.3.2 Types of Scaling Strategies**

Scaling strategies were gleaned from the relevant literature in much the same way as clusters of key drivers were derived. Of the 88 scientific papers and book chapters we examined, 31 were found to deal with scaling strategies. They encompassed 144 strategies in all. Several of the sources spell out particular scaling strategies, such as affiliation (CASE, 2003, 2006b; Dees et al., 2004) and thus seemed to convey the same message about how to scale social impact. Our second aim was therefore to group those scaling strategies into separate clusters to identify types of strategies that are similar and differentiate them from other types of scaling strategies. As in the process of developing clusters with specific key drivers, several researchers coded the scaling strategies and assigned them to coding categories so that intercoder reliability could be ensured. This coding procedure led to four types into which the 144 identified scaling strategies were categorized: (a) capacity-building, (b) relationship defined by an ongoing agreement, (c) diffusion of knowledge, and (d) one

adjacency move. In the specified literature these four overriding types of scaling strategies resemble strategies mentioned by Alvord, Brown, and Letts (2004), Dees et al. (2004), and CASE (2003, 2006b). This theoretically grounded differentiation of scaling strategies into four categories means that any scaling strategy found during our research can be categorized into one of our mutually exclusive groups. For example, strategies such as the joint venture or franchising represent “relationships defined by an ongoing agreement,” whereas open-source strategies come under the strategy we call “diffusion of knowledge.” This categorization lends our scalability framework flexibility, for each of its four types can accommodate for other scaling strategies as well.

### **3.3.3 Interrelations between Key Components and Scaling Strategies**

Having analyzed and singled out the different key components, their particular key drivers, and the four types of scaling strategies, we now elaborate on their interconnections and interdependencies, keeping in mind the various organizational and contextual factors operating in social enterprises. As Jenkins and Ishikawa (2010) conclude, the social enterprises and their operational models not only vary greatly in size, industry, and financial and social returns, but also have “different strengths, weaknesses, opportunities, and threats at different stages in their development. They follow different trajectories toward—and may have different capacities for—commercial success, scale, and development impact” (p. 16). Given these differences, the small and often young social enterprises may find it difficult to select the appropriate type of scaling strategy. They are faced with a wide range of open questions about the attendant challenges to management, such as the recruitment and selection of qualified personnel (Barringer & Greening, 1998; Terpstra & Oison, 1993), an increased need for training, and an appropriate delegation of responsibility (Bitner & Powell, 1987). With our scalability framework we aim to offer social entrepreneurs a guideline on how to

proceed in the scaling process and scale their operational model. Because taking the right decision is not only difficult but crucial, we decided that our scalability framework should “move backwards” through the social entrepreneur’s “mental steps.” That is, we took the process of deciding on the right type of scaling strategy and broke it down into several individual points in the social entrepreneur’s decision-making process. The resulting path dependence narrows and clarifies the selection of scaling strategies that emerge as possibilities for the entrepreneur in his or her basic conditions. The decision points presented in the scalability framework below are consistent with the key components discussed above. This procedure responds to Jenkins and Ishikawa’s (2010) call for “an effective segmentation of these different companies and models, and a highly nuanced understanding of behaviors and needs within each segment, [which] would enable partner organizations to provide the right services to the right businesses at the right time” (p. 16). Accordingly, it seems even more important to carefully match the strategy to the social enterprise.

### **3.3.4 Critical Decision-making Path**

We agree with Sherman (2006) that any scalability framework should be based on a viable operational model of the social enterprise, so it is necessary to ensure that the underlying operational model functions. Upon confirmation of the model’s proper functioning, the first decision to make, when using our framework, is to ascertain the degree of commitment of leading and executing individuals who drive the scaling process, otherwise the scaling process ends. The second point in the decision-making process is reached when the social enterprise has to verify that there is sufficient management competence in the scaling process. When that resource has been guaranteed, the third point in the process is to inquire about the extent to which the social enterprise is able to reduce the complexity of its operations. The answer to this question will determine the degree to which the operational



model is replicable. If the operational model is rather not replicable, the scaling process terminates. Otherwise, the decision-making process in our framework proceeds to its fourth point, at which the social enterprise has to prove where replication of the elements should take place in order to optimize the scaling of social impact. If ability to meet social demands can rather not be verified, the scaling process terminates. Otherwise, one arrives at the fifth point in the decision-making process; ascertainment of the social enterprise's ability to obtain necessary resources is reached. If the social enterprise has difficulties to obtain the resources necessary for increasing social impact, scaling will rather not take place. If necessary resources are available or at least accessible, the social enterprise has to decide whether to scale up its social impact on its own or, preferably, in collaboration and with partners, depending on which option is more effective. This decision marks the sixth point in the process described in our framework.

The decision-making process continues with the seventh component, adaptability. This key component is divided into two sequenced steps: "adaptation necessary" and "adaptation possible." First, a social enterprise assesses whether adaptation of its operational model is necessary at all. If conditions on the targeted market are so similar to the home market that they do not require any adjustment to the social enterprise's operational model, then no adaptation of the operational model is necessary. The same is true if a social enterprise does not undergo the scaling activities on its own but instead scales social impact by teaching partners how to.

If adaptation is necessary, that is, if conditions of the targeted market require adaptation of the social enterprise's operational model (e.g., in order to bridge ethical, religious, demographic, socio-economic, or geographical differences between the targeted and the home market), then a social enterprise has to look into adapting its operational model. This adaptation can be undertaken alone or together with one or more partners. The decision-

making process continues if adaptation of the operational model seems possible and terminates if adaptation is not possible.

It becomes evident that component six (the question of collaborating and partnering) and component seven (the question of necessary and possible adaptations) are particularly interrelated. Therefore, we combine those two components of the scalability framework leading to a four-field “partnership-adaptability” matrix (see Table 4). Each field of this matrix offers one type of scaling strategy that a social enterprise might pursue.

**TABLE 3: Partnership-Adaptability Matrix**

	<b>Market Conditions which do not prompt the Social Enterprise to adapt its Operational Model to</b>	<b>Market Conditions which prompt the Social Enterprise to adapt its Operational Model to</b>
<b>On its own</b>	Capacity Building	Creation of Local Sites through one Large Organization
<b>In Partnerships with Other(s)</b>	Diffusion of Knowledge	Relationship Defined by an Ongoing Agreement

Integrating this matrix into our scalability framework, we find that four different scaling paths emerge from the decisions during the decision-making process and lead to the four possible types of scaling strategies identified and discussed above. If the social enterprise intends to increase social impact on its own and does not have to adapt to the prevailing market conditions, then capacity-building is considered to be the only remaining strategy by which to scale the operational model. It becomes the first scaling path. If the social enterprise intends to scale into another adjacent area of activity (e.g., new target group, new product/service, new geographic context) or requires adaptation of any kind (e.g., geographical or cultural), the strategy of one adjacency move opens the second possible scaling path. However, if the scaling of social impact takes place through partnerships with others and if adaptation to particular market conditions is not necessary, the strategy of

diffusion of knowledge paves the way to the third scaling path. If, on the other hand, adaptation is both necessary and possible, the social enterprise embarks on the fourth scaling path by turning to the strategy of entering into a relationship defined by an ongoing agreement. If the social enterprise must, but cannot, adapt its operational model to given market conditions, then the scaling process has to be resumed.

Because social enterprises differ in their specific characteristics of their operational models and in their contextual embeddedness, these dissimilarities will be manifested in the choice of the scaling path the organizations take. At this final stage of the scalability framework, it is crucial for the social enterprise to question whether the planned scaling strategy is appropriate for the business model. Because of the number of scaling strategies, there is a tradeoff between the various alternatives of how to scale social impact (CASE, 2006b), so some scaling strategies are mutually exclusive (Edwards & Hulme, 1992a). Nevertheless, social enterprises can scale social impact by applying more than one strategy. They might, for instance, combine franchising (type of strategy: relationship defined by an ongoing agreement) with capacity-building to increase social impact at their original site and in foreign countries.

However, any social enterprise that has reached this final point of the decision-making process generally has the potential to scale its social impact. By precisely following the scalability framework with its path dependencies, social enterprises should be able to identify a suitable scaling strategy and pursue scaling successfully. Then social enterprises are expected to create the desired financial and social value, operating as self-sustaining enterprises in pursuit of their goals.

### **3.4 DISCUSSION**

In this chapter we set out to significantly improve the understanding of the complex causalities and interdependencies of the various factors bearing on the scalability of social ventures in theory and practice by presenting a framework for scaling social impact. For this purpose, we defined the term scaling, we comprehensively reviewed the relevant scaling literature on social enterprises and nonprofits, and identified in it nine clusters of key drivers of scalability. From those clusters we derived one precondition and seven key components. We also suggested four major types of strategy for scaling social impact along the lines of partnership and adaptation. We interlinked the precondition, key components, and strategy types and pointed out four ensuing scaling paths.

With this chapter, we aim to contribute to at least five current discussions in the literature: (a) the definition of key terminologies scaling social impact, (b) the key drivers that determine the scaling of social impact, (c) the interplay between key drivers and components of scalability, (d) the interrelation of key components and types of strategy, and (e) the differences of scaling in the social as opposed to the commercial sector. We elaborate on our findings in the following discussion.

#### **3.4.1 Segregation of Key Terminologies of Scaling**

We defined the three interrelated concepts of replicability, adaptability, and transferability, making the first two concepts mutually exclusive and rendering the third understandable as their unification. In the process we took into consideration that pure replication of the elements of a social enterprise's operational model occurs only rarely. That is, replicability of the operational model is a necessary, though not always sufficient, condition for scaling social impact. Adaptability is considered the sufficient condition. Hence, breaking transferability

down into its two key components, *replicability* and *adaptability*, provides an even more differentiated way of analyzing the scaling process than has been hitherto available.

### **3.4.2 Identification of Clusters of Key Drivers that Determine the Scaling of Social**

#### **Impact**

To structure, aggregate, and systemize the numerous studies on the scalability of social impact, we clustered all the identifiable relevant key drivers and used overarching concepts to summarize the current state of discussion on what drives the scaling of social impact. This approach not only reduced complexity but also permitted the allocation of additional key drivers not noted in the relevant literature, yet. Furthermore, our analysis revealed that some key drivers might be more central than others are to the scaling social impact.

### **3.4.3 Interplay between Key Drivers and Components of Scalability**

The interplay between the drivers for scalability is illustrated by the paths that link the components of our framework to each other thereby reflecting the decision-making process that a social enterprise undergoes while trying to scale social impact. The paths show that each key component not only determines the level of the social enterprise's overall scalability, but also influences the configuration of the subsequent components, causing a certain path dependency. In keeping with the relevant literature, we see the “ability to obtain the necessary resources”, which contains the highest number of key drivers of any cluster, as particularly meaningful for any social enterprise that intends to scale social impact. Other key components seem to be highly relevant to some social enterprises in particular sectors only. Replicability of the operational model, for example, might be regarded as central to social enterprises in the technology sector, which has been noted for very high scalability of such organizations (see Desa & Kotha, 2006; Fruchtermann, 2004). Furthermore, influences that contextual shifts

(e.g., changes in client needs) have on social enterprises are illustrated by Weerawardena and Mort (2006). Changes in client needs might prompt social enterprises to focus on the two key components we call ability to meet social demands and the adaptability. Another meaningful link between key components is that between replication and adaptation. As outlined above, they are regarded as two complementary concepts. Yet, as is the case for any commercial enterprise (Winter & Szulanski, 2001), there also seems to be a trade-off between strengthening a social enterprise's ability to replicate and adapting the operational model. On the one hand, social enterprises promote replication by centralizing and standardizing core elements of the operational model. On the other hand, they might need to decentralize responsibilities and adapt their operational model to the targeted context.

The key components not only interfere with each other; they share interfaces as well. These interfaces exist between similar key drivers belonging to different clusters or key components, as one can deduce from the different roles these key drivers play within the scaling process. An example of such a relationship might be alliance-building, a key driver suggested by Bloom and Smith (2010). Their empirical analysis reveals that “alliance-building and lobbying no longer remained significant when all SCALERS . . . were entered into the regression analysis” (p. 140). They surmise that the reason for their results might originate in the “character of the organizations in the sample” (p. 140). Applying our framework, we add another guess: Whereas Bloom and Smith included alliance-building as a single determinant in their model, we suggest that it has at least four specific roles in the process of scaling social impact. It figures in (a) the component we call the ability to obtain necessary resources, (b) the component referred to as the potential effectiveness of scaling social impact with others entails the involvement of other organizations, (c) the adaptability component, and (d) networking as a scaling strategy to diffuse knowledge.

#### **3.4.4 Linking Key Components with Four Types of Strategy**

As mentioned above, social enterprises vary greatly in size, industry, financial and social returns, as well as in their operational model and their capacities for scaling and developing social impact (Jenkins & Ishikawa, 2010). Determined by these individual/particular characteristics, social enterprises follow different scaling paths that link a social enterprise's operational model to the identified key components and to one of the four types of strategy. We therefore suggest that the range or spectrum of strategies that social enterprises can pursue is restricted from the outset by the characteristics of those organizations. Our scalability framework therefore reduces the complexity of choosing promising strategies for a social enterprise that intends to scale social impact. It does not recommend one optimal strategy for the enterprise's operational model, though.

#### **3.4.5 Differences of Scaling in the Social Sector as Opposed to the Commercial Sector**

Referring to the replication of social programs, van Oudenhoven and Wazir (n.d.) propose to “look to the business sector for inspiration and the great impact of large scaled programs” (paragraph 20). We found that scaling in the social sector and scaling in the commercial sector were similar as far as the replicability of the operational model was concerned. For instance, both social and commercial literature recommends focusing on the core elements of the operational or business model and/or standardizing these elements in order to foster replicability. We also found that scaling efforts are more likely to be successful both socially and commercially if they are managed in a professional manner (e.g., Barringer & Greening, 1998). Lastly, social and commercial enterprises pursue their scaling efforts by mobilizing resources from their environment (e.g., Sharir & Lerner, 2006; von Krogh & Cusumano, 2001), raising the effectiveness of their operations (e.g., Gilbert, McDougall, &

Audretsch, 2006), exploiting idle capacities (e.g., Lockett, Wiklund, Davidsson, & Girma, 2011), or reinvesting surpluses generated by ongoing operations (e.g., Gilbert et al., 2006).

We have, however, also identified differences between social and commercial scaling. For instance, social enterprises searching for underserved target groups and intending to initiate systemic social change deliberately tap into contexts that are highly dissimilar to the context in which they are currently embedded. By contrast, commercial enterprises are advised to keep contextual dissimilarities to a minimum when trying to maximize economic value. Ghemawat (2001) asserts that purposefully scaling into highly dissimilar contexts tends to be costly and risky. Yet high costs seem at odds with social enterprises' characteristics, for such organizations tend to face even higher resource constraints than commercial enterprises do such as the limited ability of social enterprises to pay salaries at market level (Dees, 1998). However, social enterprises that may not have enough resources to scale their operational model might still be able to overcome even high barriers to market entry and to scale social impact by solely diffusing their knowledge, that is employing strategies like advocacy (CASE, 2006b) or open-source change-making (Waitzer & Paul, 2011). Following such strategies, social enterprises provide necessary knowledge to others willing and able to adopt their approaches. They can pass risks and costs for scaling social impact to the adapting enterprise(s), organization(s), or institution(s). These strategies of scaling impact without scaling the operational model are usually not an option for commercial enterprises for they rather tend to safeguard their knowledge from competitors (Cohen & Meyer, 2011). Hence, whereas commercial enterprises tend to ensure their unique competitive position by keeping their capabilities a secret, social enterprises tend to disclose and share their knowledge with others willing and able to adopt and lever their approach in other settings (Chowdhury & Santos, 2010; Cohen & Meyer, 2011). In this context, the openness of social enterprises to sharing knowledge originates in their strong commitment to their social mission, which has



higher priority than the profit maximization does (Austin et al., 2006; Cohen & Meyer, 2011). However, this strong commitment to the social mission might also curb the scaling ambition of social enterprises if their scaling activities risk affecting the social mission.

### 3.5 CONTRIBUTION AND IMPLICATIONS

In this chapter, we set out to take the partially unconnected, though valuable, discussions and findings presented in the scalability literature and integrate them into a more holistic approach to scaling social impact in order to provide important new insights into that process and the possibilities of social enterprises. Our resulting scalability framework is thus intended as a contribution to both theory and practice. More precisely, it advances the research on and the practice of social entrepreneurship in at least five ways. First, by defining a taxonomy of replicability, adaptability and transferability, we offer a common basis for understanding the central terminologies of scaling that have most often been used in overlapping, inconsistent, or synonymous fashion. Application of our taxonomy to further research might help clarify investigations into the scaling of social impact.

Second, we distill 241 key drivers found in the 32 scientific articles and book chapters out of the 88 sources in the relevant scaling literature on social impact, then derive from that material one precondition for scaling and seven key components that directly determine the scale of the social impact by social enterprises. We provide a set of factors that covers all variables of scalability that have emerged from the literature so far. These key components might serve as a guiding structure and improve the understanding of what determines the scaling of social impact.

Third, we relate the identified key components to each other by suggesting interdependencies. This advance expands the understanding of the complex causalities of the various factors involved in the scalability of social impact—including the trade-offs and

interfaces between the key components. The framework we suggested thereby takes account of the interdependencies between each particular key component and scalability and between the key components themselves.

Fourth, and most important, we interrelate these various elements and dimensions. As a result, our comprehensive framework connects the components to the four overriding types of scaling strategies and there with adds this important link to the continuing debate on the scaling of social impact. In keeping with the partnership–adaptability matrix that we developed, our scalability framework offers four different possible scaling paths along various decision trajectories arising from the key components and leading to the four types of scaling strategies. These paths may serve as guidelines for scaling scenarios, and in that capacity they could be a major stride forward in research on the scalability of social enterprises.

Fifth, we identify clear differences between social and commercial scaling activities. Although they have much in common, they differ significantly in terms of the targeted context, resource constraints, the ability to scale without scaling the operational model, and the willingness to share strategically important knowledge. In this sense we add to research that has highlighted single differences between social and commercial scaling (e.g., Cohen & Meyer, 2011).

Besides these diverse contributions to theory, our scalability framework is important to practitioners as well in that it breaks the complex construct of scalability down into variables that can be analyzed step by step. Because each key component is critical for scaling social impact, practitioners can evaluate one component after another. By regarding the interdependencies, practitioners can then identify trade-offs and interfaces between the key components. Given the very specific organizational and other contextual specifics of social enterprises, the framework enables such enterprises to make decisions that allow them to determine their scaling potential, strategically plan their scaling process, and develop their

own scaling path. That is, social enterprises may eventually align their operational model with the respective scaling strategy. The scalability framework may thus function as a compass guiding social entrepreneurs in their decision-making process.

Social enterprises are not the only beneficiaries of our scalability framework. Other practitioners, too, such as social investors or governmental institutions, may use it to improve the process of evaluating both the social enterprise under investigation and its scaling potential and to compare it to other social enterprises or active institutions in this sector.

### **3.6 LIMITATIONS AND FUTURE RESEARCH**

Certain limitations of our analysis could affect the generalization of the results. First, the 241 identified key drivers were condensed to key components through intercoder agreement. This limitation may be mitigated by future quantitative research, which could indicate which key drivers belong to the proposed clusters. Moreover, additional analysis could contribute to answering the question of which key drivers have uniform influences on scalability. In this context, factor analysis could provide valuable insights.

Second, the suggested interdependencies have been conceptually developed and, hence, call for empirical elaboration. Quantitative research could address this limitation by verifying how the key components influence scalability as well as each other. Keeping in mind the well-known individualities of social enterprises, researchers carrying out this verification should control for sectorial and contextual specifics. Such in-depth analysis might help tailor scalability frameworks to particular sectors and contexts and could thereby bring purposeful complexity into the investigation of the scalability concept. Qualitative research could also explore the identified trade-offs and interfaces between the various components.

Third, we have suggested that strategies be classified in terms of two dimensions: partnerships and adaptation. That typology expressed in the “partnership-adaptability” matrix

is a first attempt to structure the wide range of strategies discussed in the relevant literature and calls for empirical validation. Moreover, this empirical research may also identify which decisions along the critical decision-making path lead to which type of strategy for the scaling of social impact. This research could identify preferences that social enterprises or types of social enterprises have for particular scaling paths.

Fourth, although we illustrated several differences between social and commercial scaling processes, we assume that our list of differences is not exhaustive. However, we believe this chapter to be a useful starting point for research designed to distinguish scaling activities of social enterprises from those of commercial enterprises.

## **CHAPTER 4: CHALLENGING THE VALUE-PARADIGM OF CROSS- SECTOR PARTNERSHIPS**

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#### 4.1 INTRODUCTION

The importance of partnerships is a common belief in business, economics, politics and society. Organizations particularly benefit when the not-for-profit sector (NFP sector), such as social enterprises, engages in partnerships with other organizations—either within or across sectors (Weerawerdana & Mort, 2006)—to increase the social value created (Di Domenico, Tracey, & Haugh, 2009; Montgomery, Dacin, & Dacin, 2012). In partnerships, they are able to provide more (complementary) products and services to their beneficiaries more effectively and efficiently than an organization would be able to do on its own (Provan & Milward, 2001). To generate a high social value, organizations from the NFP sector continuously search for partners that are the most likely to leverage the performance of their partnerships (Lavie, Haunschild, & Khanna, 2012). Therefore, they try to identify appropriate selection criteria that help them identify such suitable partners. Once these criteria have been applied, they are expected to facilitate the partner screening process, thereby reducing transaction costs (Das & Teng, 1998, 2000).

Our literature review on interorganizational relationships in the NFP sector revealed that current research lacks a precise and empirically proven understanding of the success factors relevant to creating and enhancing the joint social value in partnerships in the NFP sector (Provan, Fish, & Sydow, 2007). Additionally, our literature review disclosed that there is a dominant understanding of cross-sector partnerships as superior to and more effective than within-sector partnerships. However, this understanding has not yet been empirically tested (Koschmann, Kuhn, & Pfarrer, 2012; Provan & Milward, 2001; Provan & Milward, 1995; Provan et al., 2007; Selsky & Parker, 2005). Moreover, previous research has shown that cross-sector partnerships are often complicated due to different institutional logics (Di Domenico et al., 2009; Selsky & Parker, 2005). Partners in within-sector-partnerships, however, share similar thought patterns, thereby increasing efficiency (Austin et al., 2006;

Googins & Rochlin, 2000; Moss, Short, Payne, & Lumpkin, 2010). Our study aims to investigate these contradicting arguments and challenges the dominant understanding of cross-sector superiority. Thus, we investigate the following two research questions: (1) How is joint social value in NFP partnerships created, in other words, what are the success factors relevant to creating joint social value; and (2) does a partner's sector affiliation affect the partnership's performance?<sup>1</sup>

To help close these research gaps, we apply Austin et al.'s (2006) framework and concentrate/focus on its outlined antecedents for social value creation, namely, people, capital and opportunity. We also investigate the influence of the partner organizations' sector affiliation. In our study, we apply a dyadic perspective and analyze a sample of 120 partnerships. This dyadic approach is particularly suitable because empirical studies on networks and partnerships claim to analyze dyads on the partnership level instead of on the individual organization level (Provan et al., 2007). Our sample contains 73 within-sector and 47 cross-sector partnerships.

By adopting a dyadic perspective, we advance research on interorganizational relationships in the NFP sector and NFP management. First, we provide empirical evidence that a joint resource base is a key driver for joint value creation. Accordingly, we verify previous findings from studies that investigate success factors in organizational performance at the single-organization level and transfer them to the dyadic level. Second, we demonstrate that joint value is opposed by significant losses due to missed alternative opportunities. Furthermore, by evaluating joint opportunity costs, we offer a new approach to measuring joint value creation in partnerships. Finally, in this paper we challenge the dominant view of cross-sector partnerships' superiority. We provide empirical evidence that cross-sector partnerships do not perform any better than within-sector partnerships. We conclude that

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<sup>1</sup> In this paper, we use joint value and joint social value interchangeably.

scholars should investigate partnerships' performance in the NFP sector in a more differentiated manner instead of merely advocating for cross-sector partnerships in general.

This paper starts with a literature review on interorganizational relationships among NFP organizations and in particular, social enterprises. To investigate the antecedents of alliances' joint value creation, we draw on a framework for social entrepreneurship developed by Austin et al. (2006) and formulate two corresponding hypotheses. We then elaborate on the prominent assumption in the literature that these antecedents add particular value in cross-sector partnerships and challenge this understanding in a third hypothesis. We test our three hypotheses on our sample of 120 dyadic partnerships, which is composed of social enterprises worldwide and their most important partners. We conduct the analysis with non-parametric tests, include an asymptotic bootstrapping procedure in the linear regression and verify the robustness of our analysis with an ordinal regression model. Finally, we discuss our results and outline this article's contributions and implications for theory and practice.

#### **4.2 INTERORGANIZATIONAL RELATIONSHIPS IN THE NFP SECTOR**

Interorganizational relationships between two or more organizations continue to grow in popularity and thus receive increasing interest from theory and practice alike (Lavie et al., 2012). Because "no organization is an island" (Parmigiani & Rivera-Santos: 1109), engaging in relationships with other parties is essential to every enterprise to survive and grow sustainably. Hakansson (1987) has already stated, "relationships are one of the most valuable resources that a company possesses" (p. 10). Thus, until today, partnerships have been an integral part of any organization's growth strategy (Kale & Singh, 2009). Interorganizational relationships are understood as short- or long-term cooperative relations between organizations pursuing mutual objectives (Das & Teng, 2000; Gulati, 1998; Van de Ven & Walker, 1984). Such partnerships can lead to several advantages (for a detailed review, see



Parmigiani & Rivera-Santos, 2011) such as strengthening an organization's market power (Eisenhardt & Schoonhoven, 1996), gaining access to skills and other resources (Hamel, 1991), realizing economies of scale and scope (Teece, Pisano, & Shuen, 1997) and enhancing an organization's legitimacy (Baum & Oliver, 1991; Oliver, 1997; Vurro, Dacin, & Perrini, 2010).

In this article, we confine ourselves to partnerships arising out of the NFP sector because organizations in this field are confronted with solving complex problems often under severe resource constraints that can be better addressed through partnerships than through a single organization (Di Domenico et al., 2009; Montgomery et al., 2012). Collaborations between NFP organizations and their partners “evolved as an increasingly popular mechanism for coping with complex collective action problems and addressing common challenges” (Jamali, Yianni, & Abdallah, 2011: 375; see also Koschmann et al., 2012). NFP organizations conduct social interventions in a variety of fields, such as health, poverty alleviation and education (Sharir & Lerner, 2006). A relatively new organizational form in the NFP sector is the social enterprise (Chikoto & Halicki, 2013). Guided by their social mission (Sakaraya, Bodur, Yildirim-Öktem, & Selekler-Göksen, 2014), social enterprises engage in entrepreneurial activities and behaviors to achieve social ends (Austin et al., 2006; Certo & Miller, 2008). In doing so, they create social value and improve the well-being of disadvantaged individuals (Choi & Majumdar, 2014; Kroeger & Weber, in press; Martin & Osberg, 2007). Whereas the creation of social value is the primary objective of social enterprises, generating economic value can be a necessary, but never a sufficient condition (Felicio et al., 2013; Gras & Mendoza-Abarca, 2014). A social enterprise that might serve as a practical example is auticon, which has beneficiaries who have Asperger's Disease and possess several capabilities, e.g., a detailed and high concentration level. Auticon trains its beneficiaries as software testers and deploys them as consultants in IT departments at large

and medium-sized organizations. Auticon assures its employees with autism that they will work in an environment suitable for their impairments in social interaction such as their lack of understanding of non-verbal communication. Accordingly, auticon improves its beneficiaries' well-being.

Analyzing the performance of relationships in the NFP sector is seen as an important issue on the research agenda because today, “network effectiveness is not readily measured or understood” (Provan et al. 2007: 509). Therefore, we investigate alliances' outcomes in the NFP sector that can be analyzed from the perspective of one organization in a dyadic manner or from more than two organizations in the same network (Provan et al., 2007; Scott & Carrington, 2011). The dyadic and network perspectives are particularly relevant to organizations in the NFP sector because they “are traditionally more mission driven [...] and thus their strategies may be far more focused on broad client-based outcomes that go beyond the success of individual organizations” (Provan et al., 2007: 509). Consequently, the respective outcomes of such relationships are often created by “integrated and coordinated actions” (Provan & Milward, 1995: 2, see also Dyer & Sing 1998), which the perspective of a single organization might not be able to capture.

Until now, scholarship has included the characteristics of the partners and the partnership along with the processes of collaboration in their studies (e.g., Van de Ven & Walker, 1984; Isett & Provan, 2005). For instance, researchers investigate motives, chances and risks along with different forms of partnerships (Arya & Lin, 2007; Austin, 2000; Herlin, in press; Sakaraya et al., 2014; Schiller & Almog-Bar, 2013; Selsky & Parker, 2005; Villanueva, Van de Ven, & Sapienza, 2012). In addition to the valuable contributions made by previous studies on the NFP sector—with the exception of Provan's work (e.g., Provan & Sebastian, 1998; Provan & Milward, 1995, 2001; Provan et al., 2007)—research on partnerships' performances in the NFP sector and the field of social entrepreneurship is

relatively scarce (Di Domenico et al., 2009; Webb et al., 2010). In addition, almost no quantitative research can be found that analyzes the performance or outcome of partnerships in a dyadic manner. Researchers tend to focus on investigating only one party in the relationship, thus neglecting the dyadic characteristic of the partnership. In this vein, researchers—in the majority of cases—have adopted perspective of the partner of the NFP organization, for instance, the corporate or NGO perspective, and have overlooked both the outcomes and the consequences of the partnership for the NFP organization, respectively (Porter & Kramer, 2002; Schiller & Almog-Bar, 2013). In summary, the literature on interorganizational relationships in the NFP sector discloses a “lack of a common language and definitional precision about what value is and about the dynamics of how different underlying collaboration processes contribute differentially to value creation” (Austin & Seitanidi, 2012a: 728; see also Provan et al., 2007). More precisely, the causality of investigated success factors and their contribution to joint value creation remain unclear (Austin & Seitanidi, 2012a). Even in the entire field of studies on networks and interorganizational partnerships, only a “relatively small number of studies on alliance performance” can be found (Zollo, Reuter, Singh, 2002: 706; see also Gulati, 1998; Koka, Madhavan, & Prescott, 2006). In this broad stream of research, partnerships’ performance has been investigated in different fields, such as corporate venture capital settings (Weber & Weber, 2011), international or cross-cultural alliances (Lavie et al., 2012; Liu, Ghauri, & Sinkovics, 2010; Luo, 2008) and business-to-business relationships between major companies and local distributor agents (Palmatier, Dant, & Grwal, 2007). This lack of research on interorganizational partnerships’ performance in general underlines the relevance of our identified research gap, namely, that research on the performance of partnership dyads in the NFP sector is particularly underdeveloped.

To close this research gap, this paper investigates the joint value created by social enterprises and their most important partners in a dyadic research setting. We build our analysis on Austin et al.'s (2006) framework for social entrepreneurship. The article by Austin et al. (2006) has been published in a highly ranked journal and is cited in almost every article on social entrepreneurship research. The authors suggest three antecedents for social value creation, namely, financial resources, human resources and opportunities, which they embed in “contextual forces” (p. 16) such as political and sociocultural factors. We continue by investigating these three antecedents for joint value creation at a dyadic level and develop hypotheses for the relationship between resources along with (missed) opportunities and partnership performance.

### **4.3 HYPOTHESES**

#### **4.3.1 Joint value creation by partnerships in the NFP sector from a dyadic perspective**

On an organizational level, Kroeger and Weber suggest that a social intervention's value creation is indicated by “the degree to which this intervention benefits disadvantaged individuals” (in press). Applying this understanding to “joint value creation” (Sakarya et al., 2012: 1712) on an alliance level, we define the social value created in interorganizational relationships as the degree to which the partner organizations jointly benefit disadvantaged individuals. Referring to Austin et al.'s (2006) framework, human and financial resources are essential antecedents for social value creation. Several scholars in the literature on interorganizational relationships in the NFP sector also suggest that partnerships' joint value creation is particularly determined by the amount of (complementary) resources that the partner organizations contribute to the joint resource base (Felicio et al., 2013; Jamali & Keshishian, 2009; Lefroy & Tsarenk, 2014)—as opposed to the amount of resources that each partner organization has on hand (Zeng & Cheng 2003).

In line with Cairns and Harris (2011), a joint resource base allows partnerships to create greater social value than the sum of the social value created by each single/individual organization. This higher value creation is particularly likely to occur when partner organizations generate economies of scale and scope: Contributing more resources to the joint resource base may increase the efficiency of delivering products/services (Parmigiani & Rivera-Santos, 2011). For instance, an alliance of a social enterprise that connects families strained by the addition of a newborn with volunteering seniors and a large welfare organization may create joint value by simply increasing/extending their joint resource base (Andrews and Entwistle, 2010; Das & Teng, 1999). Previous research has shown that economies of scale are additionally enhanced if resources contributed by the partner organizations to the joint resource base complement one another (Jamali & Keshishian, 2009; Lavie et al. 2012; Luo, 2008; Sakarya et al., 2012; Dyer & Singh 1998). Thus, a joint resource base of the NFP organization and its most important partner should principally enhance the partnerships' joint value created. Accordingly, our first hypothesis is as follows:

*Hypothesis 1: An increase of resources (that the partner organizations are able to obtain as a result of their partnership) enhances the joint value of partnership dyads in the NFP sector.*

Another antecedent for social value creation suggested by Austin et al. (2006) is an “opportunity” (p. 6). Opportunities in the NFP sector refer to needs that a NFP organization might be able to satisfy (Austin et al., 2006; Zahra et al., 2008). However, pursuing an opportunity requires “the investment of scarce resources” (Sahlman, 1996: 140, see also Austin et al., 2006), which the NFP organization can also invest into pursuing alternative opportunities. Creating joint value in an alliance is such an opportunity. An NFP organization has the choice to either contribute “substantial resources and ... work” (Schiller & Almog-Bar 2013: 944) to the alliance or to use its resources to serve other social needs of a different

target group than those served by the partnership. It could also use its resources for “cultivating alternative sources of funding through the exploitation of market-based opportunities” (Gras & Mendoza-Abarca, 2014: 395) instead of contributing them to the partnership’s joint resource base. As a result, organizations that join a partnership might miss other attractive social or economic opportunities that they could have pursued otherwise (Dowling, Powell, & Glendinning, 2004). We assume that these (perceived) missed opportunities can be captured as opportunity costs. We argue that alliance members are more likely to allocate resources to the joint resource base if the (expected) initiated joint value outweighs the (perceived) increase in opportunity costs (see also Provan & Milward, 1995). Put differently, an increase in opportunity costs should always accompany an increase in the partnerships’ joint value because NFP organizations are not likely to deliberately maintain partnerships in which long-run opportunity costs exceed their joint value created. Thus, our second hypothesis is as follows:

*Hypothesis 2: An increase in opportunity costs is positively related to an increase in the joint value of the partnership dyads in the NFP sector.*

### **4.3.2 Cross-sector versus within-sector partnerships**

In the NFP sector, cross-sector partnerships become increasingly attractive with respect to maximizing joint value (Arya & Salk, 2006; Austin & Seitanidi, 2012a; Hahn & Pinkse, 2014; Seitanidi & Lindgreen, 2011; Selsky & Parker, 2005; Webb, Kistruck, Ireland, & Ketchen Jr, 2010). Cross-sector partnerships are interorganizational relationships among governmental, business and/or NFP organizations that “are uniquely positioned to create and capture social value” (Le Ber & Branzei, 2009: 141; see also King, 2007; Parmigiani & Rivera-Santos, 2011; Plowman et al., 2007; Seitanidi & Lindgreen, 2011; Selsky & Parker, 2005).

In the context of joint value creation, it is necessary to distinguish “alliance-level objectives” (Sakarya et al., 2012: 1715) from “partner-level objectives” (Sakarya et al., 2012: 1715). At the alliance level, “social value creation ...[is] the *raison d’être* of cross-sector partnerships” (Le Ber & Branzei, 2009; 141; see also Schiller & Almog-Bar, 2013). At the partner level, not-for-profit, commercial and governmental organizations are driven by different motives. For instance, commercial organizations aim to enhance their reputation in society (Flammer, 2013; Parmigiani & Rivera-Santos, 2011) or to learn about customer behavior and needs at the bottom of the pyramid (Kale & Singh, 2009). Governmental organizations, for instance, “respond[...] to increasing demands for efficiency and accountability” (Parmigiani & Rivera-Santos 2011: 1119). In contrast, NFP organizations might intend to foster social behavior in corporations (Doh and Teegen, 2003), acquire funding (Schiller & Almog-Bar, 2013) and to “learn important business skills and professionalize” (Herlin, in press). In this article, we concentrate on the alliance-level objective of creating joint social value as we analyze partnership in a dyadic manner (see last section).

Scholars and practitioners increasingly consider cross-sector partnerships as a “magic formula” (Rundall, 2000: 1501), as an “inescapable and powerful vehicle” (Austin & Seitanidi, 2012a: 728) and as “necessary for success” (Hahn & Gold, 2014: 1329) in creating joint social value. The reasoning of this opinion is that today’s social problems require organizations from different sectors, which “each possess distinctive advantages that can enhance the effectiveness, efficiency, and equity of public agencies’ efforts to address social issues” (Andrews & Entwistle, 2010: 679). According to Parmigiani and Rivera-Santos, “cross-sector partnerships entail partners with very different goals and stakeholders such that new knowledge can be created from combining these perspectives or the partnership can leverage and exploit each partner’s unique connections” (2011: 1172; see also Selsky &

Parker, 2005). Some scholars even consider cross-sector partnerships to be superior to within-sector partnerships. For instance, Koschmann et al. assert that “because of their tremendous promise, XSPs are often mandated ... to be the best way of working on social problems” (p. 332). Similarly, Sakarya et al. (2012) add that “multi-dimensional social problems which no party can tackle on its own bring in the need for collaboration between business and social enterprises” (p. 1718). In this vein, Vurro, Dacin and Perrini (2010) assert that “cross-sector partnerships have started to be perceived as strategically better responses to a changed and challenging macro-situation” (p. 39).

However, the superiority of cross-sector partnerships over within-sector partnerships for creating joint value can also be questioned. “Large power imbalances” (Selsky & Parker, 2005: 858; see also Herlin, in press), conflicting organizational cultures (Hahn & Gold, 2014; Kale & Singh, 2009) and different “environmental pressures” (Cairns & Harris, 2011: 312) might impede joint value creation and are more likely to occur in cross-sector than in within-sector partnerships (Schiller & Almog-Bar, 2013). In contrast, partner organizations from the same sector benefit from similar thought patterns and knowledge structures, communication and information exchange and will not be as time and cost extensive as cross-sector partners (Googins & Rochlin, 2000; Austin et al., 2006). Furthermore, the argument that cross-sector partnerships are superior to within-sector partnerships is relatively theoretical and has not yet been empirically tested (Koschmann et al., 2012; Provan & Milward, 2001; Provan & Milward, 1995; Provan et al., 2007; Selsky & Parker, 2005). Given the reasoning above, we argue that the value addition of cross-sector partnerships is overestimated. Consequently, our third hypothesis is as follows:

*Hypothesis 3: The different sector affiliation of partners does not affect/influence joint value creation of partnership dyads in the NFP sector.*



## 4.4 METHOD AND DATA

### 4.4.1 Data

For testing the proposed hypotheses, we analyze a proprietary dataset of social enterprises worldwide and their most important partners. Data collection took place along two stages. In the first stage, from November 2012 to January 2013, we approached social enterprises that had applied for the Schwab Foundation's social entrepreneurship award. We sent emails with an online survey link to 2,245 social enterprises serving different target groups with different needs and asked them to complete the pretested online questionnaire. One hundred ninety-nine social enterprises completed the survey (response rate: 8.9%), reporting on 260 key partners. To analyze interorganizational relationships, the social enterprises that participated in our survey were asked to provide information and contact details concerning these most important partners. In the second stage of data collection, from March to June 2013, we approached the 260 partner organizations and posed the same questions that we had already asked the social enterprises. Unfortunately, some email addresses or telephone numbers were invalid; we contacted de facto 230 partner organizations. One hundred twenty-one partners responded (52.6%). Due to missing values, we needed to eliminate one case from our data set, and ultimately the set included 120 social enterprise-partner dyads.

### 4.4.2 Measures

Because the level of analysis in our study is the partnership, we used dyadic data from both alliance members—i.e., the social enterprise and its partner. To analyze partnerships at the dyadic level, Provan and Milward (2001) suggest assessing the values of each party and building “collective indicators” (Provan et al., 2007: 505; see also Provan & Milward, 1995, 2001). Those authors propose investigating network effectiveness by aggregating the

outcomes for the networks' clients and the overall costs, respectively. This research setting is particularly appropriate to explain partner activities if multiple organizations are involved in increasing the well-being of treatment groups (see also Provan & Mildward, 1995), as is the case in our analysis. We follow their suggestion and treat the two organizations as one entity. Thus, for the variables of joint value creation, joint resource base and joint opportunity costs, the answers of both parties are added and rescaled (please see each variable's respective section below). For example, for the resources, the joint resource pool is measured by summing the resources of both partners instead of analyzing the in- and outgoing resource flow of the partnering organizations separately. The individual measurement items for the study's dependent, independent, and control variables are listed in Table 5. Details about each variable are explained below.

**TABLE 4: Variables, Items and Corresponding Sources**

<b>Variable</b>	<b>Item</b>	<b>Source (adapted from):</b>
<b>Dependent variable:</b>		
Increase of beneficiaries	As a result of this partnership, we significantly increased the number of beneficiaries.	Andrews & Entwistle (2010)
<b>Independent variables:</b>		
Financial resources	Through this partnership we were able to obtain/increase financial resources.	Yli-Renko et al. (2001)
Knowledge	Through this partnership we were able to obtain/increase know-what/know-how/know-who.	Yli-Renko et al. (2001)
Opportunity costs	As a result of this partnership, we missed a lot of other interesting opportunities.	Dyer & Singh (1998)
Type of partnership	Organizational type of partner organization within sector: foundation, investor, NGO, social enterprise across sector: government, private, academic	Selsky & Parker (2005)

All items were measured on a 5-point Likert scale ranging from 1 = strongly disagree to 5 = strongly agree.

#### **4.4.3 Dependent variable: joint value created by the partnership dyad**

Referring to performance measures, performance is primarily assessed by inquiring of alliance managers and participating partners (Boateng & Glaister, 2002; Christoffersen, Plenborg, & Robson, 2014). In this vein, Lefroy and Tsarenko (2014) suggest measuring “perceived effectiveness from the NPO’s point of view” (p. 1960). Previous research states the strong equivalence between objective and subjective performance measures (Felicio et al., 2013; Kroeger & Weber, in press). In the specific context of social enterprises, the outcome of the partnership is measured by “the number of people reached” (Sakarya et al., 2014: 1712; see also Hahn & Gold, 2014; Provan & Milward, 1995, 2001). In line with those researchers, we asked the participating organizations the extent to which the alliance membership helped to increase the number of beneficiaries (Provan & Kenis, 2008, Andrews & Entwistle, 2010). We added and rescaled the answers given by each organization in the dyad.

#### **4.4.4 Independent variables**

##### **4.4.4.1 Joint resource base**

Both partner organizations contribute various types of resources to an alliance. Resources can be classified as either tangible or intangible (Penrose, 1959). In this study, both types are taken into account. Scholars consider financial resources and knowledge to be particularly critical for joint value creation (Cairns & Harris, 2011; Di Domenico et al., 2009; Sakarya et al., 2012). For the purpose of this study, we refer to Austin et al.’s (2006) framework of social entrepreneurship. Accordingly, we identify financial resources as tangible resources and knowledge to represent intangible resources (see also Meyskens et al., 2010). To jointly conduct their activities, partners pool their resources in a joint resource base (Luo, 2008; Selsky & Parker, 2005). As a measure of this joint resource base, we asked both

partners to report the amount of financial resources and knowledge gained from their partnership. We then accumulated and rescaled the value to binary categories.

#### **4.4.4.2 Joint opportunity costs**

Generally, opportunity costs are understood as the value of a resource in its next best use“(Peteraf, 1993: 184). However, “measuring costs is a difficult task in itself if this involves comparisons between current and discounted costs, or the estimation of opportunity costs” (Dowling et al., 2004: 314). Therefore, we measured joint opportunity costs by asking both organizations to what extent they missed many other interesting opportunities. We then accumulated and rescaled the value on a 5-point Likert scale.

#### **4.4.4.3 Type of partnership**

Generally, literature in the field of NFP management and social entrepreneurship differentiates among three sectors: public, private, and voluntary (Leadbeater, 1997). The public sector includes public institutions that are part of the state and represent public expectations and needs (Selksy & Parker, 2005). The private sector refers to all organizations that usually act for themselves and generate profits. Organizations that pursue social ends and do not focus on generating profits are part of the voluntary sector (Leadbeater, 1997). In our online survey, the partner organizations needed to specify the organizational type to which they belong: governmental/public institution, private business, foundation, investor, NGO, academic institution or other social enterprise. Based on the organizations’ respective answers, we constructed two groups of within- and cross-sector partnerships. Within-sector partnerships are understood as relationships between organizations in the NFP sector (Weerawerdana, 2006; Montgomery et al., 2012), in our case, relationships among social enterprises and impact investors, NGOs, and other social enterprises. Cross-sector

partnerships refer to relationships between organizations from two sectors (Selsky & Parker, 2005, 2010; Waddock, 1991); i.e., relationships between social enterprises and governmental/public organizations, private businesses, and academic organizations. For foundations, we showed whether each foundation was a for-profit or an NFP and coded them accordingly. Our sample consists of 73 (60.8%) within-sector and 47 (39.2%) cross-sector partnerships.

### **4.4.5 Control variables**

To strengthen our results, we additionally controlled for other variables that might have an influence on our dependent variable. First, larger firms might possess more resources and therefore might satisfy a higher amount of beneficiaries (Brüderl & Schüssler, 1990). Thus, we included the sizes of both organizations participating in the dyad, as indicated by the aggregated number of full-time employees. Second, partnerships evolve and common goals emerge after sufficient time has passed (Sakarya et al., 2012). We therefore integrate partnership duration as another control variable. Third, scholars argue that distance and different socioeconomic and institutional conditions might affect a partnership's performance (Andrews & Entwistle, 2010; Bönte, 2008; Gras & Mendoza-Abarca, 2014; Kroeger & Weber, in press). We therefore control for whether the partner organizations operate in the same or different countries. Similarly, whether the organizations operate in the same or different area of activity, such as health or education, might have an impact on joint value creation (Provan & Milward, 1995). Therefore, we also control for both partner organizations' areas of activity.

#### 4.5 RESULTS

The proposed hypotheses are evaluated applying ordinary least squares (OLS) regression. The analysis was conducted with SPSS 22 (IBM). Table 6 reports the mean, standard deviations, and correlations for the variables in the regression.

**TABLE 5: Means, Standard Deviations, and Correlations<sup>a</sup>**

Variables	Mean	s.d.	1	2	3	4
1. Increase of beneficiaries	4.10	.854				
2. Financial resources	.74	.440	.338**			
3. Knowledge	.89	.312	.293**	.039		
4. Opportunity costs	2.23	.923	.119	.005	-.057	
5. Type of partnership	.39	.490	-.114	-.072	.005	.056

<sup>a</sup> n = 120.

\*\* p < .01

When proving the assumptions for applying OLS regression, the normal distribution of the residuals could not be satisfied by our data, as indicated by the significant Kolmogorov-Smirnov test (see Table 7). Thus, neither the usual OLS regression nor hierarchical regression models could be conducted. Alternatively, we applied non-parametric tests and included an asymptotic bootstrapping procedure into the linear regression (Bradley & Tibshirani, 1993). For extra accuracy, we additionally integrated correction into the rudimentary percentile method by conducting an accelerated bias correction (Bradley & Tibshirani, 1993). The respective results can be found in Table 8.

**TABLE 6: One-sample Kolmogorov-Smirnov test**

		Standardized residual
N		120
Normal parameters <sup>a,b</sup>	Mean	.0000000
	Std. Deviation	.98304962
	Absolute	.132
Most extreme differences	Positive	.095
	Negative	-.132
Test Statistic		.132
Asymp. Sig. (2-tailed)		.000 <sup>c</sup>

<sup>a</sup> Test distribution is normal. <sup>b</sup> Calculated from data. <sup>c</sup> Lilliefors Significance Correction.

**TABLE 7: Results of Bootstrap Regression**

Variables	Model 1 <sup>a</sup>		Model 2 <sup>b,d</sup>	Model 3 <sup>c,d</sup>
	Estimate	SE	BC 95% CI	BC 95% CI
Financial resources	.619***	.161	(.296, .951)***	(.274, .967)***
Knowledge	.791***	.226	(.317, 1.228)***	(.333, 1.202)***
Opportunity costs	.130*	.076	(.003, .271)*	(.001, .259)*
Type of partnership	-.175†	.144	(-.479, .151)†	(-.473, .144) †
Constant	2.715***	.305	(2.170, 3.379)***	(2.171, 3.375)***
F	8.144***			
Adjusted R <sup>2</sup>	.194			

\* p < .05, \*\* p < .01, \*\*\* p < .001, †=Not significant

<sup>a</sup> = OLS regression. <sup>b</sup> = Nonparametric bootstrap regression. <sup>c</sup> = Nonparametric BCa bootstrap regression.

<sup>d</sup> Bootstrap results are based on 1000 bootstrap samples.

Referring to our *first hypothesis*, we state that an increase of joint resources enhances the joint value of partnership dyads in the NFP sector. In Table 8, we find highly significant unstandardized regression coefficients of .619 ( $p < .001$ ) for financial resources and .791 ( $p < .001$ ) for knowledge. Referring to financial resources, a unit increase will result, on average, in an increase of .619 in the dependent variable of joint value creation in that partnership. With respect to knowledge, a unit increase will result, on average, in an increase of .791 in the dependent variable of joint value creation in this partnership. Thus, our first hypothesis is supported. The *second hypothesis* suggests that an increase of joint opportunity costs is positively related to an increase in the joint value of partnership dyads in the NFP sector. The unstandardized coefficient of the independent variable joint opportunity costs is .130 ( $p < .05$ ). Marginally increasing joint opportunity costs by one unit (e.g., from 4 to 5) is positively related to a .130 increase of the joint value created in that partnership. Therefore, our second hypothesis is confirmed. Finally, our *third hypothesis* states that partners' different sector affiliations do not affect the joint value creation of partnership dyads in the NFP sector. The regression indicates that the impact of the type of partnership on the joint value created is not significant ( $p = .113$ ). Consequently, our last hypothesis can be verified. To test the robustness of our results from the bootstrap regressions, we additionally validated our hypothesis by using ordinal regression modeling. Ordinal regression is a type of logistical

regression and is best suited to the case in which the dependent variable is ordinal scaled, which might occur with Likert scaled data (Norusis, 2004). Regarding the construction of our model, a PLUM (Polytomous Universal Model) using logit links on SPSS was applied. Consequently, the ordinal regression model estimates the probability of a respective event occurring, given all events that are ordered before it. Applying ordinal regression modeling presumes that the regression gradient coefficients are equal for all of the ordered categories of the dependent variable. The test of parallel lines (Lipsitz, Fitzmaurice, & Molenberghs, 1996; Norusis, 2004) confirms that this assumption is satisfied by our data (see Appendix 1). Furthermore, a good model fit is given because the observed p-value of the chi-square is less than .0005 (Norusis, 2004), the p-values of the Pearson (.483) and Deviance Goodness-of-Fit (.559) are high (Wichmann & Hill, 2001), and the Pseudo-R-Squares of Nagelkerke is adequate (.232) (see Appendix 2). In Table 9, the results of our ordinal regression are presented, including parameter estimates, standard error, Wald statistic, significance level and the lower and upper bound of the 95% confidence interval. Both the estimates and their direction confirm the results of our bootstrapping regression. All variables, except for the type of partnership, have a strong influence on the dependent variable increase of joint value creation (see Table 9). Finally, we integrated the above-mentioned control variables into our ordinal regression model. The results for the control variables of full-time employees, duration of partnership, same activities/sector and same country do not show any significant effect on our dependent variable.



**TABLE 8: Parameter Estimates**

		Estimate	SE	Wald	df	Sig.	95% CI	
							Lower	Upper
Treshold	Increase of beneficiaries: disagree	-23.315	.906	662.641	1	.000	-25.090	-21.540
	Increase of beneficiaries: neutral	-20.742	.754	757.757	1	.000	-22.219	-19.266
	Increase of beneficiaries: agree	-18.890	.727	675.460	1	.000	-20.314	-17.465
Location	Financial resources: low	-1.403	.416	11.356	1	.001	-2.219	-.587
	Financial resources: high	0 <sup>a</sup>	.	.	0	.	.	.
	Knowledge: low	-1.733	.579	8.959	1	.003	-2.869	-.598
	Knowledge: high	0 <sup>a</sup>	.	.	0	.	.	.
	Missed opportunities: strongly disagree	-19.275	.792	591.675	1	.000	-20.828	-17.722
	Missed opportunities: disagree	-19.485	.752	671.402	1	.000	-20.958	-18.011
	Missed opportunities: neutral	-19.048	.779	597.157	1	.000	-20.576	-17.521
	Missed opportunities: agree	-18.740	.000	.	1	.	-18.740	-18.740
	Missed opportunities: strongly agree	0 <sup>a</sup>	.	.	0	.	.	.
	Within-sector partnership	.438	.361	1.471	1	.225	-.270	1.147
	Cross-sector partnership	0 <sup>a</sup>	.	.	0	.	.	.

Link function: Logit

a. This parameter is set to zero because it is redundant.

## 4.6 DISCUSSION

In this article, we set out to investigate the joint value creation of partnership dyads in the NFP sector. We integrated both alliance members' perspectives to better understand how joint value is created. More precisely, we built on a framework for social entrepreneurship developed by Austin et al. (2006) and investigated success factors impacting the partnerships' joint value creation. Moreover, we challenged and tested the cross-sector "hype" dominant in the NFP literature, assuming cross-sector partnerships are superior or more effective than within-sector partnerships. Summarizing, we analyzed the impact of (a) a partnership's joint resource base, (b) joint opportunity costs that occur in maintaining a partnership and (c) the influence of cross-sector partnerships on joint value creation. Prior research on interorganizational relationships in the NFP sector lacks empirical studies on the performance of alliances at the partnership level (Provan et al., 2007). In particular, empirical evidence of the superiority of cross-sector partnerships over within-sector partnerships is still needed (Koschmann et al., 2012). Thus, our empirical findings offer several contributions perpetually called for by prior research on interorganizational relationships.

### 4.6.1 Joint resources as key driver for joint value creation

First, our empirical study contributes to the literature on interorganizational relationships in the NFP sector. By demonstrating that a joint resource base is a key driver for joint value creation, we support previous findings from studies investigating the social performance of single organizations (Sharir & Lerner, 2009; Meyskens et al., 2010) and add one study to the limited database for the context-specific field of interorganizational relationships in the NFP sector. This literature, like the interorganizational literature in general, continues to lack quantitative studies on antecedents that foster the joint value of alliances and networks from a dyadic perspective (e.g., Koschmann et al., 2012; Provan et al.,

2007; Provan & Milward, 1995). We contribute to closing this research gap by demonstrating that the positive impact of resources on single NFP organizations' performance also holds for the partnership-dyad level. We therewith confirm the proposition stated by Austin and Seitanidi (2012a) that "the more both partners integrate their resources conjointly, the greater the potential for value creation" (p. 730).

#### **4.6.2 Partnership costs**

Second, our empirical findings contribute to the literature on interorganizational relationships in the NFP sector by elaborating on the often-neglected "risks and problems of ... partnerships" (Rundal, 2000: 1501) and by demonstrating the impact of joint opportunity costs on joint value creation. Our results suggest that joint value is opposed by significant losses due to (perceived) missed alternative opportunities. These losses occur because searching for partners and developing or maintaining a partnership requires huge amounts of time and resources that cannot be invested into alternative opportunities such as generating earned income through the sale of products and services (Das & Teng, 2000; Gras & Mendoza-Abarca, 2014; Luo, 2008).

Our analysis also contributes to the interorganizational relationship literature in the NFP sector by suggesting a new approach to assess alliances' performance. According to Lefroy and Tsarenko (2014), "academics and practitioners have yet to reach consensus on the best way to evaluate nonprofit-corporate alliance effectiveness" (p. 1960; see also Das & Teng, 1999). This research gap might count for the dyadic assessment of the effectiveness of partnerships in general because literature on interorganizational relationships lacks empirical studies at the alliance level (Provan et al., 2007). In prior research, only a few studies investigated whether specific partnerships had produced successful outcomes, and only a small minority of these studies conceptualized success in terms of the partnership's outcome,

(Dowling et al., 2004: 315). Scholars instead investigated a partnership's return for the single organization, not for the alliance (Koschmann et al., 2012).

In addition, there is an intense debate in the NFP sector about how to evaluate the social value created for a single organization (Kroeger & Weber, in press). It seems unsurprising that it is even more difficult to assess an alliance's joint value creation. Our empirical results show that joint opportunity costs increase with increasing joint value. We argued that these joint opportunity costs reflect the time and resources that the partner organizations need to invest to create the partnerships' joint value. Assuming the partner organizations attempt to balance the joint value generated through their partnership with the potential value generated by alternative opportunities, joint opportunity costs do indeed equal the joint value created. A high ranking of the missed opportunities with which both organizations are confronted due to maintaining the partnership would mean that an alliance creates a high joint value. Although our evaluation of joint opportunity costs draws on subjective ratings by the management team of both organizations, we argue that subjective ratings are a common management method that has gained increasing popularity in the last years (Kroeger & Weber, in press).

The downside of assessing joint opportunity costs instead of the joint value created is that noneconomic reasons for investing time and resources in a partnership, such as personal friendship of the alliance members' management (Di Domenico et al., 2009) or political pressure from government, might not be considered. Neither does this approach consider the barriers and costs that prevent an organization from leaving the alliance. Furthermore, missed opportunities are not the only result of investing in a partnership. An organization's membership in an alliance can also represent a new and attractive opportunity for the other participating organization (Villanueva et al., 2012), which is also not included in this new approach. Another downside of assessing joint missed opportunities is that the comparison of

“what might have happened in the absence of the partnership” (Dowling et al., 2004: 311) seems highly problematic because this comparison depends on a multitude of events and assumptions. A robust estimation requires a high level of experience with management and reliable information about alternatives.

Our analysis of (perceived) missed opportunities also contributes to the social network literature. Opportunities missed by an NFP organization because it is locked in a partnership can be understood as social liabilities (Weber & Weber 2011; Maurer & Ebers 2006). Social liabilities can occur, for instance, “when the members of the organization are no longer able to execute the required adaptations and changes to their social networks” (Weber & Weber, 2011: 258). In our case, this could occur if an existing alliance hinders the NFP organization from partnering with another, more appropriate organization or if the organization hesitates to initiate necessary changes, to serve another target group or even to leave the partnership due to, for instance, moral obligations. There is a significant research gap in the empirical studies that investigate the costs of networks and thus, the impact of social liabilities on organizational performance. This holds not only for NFP research but also for the literature on interorganizational relationships in general (Weber & Weber, 2011). We make two contributions to bridge this research gap. First, we suggest items that capture social liabilities in the form of missed opportunities. Second, our empirical findings suggest that social liabilities are positively related to performance because higher relationship-specific investments for developing and maintaining a partnership lead to a path dependency and reduce organizations’ flexibility to pursue alternative opportunities.

#### **4.6.3 Challenging the superiority of cross-sector partnerships**

Third, our empirical findings contribute to the literature on interorganizational relationships, NFP management and cross-sector partnerships by showing that costs and

benefits of cross-sector partnerships do not seem to have a greater impact on partnerships' joint value creation compared to within-sector partnerships. With this finding, we challenge the dominant reasoning of interorganizational relationships in the NFP sector. As outlined above, advocates for cross-sector partnerships often highlight that organizations from different sectors, with their divergent institutional logics, are likely to add different perspectives and complementary resources to an alliance. As a result, this literature assumes cross-sector partnerships as particularly capable and beneficial for the creation of new approaches to solve complex social problems (Herlin, in press; Lee, 2011; Parmigiani & Rivera-Santos 2011). However, our empirical results suggest that a certain degree of heterogeneity is already present in alliances of organizations from the same sector. Because target groups and social needs in the NFP sector are extremely heterogeneous (Kroeger & Weber, in press), the particular expertise, contributed by two NFP organizations to a partnership, might be sufficient to develop new approaches and to address the complex problems in a manner similar to that of cross-sector partnerships. Simultaneously, our results suggest that relationship-specific investments, which have been reported from interorganizational relationships within the commercial sector (Dyer & Nobeoka 2000; Weerawardena & Mort, 2006; Parmigiani & Rivera-Santos, 2011), are also present in cross-sector relationships (Austin et al., 2006; Selsky & Parker, 2005). Relationship building and maintenance costs are most likely even higher in cross-sector than in within-sector partnerships because cultures and institutional logics might be extremely heterogeneous between organizations from different sectors. Advocates/proponents of cross-sector partnerships might underestimate these costs. In summary, our results suggest that the costs and benefits of alliance membership cannot be explained by organizations' sector affiliation.

#### 4.7 IMPLICATIONS FOR THEORY

Our framework has several key theoretical implications. First, and most importantly, our work advances the literature on NFP management and social entrepreneurship by challenging the dominant endorsement that cross-sector partnerships are particularly beneficial for creating joint value. Our results even suggest that sector considerations are misleading when analyzing success factors for partnerships' joint value creation. By confirming the significant impact of joint opportunity costs and resources on partnerships' joint value creation and by rejecting the overall impact of sector affiliation, our analysis demonstrates that conventional success factors such as alliances' costs and benefits have an impact instead. We therefore recommend that scholars return to investigate the strategic fit and resource fit of alliance partners (Das & Teng, 1999) independent of sector considerations.

Challenging the superiority of cross-sector partnerships in the NFP sector, this article may also encourage scholars to intensify their investigation of within-NFP-sector partnerships. Austin and Seitanidi (2012a) assert that literature on interorganizational relationships in the NFP sector is characterized by "limited recognition of differences in value creation potential across different types of collaborative relationships" (p. 728; see also Weerawardena & Mort, 2006). Our results suggest that scholars seem to underestimate the potential of within-sector partnerships to create joint value. Thus, an important avenue for future research lies in analyzing how organizations in the same sector differ in knowledge and organizational culture and how these differences enable them to develop innovative solutions to social problems.

Furthermore, our empirical findings indicate a strong effect of joint opportunity costs on partnerships' joint value creation. Further analysis of the interplay between joint opportunity costs and joint value creation might bring valuable insights into research on partnership formation, resource transfer and joint value creation. Additionally, risks and

barriers that organizations confront when they enter into a cross-sector partnership might require more detailed consideration than in prior research.

Moreover, our work demonstrates the promise of empirical analyses from a dyadic perspective. Current research lacks such empirical studies (Koschmann et al., 2012). Applying a dyadic perspective for assessing social value that is mostly created through the joint action of several interventions at the same time is more precise than analysis of social value from the perspective of only one individual organization. Already, Provan and Milward have called for a dyadic approach in suggesting that evaluating joint value at the partnership level might be “both reasonable and desirable” (2001: 422) to “understand ... how collective outcomes might be generated (Provan et al., 2007: 480). Our study not only answers these calls but also points to a promising direction and calls for more empirical studies of this kind.

#### **4.8 IMPLICATIONS FOR PRACTICE**

Our article also provides valuable insights for practitioners. It might be particularly relevant for managers of NFP organizations and their stakeholders in the phases of “partnership formation” (Austin & Seitanidi, 2012b: 931), “partnership selection” (ibidem: 934) and “partnership design and operations” (ibidem: 937) of an alliance. At the partner-formation stage, our findings might encourage managers of NFP organizations to consider partnerships with other organizations within the NFP sector to be equally as attractive as cross-sector partnerships. Because joint value creation is not particularly determined by the sector affiliation of the partner organizations, NFP managers might rather choose partners based on other criteria such as the potential to generate economies of scale and scope (Das & Teng, 1999; Parmigiani & Rivera-Santos, 2011). This may help managers of NFP organizations to better “manage their portfolio of relationships within and across sectors” (Montgomery, 2012: 385).



In the partner selection stage, organizations that intend to partner with each other should specifically negotiate the amounts and types of resources that each partner contributes to the joint resource base. Partnerships' joint value is enhanced by the amount of resources eventually accumulated in the joint resource base, not the resources the partner organizations have generally on hand (Cairns & Harris, 2011). For instance, partnering with a large corporation might not be the best option per se. Other partners might contribute more resources to the joint resource base. However, we would like to emphasize that cooperating with a big corporation might also enhance an NFP organization's external legitimacy (Kumar & Das, 2007). That is, a corporation legitimizes an NFP organization by transferring resources to it (Human & Provan, 2000; Lambrich & Weber, 2014).

During the partnership design and operations phase, managers might specifically balance joint opportunity costs and partners' involvement. On the one hand, a more intense involvement by each partner organization might enhance the joint value created (Villanueva et al., 2012). On the other hand, an organization that becomes more deeply involved in a partnership misses many other potentially interesting opportunities.

### 4.9 CONCLUSION

As noted in the literature review, there are few quantitative studies that verify conceptual propositions about interorganizational relationships on a dyadic level in the NFP sector. Consequently, scholars risk developing common understandings that are too general/not differentiated enough to sufficiently reflect the complex reality. Drawing on our empirical results, we challenge one such common understanding, namely, that cross-sector partnerships are more beneficial to the partnering organizations per se. The complex interdependencies of costs and benefits—which we successfully prove has an impact on partnerships' joint value creation—suggest that partnerships' performance requires a more

differentiated investigation. Partnerships' joint value creation seems to be relatively more dependent on conventional determinants such as cultural fit and resource complementarity than on sector affiliation. We hope that our work encourages other scholars to investigate partnerships' performance in a more differentiated manner instead of advocating for cross-sector partnerships in general.

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**V APPENDIX**
**Appendix 1: Test of parallel lines<sup>a</sup>**

<b>Model</b>	<b>-2 Log Likelihood</b>	<b>Chi-Square</b>	<b>df</b>	<b>Sig.</b>
Null hypothesis <sup>b</sup>	109,710			
General	91,009	18,700	14	,177

<sup>a</sup>Link function: Logit<sup>b</sup> The null hypothesis states that the location parameters (slope coefficients) are the same across response categories.**Appendix 2: Model fitting information<sup>a</sup>**

<b>Model</b>	<b>-2 log likelihood</b>	<b>Chi-square</b>	<b>df</b>	<b>Sig.</b>
Intercept only	138,003			
Final	109,710	28,293	7	,000
	<b>Pseudo R-square</b>	<b>Goodness-of-fit</b>		
Cox and snell	,210		<b>Chi-square</b>	<b>df</b>
Nagelkerke	,232	Pearson	58,789	59
McFadden	,100	Deviance	56,756	59
				<b>Sig.</b>
				,483
				,559

<sup>a</sup>Link function: Logit