# Legitimation Strategies
# of Social Business Ventures

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# LEGITIMATION STRATEGIES OF SOCIAL BUSINESS VENTURES

## DISSERTATION

to obtain
the degree of doctor at the University of Twente,
on the authority of the rector magnificus,
prof.dr. H. Brinksma,
on account of the decision of the graduation committee,
to be publicly defended
on Friday the 14th of October 2016 at 14:45

by

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# Acknowledgements

Coming to the Netherlands to pursue doctoral research was not what I planned on when I was working in Palo Alto, California. Little did I know that the city of Enschede is one among the six sister cities to Palo Alto! The Twente region led by university of Twente remains a cauldron of entrepreneurial activity. I am forever in debt to Prof.Aard Groen and Dr.Kraaijenbrink for giving me the opportunity to be part of the Nikos research team.

Dr.Nair introduced me to Nikos. Very few people can have such an impact in our lives that we can mark our days as *life-before* and *life-after* meeting them. I would not be at this point in my professional life but for the perpetual encouragement and the incessant faith you have placed in me, Dr.Nair. I am ever so grateful to receive your mentorship. Your vision, values and generosity continue to inspire me in making a difference and going against the grind.

Prof.Aard Groen and Dr.Jeroen Kraaijenbrink brought my efforts to fruition. I cannot thank them enough for their trust and unending patience over the years. Aard: the innumerable resources you made available for me in terms of courses, data collection, conferences, introduction to people made my PhD journey an enriching professional experience. Thank you for your feedback and guidance. Jeroen: thank you for the countless meetings, timely and insightful feedback on the papers and overall a very positive disposition throughout. In addition to the thesis, thank you both for letting me teach early on in my PhD days.

My stay at Nikos was made memorable by all the colleagues over the years. My heartfelt thanks go to each one of them. Prof.Petra de Weerd-Nederhof helped me earn my BKO certification and was very supportive towards the finishing stages of my dissertation. Petra: thank you for your unceasing

encouragement and a glowing endorsement for my teaching contribution at Nikos. Hela Klaczynski and Gloria Rossini helped me ease into a new country and a new work environment. My fellow-aios made work, summer courses, conferences and informal get-togethers so much fun and worthwhile. Ellipsis, your friendship remains invaluable! Thank you Gabi, Natalie & Jim, Ellen & Rogier, Arjan & Silvia, Niels, Bjorn, Frederik, Danish and Tijs (shout out to all the oikos friends starting with Jost!) and Zubair for the camaraderie right from the early days. Annemarie, Ariane, Basil & Paula, Efthymios, Jaap, Laura, Linda, Martin, Michel, Mariska, Neil, Rainer, Rick, Sandor, Tiago, Kasia and Isabella: hearty thanks to your friendship and *samenwerking*! Raymond, special thanks for coming to my aid at a crucial moment. Divya, Monica and Marlies: our countless conversations on social entrepreneurship were both wonderful and humbling. Abhishta, Anna, Andres, Jorrit, Letizia, Maarten, Marcella, Milana, Tamara, Ruud: you made coming to work fun and every meal at work lively. I am grateful to Joyce and Monique for taking care of everything countless number of times. I dearly miss both of you. Special thanks to my friends and supporters, Aniek, Olga and Tejas from RUG. The students of UT who worked with me on research projects were most helpful in several ways whether it was data crunching or sound boarding my research ideas as they evolved. Aga, Alex, Aska, Nina M, Nina N, Sander and Yvonne - your support was vital to my research papers. Thank you Laura and Ines for helping me start the next chapter in entrepreneurship research. Thank you and my best wishes to each one of you!

I look up to Prof.Shaker Zahra and Prof.Tom Lumpkin whose work in social entrepreneurship literature has been a major source of inspiration and guidance in my research pursuits. Shaker & Patricia: thank you for your well-wishes and generosity. Tom & Justin: Your classes were the turning point in my understanding of social entrepreneurship. My gratitude also goes to frequent

visitors of Nikos such as Dr.Sarasvathy, Prof.Linton and Prof.Walsh for their encouragement and counsel.

The work of so many social entrepreneurs inspired me to change my focus to social entrepreneurship. I wish to thank all the entrepreneurs that took their time to share their experience with me. My field trip in India was enabled by Ashoka Fellow, Mr.Gijs Spoor and his team of social entrepreneurs at Auroville. I value the interviews with each one of them starting with Jessamijn who showed me how things worked in the real-world. Gijs introduced me to Ms.Pooja Warrier who ran the social incubator, Unlimited India in Mumbai. So many social entrepreneurs affiliated with Unlimited India and the incubator at Tata Institute of Social Sciences, Mumbai shared their social entrepreneurial journey. My gratitude and best wishes to them and their ventures that are bringing positive changes to social and environmental issues. Dr.P.Vijayakumar and Dr.Nadiya Marrakath: thanks a ton for arranging my stay and countless introductions! Mr.Muruganandham Arunachalam from my hometown is positively disrupting the women's access menstrual health solutions in India, Nepal and around the world. I immensely enjoyed meeting him and listening to his vision. Social entrepreneurship research came as an answer to my search for meaningful work!

On the occasion of my defense, I would like to thank the graduation committee members for their time and feedback. It is through the well-wishes, prayers and invaluable support over the years from my parents and sister, uncles and aunts, friends for life, and my wife, Kamal Shree that I have been able to pursue my dreams. I dedicate all my achievements to your love and affection.

Raja Singaram
Winter Park, FL
Oct 7, 2016

# CHAPTER 1: Introduction

## 1.1 Preface

Many of the social problems that receive scant attention from the government or the private sector are taken up by social entrepreneurial ventures (Santos, 2012). Owing to the multiple interdependencies involved in solving them, these issues are termed as "wicked problems" (Rittel & Webber, 1984). Consider a rural electricity provider or a low-cost sanitary napkin manufacturing venture. These ventures aim to solve the targeted social problem effectively while remaining financially sustainable in the long run. The origin stories of exemplar social business ventures highlight many of the same challenges encountered by commercial start-ups during their early days. Venture building tasks such as business model development, acquiring initial funding, partner and stakeholder management, product attributes and pricing etc., can be similar to an extent. Upon closer examination, researchers have identified that social business ventures are distinctly different from commercial ventures in their central mission, resource mobilization and performance measurement (Austin, Stevenson & Wei-Skillern, 2006). The broad variety of stakeholders that social business ventures need to manage is also a differentiating factor (Short, Moss & Lumpkin, 2009; Bacq & Lumpkin, 2014). Just as any new start-up, new social business ventures seek to surpass the liabilities of newness (Stinchcombe, 1965) in order to survive and grow. To attract a variety of resources they have to convince their early stakeholders that they are legitimate bets. The field of social

entrepreneurship as a whole is comparable to an emerging industry (c.f. Aldrich & Fiol, 1994) where the rules of engagement over venture building are still in a flux. As the field of social entrepreneurship is gaining traction, the legitimation efforts pursued by new social business ventures warrants research attention. In this dissertation, we study the legitimation strategies and the acquisition of different types of legitimacy by social business ventures through four empirical papers. We use content analysis of text data produced by social business ventures in different situations such as incorporation, funding and scaling. In the following sections of this introductory chapter, we outline the scope, clarify the theoretical approach, highlight the practical and theoretical relevance and finally, illustrate the structure of the dissertation.

## 1.2.1 Social Entrepreneurship: Definition and Beyond

In several review articles published on the phenomenon of social entrepreneurship, scholars have listed the various definitions of social entrepreneurship (Austin et al., 2006; Zahra, Gedajlovic, Neubaum & Shulman, 2009; Short et al., 2009; Dacin, Dacin & Tracey, 2011). At this point within the social entrepreneurship literature there is considerable convergence over the definition of the phenomenon. Santos (2012) has had a considerable impact on the definition debate. Following this article, the Global Entrepreneurship Monitor that tracks social entrepreneurial activity has adopted a stringent definition of the concept in 31 out of 58 economies around the world. Accordingly, the 'narrow' definition views social

entrepreneurial ventures as organizations that are driven by social value creation rather than value capture and are market-based rather than non-market based (Bosma, Schott, Terjesen & Kew, 2016). This is in close alignment with the definition we follow.

> "Social entrepreneurship encompasses the activities and processes undertaken to discover, define, and exploit opportunities in order to enhance social wealth by creating new ventures or managing existing organizations in an innovative manner." (Zahra et al., 2009 p.523)

To scope out the topic in a precise manner, these authors also explicitly identify what falls within and outside the domain of social entrepreneurship. Organizations with profit-making as the only motivation, philanthropic or socially responsible activities such as corporate social responsibility, non-profits, social service organizations (NGOs), all lie outside the domain of social entrepreneurship (Zahra et al., 2009). Having said this, from our field visits we observe that many ventures from the developing countries do register themselves as non-profit organizations but operationally they function as social business ventures in line with the defining criteria described above. This is primarily due to the extant legal structures that are available for the ventures to subscribe to. This made us argue that the nominal legal form must not be conflated with the organizational form. We use the acronym "SV" and the terms "social venture" or "social business venture" interchangeably throughout the chapters to denote the firms that qualify based on the definition of Zahra et al. (2009). The term "social enterprise" is used sparingly as a result since it may encompass a broader variety of firms

especially those in the non-profit sector which is not the primary point of interest in this dissertation. We go beyond the legal form, as registered by the ventures, to assess how they identify themselves and are operationally distinctive in our inclusion criteria.

## 1.2.2 Academic and Practical Relevance: Following the recent developments in Social Entrepreneurship

Social entrepreneurship as a practice has been receiving considerable support from various quarters in recent years. In this section we present a brief glimpse of some the developments in the social entrepreneurship ecosystem and how the research studies performed within this dissertation are connected to them. The empirical articles that are part of this dissertation constitute our attempt to contribute to this growing body of literature. Several industry reports published by organizations that track social entrepreneurship activity around the globe (for e.g., Global Social Entrepreneurship Network Report by Yunus Social Business[1], Social Entrepreneurship Report by the Schwab Foundation[2] etc.) point to the constant uptick in the practice that impacts millions of beneficiaries each year. The Global Entrepreneurship Monitor (GEM) reports that average prevalence rate of operating social entrepreneurial activity was 1.2% in 2015 (Bosma et al., 2016). Foundations like Ashoka, Echoing Green,

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[1] http://www.gsen.global/report-2015/_pdf/GSEN-Report-2015-From-Seed-to-Impact.pdf retrieved on Feb 25, 2016

[2] http://www3.weforum.org/docs/WEF_Schwab_Foundation_Annual_Report_2015.pdf retrieved on Feb 25, 2016

Schwab etc., not only provide monetary support but also train social entrepreneurs and their teams, connect the ventures to several resource networks and offer specific services such as impact measurement support. This support has enabled the starting of many highly innovative, low-cost product-based social business ventures instead of just services. Chapter 2 deals with a multiple case study of social business ventures that manufacture low-cost sanitary napkins.

The importance of social entrepreneurship has been recognized by governments and policy makers across the world. Most recently the parliament of European Union has adopted a resolution to support social innovation and social entrepreneurship to combat unemployment[3]. Several countries have enacted laws introducing new legal forms that can support social business ventures. For example, the benefit corporation (BCORP) legal structure is adopted in 30 US states and DC. State of California presents social enterprise with six legal structure choices including social purpose corporation and low-profit limited liability company (L3C). The United Kingdom enacted the Community Interest Company Law in 2006 to boost the growth of social enterprises. Chapter 3 deals with incorporation and survival of community interest companies.

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[3] http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+REPORT+A8-2015-0247+0+DOC+XML+V0//EN retrieved on Feb 25, 2016

CH 1: Introduction

Access to financing for social business ventures has been boosted by developments in the impact investment sector[4]. Apart from several program-related investments by prominent foundations in the form of finance-first and impact-first funds there is also an expansion in the range of asset classes from venture capitalists (Miller & Wesley, 2010). Studies have examined the challenges in impact investing (Ormiston, Charlton, Donald & Seymour, 2015). Alternate funding sources such as crowdfunding[5], microfinance, peer-to-peer lending have been investigated (Bruton, Khavul, Siegel & Wright, 2014). Added to this is the explosion in the social business plan competitions where new social business ventures can pitch for start-up capital. Chapter 4 deals with social business plan competitions and funding success.

The choice of organizational form coupled with legal considerations is a challenge that many social business ventures face. Ventures can register as non-profits, for-profits or can function as holdings that support both forms dubbed as hybrids. Scholars have opined that resource mobilization should be one of the primary determinants of legal form choice (Austin et al., 2006). Others have recognized that choice of the legal form depends on many factors including the prevailing institutional context (Townsend and Hart, 2008). The nature of the problems being solved may also require appropriate organizational forms (see Mair, Battilana & Cardenas, 2012). Chapter 5 deals with two distinct

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[4] http://bridgesventures.com/wp-content/uploads/2016/03/Investing-for-Impact-Case-Studies-Across-Asset-Classes.pdf retrieved on Feb 25, 2016
[5] http://www.practicalecommerce.com/articles/3140-13-Crowdfunding-Sites-for-Social-Cause-Entrepreneurs retrieved on Feb 25, 2016

models or organizational forms of social business ventures and their perceptual consequences. Here we tap into the social psychology and perceptions behind legitimacy judgments.

Besides responding to the developments in practice we seek to advance the discussion within the social entrepreneurship literature. As called for by scholars in the past, we:

a) apply established theoretical lens such as organizational legitimacy to study new venture building within social entrepreneurship (Dacin et al., 2011)

b) move beyond the individual social entrepreneurs to the venture in our level of analysis (Light, 2006)

c) move from exploratory case studies to large-scale quantitative content analysis (Short et al., 2009; Terjesen, Hessels & Li, 2016).

### 1.2.3 Problematizing for Legitimacy

In spite of the listed developments in the ecosystem, new venture building in social entrepreneurship is not easy. If the ventures were to tap into the support of the stakeholders, whether it is the government or the impact investors or even the beneficiaries being served, they have to prove their worth. The theoretical lens of organizational legitimacy, and by extension new venture legitimation, allows us to study this problem. One of the features that makes this choice attractive is the relationship between legitimacy and resource acquisition. Resources can decide the life and

death of a new venture (Zimmerman & Zeitz, 2002). But organizational legitimacy spans a vast body of knowledge and the literature is replete with multiple perspectives. In the following sections, we clarify our approach towards organizational legitimacy and specify the types of legitimacy we study that are relevant to venture building in social entrepreneurship.

## 1.3 Organizational Legitimacy Defined

Organizational legitimacy literature is one of the richest bodies of knowledge that has received research attention from organizational theorists for the past several decades. The evolution of the theoretical concept from its Weberian roots has been traced by Deephouse and Suchman (2008). The table 1.1, adapted from Bitektine (2011), lists the different definitions of organizational legitimacy from the literature. In this dissertation, we use the definition proposed by Suchman (1995) which has been often cited and used in the entrepreneurship literature in the new venture legitimation context.

> *"Legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions."* (Suchman, 1995 p.574)

**1.3.1 Types of Legitimacy**

Organizational legitimacy can be further divided into different sub-types based on the academic discipline within which it is being studied. Reviewing the typologies of legitimacy used by different studies, a recent review lists about 18 types of legitimacy (Bitektine, 2011: see table 2 and table 3 on p.154 & 155). In this dissertation, we have paid attention to two specific types of legitimacy namely, moral legitimacy and cognitive legitimacy. Moral legitimacy is also referred to as sociopolitical normative or simply normative legitimacy. We decided to focus on these two types because of their importance for new ventures that are especially getting started in new industries as can be witnessed from the activities of social business ventures (Aldrich & Fiol, 1994; Hunt & Aldrich, 1998).

Moral legitimacy, "is grounded in normative evaluations of moral propriety" (Suchman, 1995 p.572). It is also referred to as normative legitimacy or sociopolitical normative legitimacy (Aldrich & Fiol, 1994). As far as normative evaluations go, what is right and wrong is decided by the audience. For example, for-profit orientation, emphasis on returns to the stakeholders and aggressiveness against competition are deemed normatively legitimate for commercial ventures. Even though these traits may aid in the financial sustenance and long-term survival of the companies they are not considered appropriate by default in the social entrepreneurship realm. The mixing of social impact and market logics (Battilana & Lee, 2014) for social business ventures raises many

challenges. We explore them in the context of product-based social ventures trying to scale their new ventures in chapter 2. Our contribution to the moral legitimacy literature comes from moving beyond the moral propriety to observing the difficulties in fitting in with the normative requirements of market versus impact logics. We also identify the legitimation strategies driven by entrepreneurial innovation to satisfice the norms of two different institutional realms. Related to moral legitimacy is the variant sociopolitical normative legitimacy. "Sociopolitical legitimation refers to the process by which key stakeholders, the general public, key opinion leaders, or government officials accept a venture as appropriate and right, given existing norms and laws" (Aldrich & Fiol, 1994 p. 646). Sociopolitical normative legitimacy of nascent community interest companies, a legal form dedicated to social enterprises in the UK, and its impact on survival in the first three years is discussed in Chapter 3. We show how nascent ventures attempt to change and even create new norms through the use of specific legitimation strategies.

Cognitive legitimacy has been largely viewed as the *taken-for-granted* notion which evokes approval by default since the organization and its way of working are familiar to the audience. Another strand of cognitive legitimacy that has received little attention is that of *comprehensibility*. Cognitive legitimation in this view involves creating cultural models that provide, "plausible explanations for the organization and its activity" so that the stakeholders perceive it to be "predictable, meaningful and inviting" (Suchman, 1995 p.582). The comprehensibility aspect of cognitive legitimacy is applied in entrepreneurship studies that

deal with new venture legitimacy (Shepherd & Zacharakis, 2003; Pollack, Rutherford & Nagy, 2012) and we contribute to extending this literature. Chapter 4 deals with the cognitive legitimacy of new social business ventures and its effect on funding success. The sources of cognitive legitimacy and the discursive strategies through which it can be effectively argued for are identified and explicated.

**Table 1.1 List of Definitions of Legitimacy – adapted from Bitektine (2011)**

| Definition of Legitimacy | Source |
|---|---|
| "Appraisal of action in terms of shared or common values in the context of the involvement of the action in the social system" | Parsons (1960 p.175) |
| Justification of organization's "right to exist" | Maurer (1971 p.361) |
| Implied congruence with the cultural environment, with "the norms of acceptable behavior in the larger social system" | Dowling & Pfeffer (1975 p.122) |
| Activities that are accepted and expected within a context are then said to be legitimate within that context | Pfeffer (1981 p.4) |
| Array of established cultural accounts that "provide explanations for existence" | Meyer & Scott (1983 p.201) |
| "Social fitness" | Oliver (1991 p.160) |
| "The endorsement of an organization by social actors" | Deephouse (1996 p.1025) |
| "Acceptance of the organization by its environment" | Kostova & Zaheer (1999p. 64) |
| "The level of social acceptability bestowed upon a set of activities or actors" | Washington & Zajac (2005p. 284) |
| "The degree to which broader publics view a company's activities as socially acceptable and desirable because its practices comply with industry norms and broader societal expectations" | Rindova, Pollock, & Hayward (2006 p.55) |
| "A social judgment of appropriateness, acceptance, and/or desirability" | Zimmerman & Zeitz (2002p. 416) |

## 1.4 New (Social) Venture Legitimation: Scoping The Research Approach

Even though legitimacy has been studied under different disciplines from political science to organizational theory, the concept has been invoked in the study of new ventures within entrepreneurship for several years. The point where new venture creation and organizational legitimacy come together is to counter the effects of "liabilities of newness" (Stinchcombe, 1965). The strategic actions that new ventures can take to avoid the shortcomings of newness endow them with the necessary legitimacy to operate which in turn yields access to resources required for survival in the early stages (Singh, Tucker & House, 1986; Zimmerman & Zeitz, 2002). In his comprehensive review of new venture legitimation literature Uberbacher (2014) identified five theoretical perspectives that have been used by different studies namely, 1) institutional, 2) ecological, 3) cultural entrepreneurship, 4) impression management and 5) social movements. Synthesizing from these perspectives the author presents a 2 x 2 framework based on the *level of analysis* (micro versus macro) and *locus of control* on legitimation (audience-centered versus actor-centered). In this dissertation, we explicitly subscribe to the strategic action view that combines entrepreneurial action-centered view of legitimation combined with micro or meso rather than macro-level analyses. Also, the new venture legitimation studies subscribe to three implicit shared assumptions which apply to this dissertation namely, a) "Legitimacy judgments are similar among a new venture's audiences"; b) "The purpose of legitimation is to acquire legitimacy for a new venture."; c) "Legitimation has beneficial consequences for a new venture." (Uberbacher, 2014 p.680).

By extension, lack of legitimacy does not automatically translate to illegitimacy. In line with the research tradition applied in the commercial new ventures literature our approach to legitimation of social entrepreneurial ventures has an emphasis on,

1) *Strategic* rather than institutional approach to legitimacy (Suchman, 1995). The social entrepreneurs and their ventures through their managerial agency are seen to influence the constituents that are crucial to their success. Here the issue under consideration is not much about isomorphism -ventures looking alike - but that of legitimate distinctiveness – ventures trying to gain confidence from the audience that they would turn out to be successful.

2) Within the strategic approach, we study the *acquisition* of legitimacy rather than maintaining or repairing legitimacy in the face of controversy since we are interested in legitimation efforts of new ventures during their early years (Aldrich & Fiol, 1994; Dobrev & Gotsopoulous, 2010).

This set of choices lead us to particular sources of data and direct our analysis as would be explained later. In the following section we expand on each of the above said points in order to explain why such an approach is appropriate for studying new social business ventures.

## 1.4.1 Precedence of Strategic over Institutional Approach to Legitimacy

Suchman (1995) catalogs the literature on legitimacy into two prominent camps namely the strategic (Dowling & Pfeffer, 1975) and the institutional (Meyer & Rowan, 1977). In our approach to studying the legitimation efforts of social business ventures, we adopt the strategic perspective over the institutional. Legitimacy is described as an *operational resource* in the strategic approach as opposed to being a *set of constitutive beliefs* that direct action from the institutional perspective (Suchman, 1998). Even though both these perspectives are relevant and useful to the new venture building context, the strategic approach by placing the agency of legitimation in the hands of founder-managers is naturally appealing to entrepreneurship studies. Furthermore, within the strategic approach, legitimacy itself is considered as a resource (Ashforth & Gibbs, 1990) or as a means that would help attract the necessary resources from the new venture's constituents and therefore considered critical to the survival and growth during the early stages (Zimmerman & Zeitz, 2002). The more resources a start-up venture can accumulate the more legitimacy it earns in the eyes of the early stakeholders which leads to a recursive relationship between legitimacy and resource acquisition. We should acknowledge that the managerial decisions towards legitimation are not beyond the influence of extant institutional norms and pressures. Therefore, the presence of one approach does not automatically preclude the other. Even those scholars who use the strategic approach pay attention to the institutions simultaneously. For instance, previous studies have used a combination of

institutional and impression management approaches to explain legitimation (e.g., Elsbach, 1994). We submit that a transformational entity such as a social business venture has to look beyond the institutional headwinds in order to create new institutions that deviate from current templates and frames of reference. By observing the actions of the social business ventures, we document the micro-instances of the making of a new institution that can ratify the function and workings of these ventures distinct from commercially oriented for-profits and charity focused non-profits.

## 1.4.2 Acquisition of legitimacy

Earlier studies within the strategic approach have investigated the legitimation actions of organizations that were facing a controversy (Elsbach & Sutton, 1992; Elsbach, 1994). Part of the context in these studies was the presence of an on-going conflict between the focal organization and its stakeholders. Legitimation efforts in such cases are seen as remedial actions to assuage the damages. This prompted later observers to explain strategic legitimation as, "purposive, calculated and frequently oppositional" (Suchman, 1995 p.576). Also, the focus was on either "extending, maintaining or defending" of the legitimacy of frequently an established organization (Ashforth & Gibbs, 1990; c.f. Suchman, 1995). The use of strategic legitimacy in the new venture literature dropped the conflict element and brought the focus on legitimacy *acquisition* rather than maintenance or reparation. The time window of

observation thus became the first few years starting from the inception of the venture. A problem parallel to the one faced by social business ventures is tackled by Aldrich and Fiol (1994) who investigated how new organizations in emerging industries where the rules and norms are unclear or in a flux could legitimize themselves. They propose different entrepreneurial strategies at the organizational, intra and interindustry, and institutional levels to gain cognitive and sociopolitical legitimacy. It must be noted that the new organizations are trying to create new institutions for the emerging industry. Researchers point to the existence of, "a population level legitimacy vacuum" when there is uncertainty about the, "form and function of the new category of firms" (Dobrev & Gotsopoulous, 2010 p.1153) which is true for social business ventures. Similarly, Zimmerman and Zeitz (2002) have proposed a set of legitimation strategies that start from just *conformance* to the existing norms to *manipulation* and *creation* of new norms. We apply these theoretical propositions to the empirical context of social business ventures to study their legitimation strategies, primarily the acquisition of legitimacy.

## 1.5 Research Question and Dissertation Structure

The overarching research question of the dissertation is,

> *"How do social business ventures in their early stages acquire the requisite legitimacy from critical stakeholders and what is the effect of legitimacy on their organization in return?"*

Each study that is part of the dissertation derives its own specific research question from the overarching research question presented above. Table 1.2 provides the overview of the research questions, methodology and contributions of the studies. In the following paragraphs a brief overview of the studies and the findings are outlined. The implications of the findings from each study are discussed in detail in Chapter 6.

## Study 1: Moral Legitimacy of Product-Based Social Business Ventures

In this study we examine what constitutes moral legitimacy for a starting social business venture through a multiple case study of ventures that sell low-cost sanitary napkins in developing economies. For commercial ventures, approved templates of behavior exist in terms of pursuing various activities from inception such as registration, writing a business plan and the like (Delmar & Shane, 2004). But for new social business ventures the activities that confer legitimacy are not clear. The situation is complicated by the involvement of multiple stakeholders sometimes having conflicting expectations (Bacq & Lumpkin, 2014). The nature of the product, social context and beneficiaries also contribute to the complexity. Only those ventures that can successfully cross the legitimacy threshold can survive and scale (Zimmerman & Zeitz, 2002).

*Research Question 1: How do (product-based) social business ventures attain moral legitimacy threshold?*

Our findings reveal barriers to legitimacy of product-based social business ventures that solve a complex problem within menstrual health and hygiene sector. The strategies pursued by successful ventures in overcoming these barriers were catalogued. We describe how different types of moral legitimacy namely consequential legitimacy, procedural legitimacy, structural legitimacy and personal legitimacy are acquired by the ventures.

## Study 2: Legitimation Strategies and Nascent Venture Survival

The importance of legitimacy to the attraction of various resources for the growth of a venture is well established and the specific strategies that ventures could use have been deduced theoretically (Zimmerman & Zeitz, 2002). The introduction of a new legal form for social enterprises in the UK known as the Community Interest Companies (CICs) provides us with a unique opportunity to investigate the legitimation strategies of nascent social ventures. We apply the legitimation strategies of *conformance, selection, manipulation and creation* proposed by Zimmerman and Zeitz (2002) to empirically examine how new social business ventures attempt to achieve legitimacy. By observing the legitimation claims at the inception and following up them longitudinally over the first three years of their age, we examine the effect of legitimation on survival.

> *Research Question 2: What are the legitimation strategies used by nascent social business ventures and what is the effect of legitimation on organizational survival?*

Content analysis of the incorporation documents and annual filings of CICs enable us to observe the sociopolitical normative legitimation efforts. In addition to finding empirical proof for the legitimation strategies we are also able to identify how each of them is put into action by the CICs. We pay specific attention to manipulation and creation strategies since they are the deviations produced by the social ventures in their effort to building new practices for the social entrepreneurship ecosystem beyond just conforming to existing norms and practices. Also, we compare the legitimation efforts at inception and over time longitudinally between high performing CICs and those that dissolved to check the relationship between legitimation and survival. Our results show that the overall frequency of all the four above mentioned legitimation strategies were similar at the inception phase. But high performers show higher rates of all the four strategies starting right from the first year onwards. We provide more insights into the strategic nature of legitimation effort with manipulation and creation strategies being used more than conformance or selection.

## Study 3: Cognitive Legitimacy and Funding Success

Having explicated what constitutes legitimacy for social business ventures and the strategies they pursue in legitimation we turn our attention to cognitive legitimacy. Business plan competitions have emerged as a useful source of start-up funding for social business ventures. Those who participate in these competitions have to prove that they are not only

legitimate but also distinctive enough from their competition to be worthy enough to be funded (c.f. Navis & Glynn, 2011). Cognitive legitimacy would make the ventures comprehensible for funders and thus increase their chances of funding success (Shepherd & Zacharakis, 2003). The sources that confer cognitive legitimacy for social business ventures have not been delineated and their usefulness in attracting resources has not been investigated empirically. Hence,

> *Research Question(s) 3:* How do different sources of cognitive legitimation affect funding success of new social business ventures? Which discursive legitimation strategies are effective in helping cognitive legitimation of social business ventures to attract investments?

We perform content analysis of the funding applications of social business ventures participating in several business plan competitions conducted by Ashoka's Changemakers organization. We examine the differential contribution of various sources of cognitive legitimacy such as social innovation, social impact, venture growth and partnerships to funding success (c.f. Pollack et al., 2012). In addition, we also investigate effectiveness of discursive legitimation strategies such as rationalization and authorization (van Leeuwen & Wodak, 1999; Vaara & Tienari, 2008) employed by the ventures in making their legitimation arguments. We discuss the implications of cognitive legitimation in the context of social business ventures competing against one another.

**Study 4: Organizational Form Choice and its Perceptual Consequences**


In many parts of the world, available legal structures do not cater to the needs of social business ventures. Non-profits are not allowed to raise capital and for-profits may be viewed unfavorably by the beneficiaries or other stakeholders for their commercial orientation. In extreme cases even registration brings in undue attention causing problems with legitimation (Kistruck, Webb, Sutter & Bailey, 2014). Social business ventures' legal and organizational choice become complex issues for multiple reasons (Townsend & Hart, 2008). As a result, there is considerable variation in their organizational forms. Some are registered as non-profits while others are registered as for-profits. Some social ventures have holding-like hybrid legal structures. One of the reasons for the heterogeneity is the lack of a specialized or dedicated legal form (Nicholls, 2010) that can differentiate social business ventures from commercial ventures and cause-based non-profits. Community Interest Companies, Benefit Corporations are notable exceptions. Legitimacy and the judgments associated with it are perceptions that lie in the minds of the audience (Ashforth & Gibbs, 1990). From a social psychology perspective, the legal form of the social business venture may color the perception of the audience. Empirical proof based on the Stereotype Content Model (Fiske, Cuddy & Glick, 2007) found hitherto suggests that consumers perceive the warmth and competence of ventures registered as non-profit and profit differently (Aaker et al., 2010). We examine if signals that are intrinsic to the firm narratives of social

business ventures can influence audiences' perception of warmth and competence.

> Research Question 4: *How do social business ventures subscribing to different organizational forms differ in their expression of warmth and competence?*

In order to assess this, first we developed a dictionary of terms for the dimensions of warmth and competence (Short, Broberg, Cogliser & Brigham, 2010). Using computer aided text analysis software, we analyzed two set of firm narrative from successful SVs – a) those registered as non-profits and b) those registered as hybrids. Both the groups were equally similar in the expression of competence. We connect legitimation of SVs to competitive orientation of both organizational forms to derive theoretical and practical implications.

The complete set of constituent research questions by chapter, associated research methodology for each empirical study, and the main contributions are listed in Table 1.2.

## 1.5.1 Structure of the Dissertation

In this introductory chapter we have furnished the scope of the dissertation and clarified the research approach towards new (social) venture legitimation. We proceed to take an in-depth view at the legitimation strategies used in the nascent stages and relate them to two particular types of legitimacy, moral and cognitive, through the four empirical papers. We finally discuss what we can draw from the findings of each empirical paper towards the development of social entrepreneurship literature and new venture legitimation literature in our final chapter. Figure 1.1 provides a schematic of the structure of this dissertation in terms of constituent chapters.

**Table 1.2 Research Questions and Contributions by Chapter**

| Chapter | Research Question | Research Methods/Data Source | Contribution |
|---|---|---|---|
| 2 | How do (product-based) social business ventures attain moral legitimacy threshold? | Multiple Case Study | Explication of challenges behind attaining business and impact related legitimacy |
| 3 | What are the legitimation strategies used by nascent social business ventures and what is the effect of legitimation on organizational survival? | Content analysis of incorporation documents of community interest companies | Identification the different legitimation strategies with empirical proof of their effectiveness. Theoretical development of sociopolitical normative legitimacy |
| 4 | How do different sources of cognitive legitimation affect funding success of new social business ventures? Which discursive legitimation strategies are effective in helping cognitive legitimation of social business ventures to attract investments? | Content analysis of funding applications of social business ventures participating in business plan competitions | Explain the differential contribution of sources of cognitive legitimacy and accompanying discursive strategies on funding success |
| 5 | How do social business ventures subscribing to different organizational forms differ in their expression of warmth and competence? | Content analysis of firm narratives of established social business ventures | Application of firm stereotyping to social business ventures and examining if stereotyping is intrinsic to firm narratives |
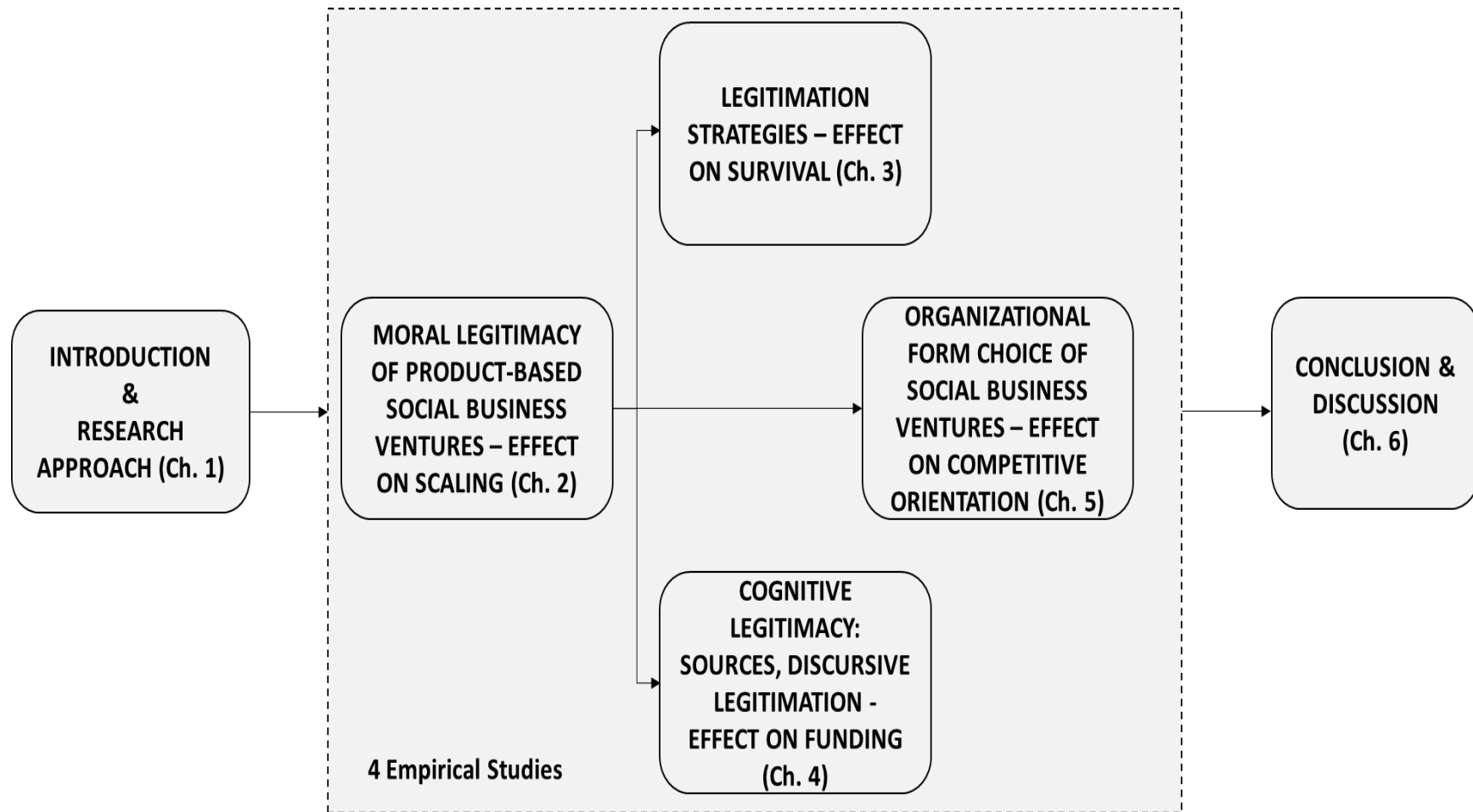
**Figure 1.1 Structure of the Dissertation**

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# CHAPTER 2: Moral Legitimacy of Product-Based Social Business Ventures: A Multiple Case Study

Moral or normative legitimacy of social business ventures that sell low-cost innovative products in the economically deprived markets draws from both market and impact logics. We conducted a multiple case study involving five exemplar product-based ventures in the Menstrual Health Management (MHM) sector to better understand the challenges faced by social business ventures in attaining moral legitimacy. Barriers to legitimacy that arise from a combination of three distinct factors namely, social context, nature of the competitive product and quality-affordability conundrum were identified. We explain how successful ventures were able to overcome these barriers to attain four different types of moral legitimacy – consequential, procedural, structural and personal – beyond threshold levels.

**Manuscript History:**

## 2.1 INTRODUCTION

Organizations emerging from environments characterized by the presence of multiple institutional logics have to be creative in attaining legitimacy and acceptance (Pache & Santos, 2013). Social business ventures (SVs) created to maximize social impact using entrepreneurial means fall under this category (Mair and Marti, 2006; Zahra, Gedajlovic, Neubaum & Schulman, 2009; Santos, 2012). Even though researchers have investigated organizational legitimacy in the context of non-profit organizations in the past (e.g., Singh, Tucker, & House, 1986) only a few of them have studied the nature of legitimation strategies of SVs in their current form. In addition to this, SVs that were studied in the past have been predominantly service-based. They serve their target population in domains such as learning and education, health services, civic engagement, job training and employment (Pache & Santos, 2013), microloans (Battilana & Dorado, 2010) etc. Extant literature in social entrepreneurship has not paid attention to legitimation challenges of product-based SVs that bring low-cost, frugal innovation based products to the market.

Consider some of the product-based SVs. Embrace is a social enterprise that sells a 'low-cost infant warmer' at places constrained by electricity. Ecofiltro and Hydrologic manufacture water purifiers that can provide affordable drinking water. SelcoSolar produces solar energy based lighting solutions for remote places off the electric grid. The product-based

SVs are different from service-based firms in many ways. The strategic focus of these product-based SVs is distinct and might be closer to commercial ventures (Gras & Lumpkin, 2012). We can observe much overlap in terms of capital investment, product management, business and revenue model formulation, operations and competitive orientation. Funding sources go beyond grants and donations. Sales based earned revenue becomes an important component in the long-term sustainability if the product-based SVs were to scale. In spite of the similarities with the commercial businesses, the socio-economic context in which SVs sell their products presents a different set of legitimacy requirements. In terms of establishing a viable business-revenue model, SVs are constrained since they try to serve those segments of population that live below the purchasing power parity in the base-of-the-pyramid markets (Hart & Prahalad, 2002). Whether it is working on HIV/AIDS or prevention of child labor for instance, SVs are up against a strong current of social norms and values among their target population. More often than not, the social ills these ventures try to ameliorate come with unshakeable stigma and are considered as taboo topics in the socio-cultural context where they operate making them vulnerable to organizational stigma (Paetzold, Dipboye & Elsbach, 2008). These factors render the gaining and maintaining of organizational legitimacy problematic. Recent research in social entrepreneurship has started to recognize the importance of investigating the sources and, sometimes unintended, consequences of legitimacy of social ventures (Kistruck, Webb, Sutter & Bailey, 2014; Ashforth & Gibbs, 1990). This provides additional impetus to undertake a detailed

approach to understanding new venture legitimation in the social entrepreneurship context.

Multiple research studies within social entrepreneurship literature have focused on *hybrid* organizations in order to understand how they integrate competing expectations from the business and the social impact realms (Jay, 2013; Battilana & Lee, 2014). In this study we move one step further to look at the moral legitimacy of product-based social business ventures which arises when the market and social impact institutional logics coalesce. Moral legitimacy of a new venture is conferred by, "suppositions of collectively valued purposes, means and goals" (Meyer & Rowan, 1977; Deephouse & Suchman, 2008). Beyond the instrumental benefits of organizational activity that provides the basis for pragmatic legitimacy, moral legitimacy is accorded when the stakeholders perceive that the organization abides by the normative expectations privy to its domain. When examined closely, moral legitimacy of an SV does not come exclusively from the moral imperative of responding to a social problem.  It also stems from the effective use of the business tools to achieve those ends (Dart, 2004). One of the reasons behind this plurality is the multiplicity of stakeholders that evaluate the legitimacy of SVs. For instance, impact investors might stress on the market logic of having a financially viable business model while NGO partners can underscore the social impact logic. These competing expectations complicate moral legitimation which warrants further research attention.

As an emerging discipline of research interest, social entrepreneurship literature has seen many case-study based empirical inquiries in the past (Short, Moss & Lumpkin, 2009). A common theme among the initial case studies is that they explored the phenomenon of social entrepreneurship with the intended outcome of defining and delineating it from closely related concepts (e.g., Alvord, Letts & Brown, 2004). Later studies have dealt with opportunity identification (Corner & Ho, 2010) and venture success in the start-up phase of SVs (Katre & Salipante, 2012). Researchers have successfully used in-depth single case studies to understand the institutional elements that give rise to the creation of SVs (Mair & Marti, 2009) and resolution of tensions due to competing institutional logics (Jay, 2013). Some studies have tried to unpack behaviors that blend market and impact logics (Katre & Salipante, 2012; Pache & Santos, 2013).

A case study-based approach is necessary since we are interested in understanding the micro-level organizational efforts of attaining new venture (moral) legitimacy of product-based SVs. In line with previous qualitative studies in social entrepreneurship (Corner & Ho, 2010), the context in which the SVs operate is taken into account to obtain a rich understanding of venture building. Armed with a theoretically inspired process model of legitimacy acquisition, we conducted a cross-case study of moral legitimation efforts of five successful SVs that operate in the women's Menstrual Hygiene Management (MHM) sector. The results help us understand the barriers to legitimation of product-based SVs. With

evidence, we show how different manifestations of moral legitimacy, consequential, procedural, structural and personal legitimacies, supply to the market logic and social impact logic in such a way that the barriers are overcome. A revised process model of moral legitimation is constructed from the case analyses. Theoretically speaking, we extend the understanding of moral legitimation in the context of social venture building. Social ventures and the entrepreneurs behind them can gain insights into solving problems related to moral legitimacy building which will ultimately help them in scaling their ventures.

## 2.2 THEORY

### 2.2.1 Legitimacy of New Ventures

The importance of legitimacy for the 'creation and survival' (Suddaby & Greenwood, 2005: 37) of new ventures has been widely researched. The oft-cited Stinchcombe's (1965) notion of 'liabilities of newness' cover the reasons for a high failure rate of new ventures owing to meager resource endowments during the early stages derived from low levels of legitimacy. Hannan and Freeman (1989) have argued that organizational survival is connected to the size of the firm. Their 'liabilities of smallness' idea deals with the challenges of a small organization trying to orchestrate the necessary resources for growth but failing against their larger counterparts who possess a relatively higher legitimacy. Aldrich and Auster (1986) integrate the issues of size and age in examining the strategic implications of each factor and the opportunities to overcome these liabilities. Bruederl

and Schuesseler (1990) extend the examination of organizational survival beyond 'newness' to firms that have been in the business for some time who eventually fail in their 'adolescence' when their initial resources have run out. Each of these earlier perspectives on organizational survival and growth invoke legitimacy as a means for gaining the required financial resources such as raising capital, costs associated with attracting and retaining talent, administrative and compliance costs (Khaire, 2010). This orientation within the legitimacy literature places the emphasis on the requirement of financial resources for new venture survival as a means to avoid the scenario where ventures go bust because they "ran out of cash". Whereas the financial resource centered approach works well for commercial ventures, the legitimacy requirements and the means necessary to attain this legitimacy are different for SVs. This has not been investigating in-depth in the extant literature. We address this gap in theory by investigating the additional requirements in legitimacy, their sources and relationship among one another. As outlined in the introductory chapter, we adopt the strategic approach to legitimacy (Suchman, 1995; Dowling & Pfeffer, 1975). Therefore, we expect that new ventures can acquire legitimacy by taking specific actions in a proactive manner.

## 2.2.2 Social Business Ventures

Social business ventures are started by social entrepreneurs in response to 'simultaneous failures of the market and government' (Santos, 2012:335, 343) in order to provide basic amenities to the economically and socially

disadvantaged segments of the population. Even though the overarching theoretical definition of social entrepreneurship is still in the making (Short et al., 2009; Choi & Majumdar, 2014), we subscribe to Zahra et al., (2009) who stress on the labors of a new venture towards exploitation of entrepreneurial opportunities for the creation of social wealth. We view SVs as ventures that are conceived and operated in a different way than traditional non-profits seeking to add earned income to their revenue mix (cf. Boschee, 2001; Alvord, Brown & Letts, 2004). The source of the said difference might originate from different aspects such as the presence of or a path towards a robust business model even in early stages, legal form choice, funding source preferences, partnerships, internationalization and so on. Furthermore, SVs also compete mainly against the commercial alternatives that are available in the market more than against each other. The commercially available products can be unavailable geographically as in the case of rural electricity or exorbitantly expensive for the consumers in the bottom-of-the-pyramid settings. In addition, many of these products are considered to be aspirational and a symbol of higher social status. This makes it difficult for social ventures to market their offering, which tends to be of satisficing quality made at a cheaper price, to their target consumer group.

## 2.2.3 Legitimacy of Social Business Ventures

In one of the earlier works, Dart (2004) applies Suchman's (1995) legitimacy types to explain the emergence and popularity of social

enterprises. He argues that the recent 'fascination for market-based solution and mechanisms' stands to accord the required moral legitimacy for social ventures especially from those stakeholders who fashion themselves as business minded. Although this may be the case, there are still doubts both in theory and practice as to whether the 'language of the marketplace' is enough to create and run viable social ventures. Other researchers have studied the rhetorical strategies that social entrepreneurs use to legitimize their venture casting themselves as heroes that are working to resolve social ills (Ruebottom, 2013). In exploring the microstructures of legitimation by social venture, Nicholls (2010) traces the work of 'paradigm building actors" such as governments that support new legal forms (B-Corps, CICs), foundations, fellowship organizations (Ashoka, Schwab, Echoing Green) that provide funding and other support organization that are in the process creating a viable social entrepreneurship ecosystem (also see Hervieux, Gedajlovic & Turcotte, 2010). In spite of the fact that previous work on legitimacy spans many levels of analysis, there is still a gap in understanding firm level issues that address the specific legitimacy problems of new SVs.

Recent empirical studies have just begun to pay attention to legitimation strategies and the consequences of legitimacy for social ventures. For instance, in commercial entrepreneurship, registration as a legal business entity is known to legitimize the new venture to a high degree and is often prescribed (Delmar & Shane, 2004). Kistruck and colleagues find that while such activity can be advantageous to

commercial ventures functioning in robust institutional environments, it can cut the other way for social ventures (Kistruck et al., 2014). They observe that for social ventures operating in less robust institutional environments, registration might be misconstrued as financial success and can be potential targets for criminal elements. Thus the very activity that imputes legitimacy can have unintended negative consequences. This raises questions as to how SVs can circumvent these problems by pursuing alternate routes to legitimacy when legal registration becomes problematic. Therefore, careful empirical investigation of the legitimizing activities of SVs is necessary.

**2.2.4 Moral Legitimacy**

Having shown the importance of new venture legitimacy and its importance to venture survival in the previous section, we turn our attention to a particular type of legitimacy. Moral legitimacy of an organization is, "grounded in [positive] normative evaluations of moral propriety" (Suchman, 1995: p.572, p.579). Audience accord moral legitimacy to a new venture when they perceive its activities as the 'right things to do.' Suchman (1995) further explicates that moral legitimacy can manifest from,

1) Consequential legitimacy that involves evaluations of organizational outputs and consequences

2) Procedural legitimacy coming from evaluations of techniques and procedures adopted by the organization

3) Structural legitimacy that deals with evaluations of categories and structure of the organization

4) Personal legitimacy that is a result of evaluations of leaders and representatives of the organization

Within the institutional theory literature, moral legitimacy is also referred to as normative legitimacy (Ruef & Scott, 1998) or sociopolitical legitimacy (Aldrich & Fiol, 1994). Beyond the moral, altruistic and prosocial aspects, the norms of the organizational domain determine what practices are approved (Suchman, 1995). For instance, profit maximization, competitiveness and focus on shareholder returns confer moral or normative legitimacy to commercial new ventures (Dart, 2004). Similarly, focusing on creating sustainable and positive change with respect to social impact confers moral legitimacy on social ventures. But social impact is not automatically self-evident. SVs would also need to be careful of the collateral effects and unintended consequences of their actions. We hope to clarify the complexity of the dynamics through the cross-case comparison of our sample SVs.

## 2.2.5 Legitimacy Threshold

The theoretical notion that there exists a legitimacy threshold beyond which new ventures have a very high chance of growth comes from the

work of Zimmerman and Zeitz (2002). These authors base their claim on three research disciplines namely, i) resource acquisition literature, ii) organizational growth literature and, iii) previous research on legitimacy. The legitimation activities from the market logic include incorporation, endorsements, sales achievements, networking, technology development and so on (Zimmerman and Zeitz, 2002: 428). But the moral legitimacy of the SVs also has the social impact component which equally contributes to the venture surpassing the legitimacy threshold. In order to achieve a better understanding of this we arrive the following research question:

*How do (product-based) social business ventures attain moral legitimacy threshold?*

Based on the reviewed literature from social entrepreneurship two tools were developed that would sensitize our approach to conducting the proposed case studies. First, we capture the essence of the two competing institutional logics that drive the moral legitimacy of SVs. A brief summary of the market and social impact logics of SVs is provided in table 2.1. Second, from extant literature a process model of moral legitimacy was constructed as shown in figure 2.1 below. Moral legitimacy is conferred when social ventures adhere to both business norms as well as impact creation norms. Hence, from the figure we can see that both market logic and impact logic supply to moral legitimacy. Attaining moral legitimacy is affected by nature of the competition in the market and social contextual characteristics. Ventures that can cross the legitimacy threshold

can survive and scale. We enter the field with this model as a starting template to begin our inquiry. From the findings of the multiple case analysis a revised process model is presented in the discussion section.

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                    ┌─────────────────────┐
                    │     CONTEXTUAL      │
                    │   CHARACTERISTICS   │
                    └─────────────────────┘
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**CONTEXTUAL CHARACTERISTICS**

**BUSINESS LOGIC**

**SOCIAL IMPACT LOGIC**

**MORAL LEGITIMACY OF A SOCIAL BUSINESS VENTURE**

**ADOPTION / SCALING OF THE SV**

Recursive loop that signifies
*legitimacy begets legitimacy*

**COMMERCIAL ALTERNATIVE CHARACTERISTICS**
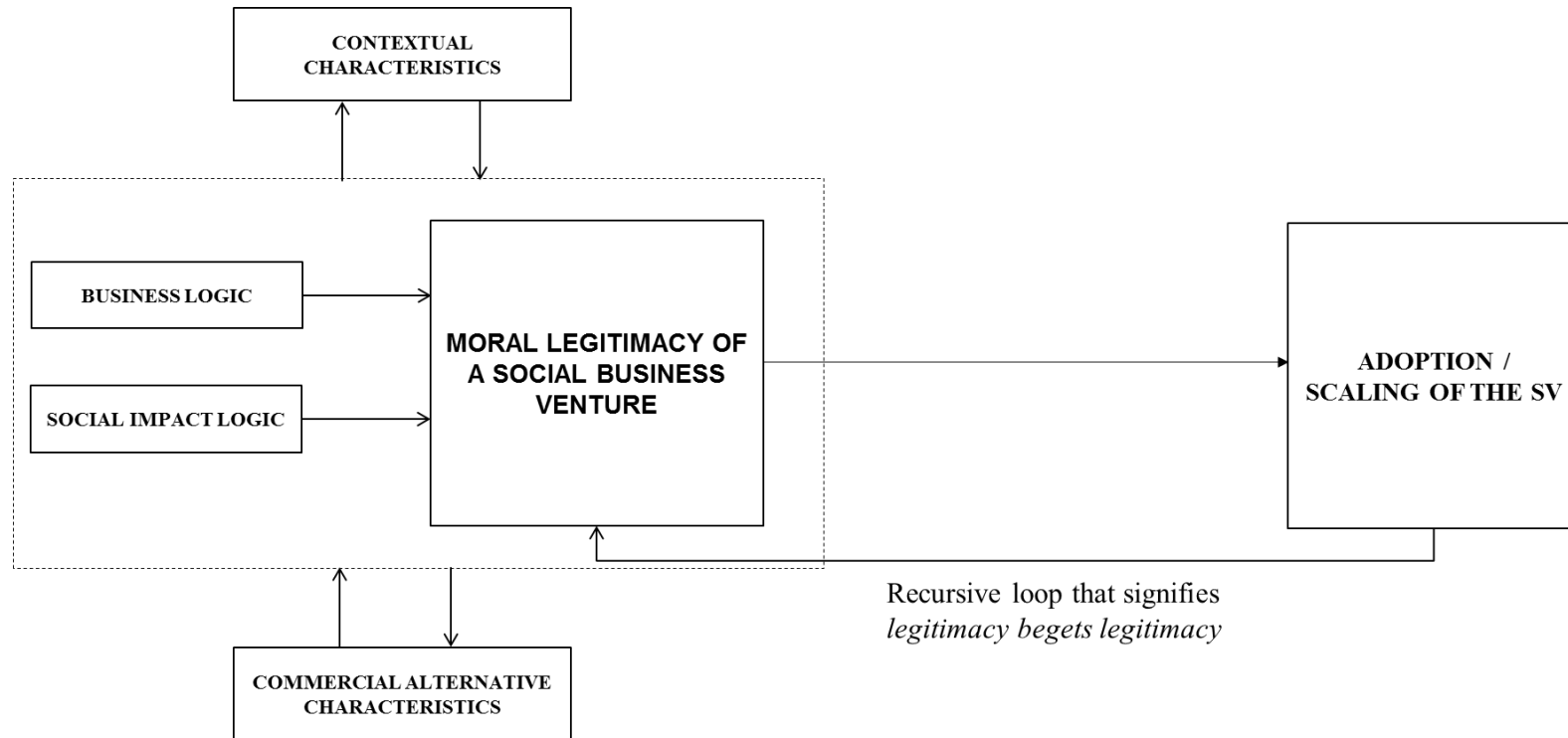
**Figure 2.1 Theory-based Process Model of Moral Legitimation and Scaling of Social Business Ventures**

**Table 2.1 Moral Legitimacy from the Perspective of Market and Social Impact Logic**

|  | MARKET LOGIC | SOCIAL IMPACT LOGIC |
|---|---|---|
| Description | Speaks mainly to the perception that the venture is a viable business. Helps with the acquisition of financial and non-financial resources to grow the venture. | Speaks mainly to the perception that the SV is creating intended social impact. Helps with overcoming the initial social ill related stigma and eventually gets the approval of stakeholders. |
| Primary Sources | Viable revenue model, positive cash-flows, production capabilities, design patents, partnerships and other traditional sources of legitimacy | Product design elements (such as discreet disposability), distribution outlets, customer support and education |
| Central Challenges | Entrepreneurship and new venture building related issues | Working against stigma and taboos in the social environment. Effecting a social change thereby driving product adoption |
| Who cares the most? | Funding sources – venture philanthropists, impact funds, grant making foundations etc., social business support providers such as incubators and accelerators | End customers that use the products and their social relations. |

## 2.3 METHOD

To answer the research questions as to, how social business ventures attain legitimacy threshold we used a multiple case-study research design (Edmondson & McManus, 2007; Yin, 2003). Our case study approach can be divided into two parts. First, we sought to acquire a deeper understanding of the legitimacy barriers faced by the SVs in their quest to surpass the legitimacy threshold. The second part of our analysis deals with identifying how the ventures overcome these barriers in order to scale.

### 2.3.1 Research Context

The research context we selected to study the legitimation efforts of SVs consists of new ventures that tackle the problem of Menstrual Health Management (MHM) in economically deprived geographies. The problem of MHM has been recognized as a persistent problem by UNICEF which estimates that one in ten girls that reach puberty missing school in economically deprived regions of Africa[1]. Even in a developing country such as India, it has been estimated that only 12% of the menstruating women are able to afford sanitary pads that are commercially available while the rest practice traditional methods that are unhygienic leading to a host to health issues[2]. The commercial products have remained unaffordable for a long time. This industry is dominated by only two major players worldwide. The reason for choosing this context is two-fold. Firstly, even though there are many charity-based solutions carried out in

several parts of the world with the help of NGOs, the problem has persisted as a health risk for women. In the past decade, some social ventures have now gone beyond the non-profit business model to manufacture sanitary pads that are not just affordable for the customers but can also become economically viable as a SV. Secondly, the challenges faced by these SVs are not limited to financial resource orchestration. They also face a huge social problem that has to do with countering the stigma and taboo associated with menstruation. These two aspects make the examination of these ventures ideal for the study of twin legitimacy thresholds, both entrepreneurial and social.

## 2.3.2 Data and Sample

We collected data from five social business ventures that operate in India and several African countries. Our sampling logic was purposive. Product-based social ventures that are in the MHM sector were selected. To observe the legitimacy barriers as well as the steps needed to successfully overcome them, ventures that have achieved some measure of scaling were chosen. The evaluation criteria included the number of years of operation, the size of the organization and the scale of the realized impact. Project-based organizations that just distributed the pads were not included. This resulted in the inclusion of five SVs. Since the sampling criteria were strict, we had to extend our focus across the developing world instead of restricting the research to a particular geography. Early on in the data collection phase, we were able to observe a repetition in the type of

challenges faced by MHM ventures since the socio-economic forces such as stigma and affordability were largely similar whether it was India or in Uganda. The table 2.2 below gives a quick overview of the ventures that are part of our study.

We collected data from print media looking for articles that carried interviews of the founders of these ventures. An initial profile of the venture using extensive data from their website and other secondary sources was created. Press releases, founder or employee interviews, research studies on product viability made by partnering organizations such as universities were used as additional sources of our initial profile construction. Following this, we conducted interviews with the founders either in person through field visits or over skype. When we were not able to reach a founder, a person from the top management team was interviewed. Each interview lasted from 45mins to over an hour. Interviews were audio recorded and transcribed. After studying the interviews in-depth we went back to the interviewees when we had additional questions or clarifications. In addition to the interviews, we also collected data from social media such as videos posted on youtube.com by the SVs or their Facebook page. User testimonials of the products in some cases and project documents in others were available. Data obtained from a variety of sources helped us triangulate our findings. A complete list of data sources for each venture are shown in table 2.3. In the following section, a brief overview of each case is provided. The SVs are kept anonymous as part of our agreement with them. Annotated version of the

article with extensive references to the sources is available by request. Besides the aforementioned sources of information in order to understand the influence of the commercial alternatives on the products sold by the SVs we decided to collect additional data in the form of video advertisements. Video analysis of commercials that advertise sanitary pads from the multi-national firms that dominate the market were conducted. These were chosen according to the geographical region. Videos in languages other than English were translated with the help of a native speaker and transcribed. With all the sources of data put together yielded more than 200 pages of written material.

The coding of the case data was conducted in multiple rounds with the help of two research assistants using both MS Excel and Atlas Ti 7.0. The case data and quotes were organized the following p*rovisional* codes (Saldana, 2009) to build the venture profiles and further analysis: 1) Venture history, Founders- and their background; 2) Product - Design Features, Production & Manufacturing, Patents; 3) Distribution – Channels; 4) Networks/ Partnerships; 5) Finance – Funding; 6) Price and quality; 7) Revenue model, 8) Customers, 9) Education; 10) Challenges. Some of the quotes from the data were assigned more than one code to capture the multiplicity of meaning conveyed via *simultaneous* coding. In addition to that we also used *magnitude* coding to account for the relative strength of one of the quotes on the result. Two coders built the code book by using an initial set of documents. Each coder then coded the data separately and compared notes to ascertain reliable coding and to resolve

differences. Once a high inter-rater reliability was ensured the remaining data was coded independently. Percentage agreement on the codes was 82% which conforms the guidelines set for qualitative coding (Flick, 2007). Second order codes for the understanding of different types of moral legitimacy were derived from these by looking at the themes that emerged from first-order coding. Within case and cross-case comparisons were done using the guidelines provided by Yin (2003). The results are explained and tabulated (Miles & Huberman, 1994) in the following section. Venture profiles in the following section offer a brief overview of each case.

**Case 1: Alpha**

Alpha was founded by two cofounders, Sophia from the US and Canadian Paul, in Uganda in 2009. The social business manufactures and sells cloth pads. They run a re-usable sanitary pad business also in Canada. Alpha's mission is to empower women and girls through business, innovation and opportunity. Alpha pads are made of poly-cotton material with a plastic layer for leak protection. They are sewn by about 50 Ugandan women and last up to one year. Alpha pads are sold in a menstrual kit which consists of holders, winged pads, straight pads and a carrying bag. The Deluxe Menstrual Kit costs $ 4.60, while the Comprehensive Menstrual Kit costs $ 5.70. Partnerships with a hospital chain and Plan Uganda make it possible to offer the kit for $ 2.10 and $ 2.70, respectively. Till date, Alpha pads are sold in only East Africa.

## Case 2: Beta

Beta is a social business venture started by a researcher with electrical engineering background and many years of experience in creating successful low-cost innovations. He introduced sanitary pads made out papyrus, a plant that grows in abundance in this part of the world. The pads made of primarily with a mixture of papyrus fiber and recycled scrap paper and shows excellent absorbent properties. Armed with funding and support from Rockefeller foundation, Beta was able to make 95% biodegradable sanitary pads at an affordable price for the locals. The venture employs refugee women and provides them livelihood through the United Nations Refugee Agency, also known as UNHCR. The production has been replicated in three different UN refugee camp sites in Uganda and UNHCR buys nearly 90 percent of the production output that has crossed 4 million pads per year.

## Case 3: Gamma

Gamma is a social business that was established in Tamil Nadu, South India, in 2010. It has been founded by the coming together of three women social entrepreneurs hailing Australia, the Netherlands, and India under the umbrella of Auroville Village Action Group (AVAG). Its mission is, "to promote and revitalize menstrual practices that are healthy, dignified, affordable, and eco positive". Gamma's cloth pads consist of an absorbent flannel and leak-proof layer made of Polyurethane laminate (PUL). They are reusable up to 75 washes. The pads are produced by 10 local, economically disadvantaged women who are members of AVAG's self-

help groups. They are sold both in India as well as Western markets. Gamma's pads are sold through online stores to particularly UK, Germany, Italy and Netherlands. In India, they are made available at about $ 1.40 per pad in high-end shops. For every pad sold in the international market, a donation of $ 1.30 is credited to Gamma's 'Pad for Pad' scheme, which enables a girl from rural India to get a free cloth pad. Gamma's has worked out a profit sharing with local women who stitch the pads. They have developed education modules to break the taboo and work towards enabling women's empowerment.

## Case 4: Delta

Delta was founded in 2011 by the three classmates from college. Julie and Veronica are from Denmark while Maxie is from Germany. Its main office is in Berlin but most of their field work and sales takes place in Kenya. Delta makes a menstrual cup made out of 100% medical grade silicone that needs to be inserted into the vagina in order to capture the menstrual blood. When it is full, it is emptied and inserted again. In order to assure hygienic use, the cup must be boiled for five minutes and then stored in a prescribed bag (sold along with the cup) once a month between menstrual periods. It is reusable for up to 10 years. Under the supervision of a Danish medical company the Cup is manufactured in China.

In Kenya, Delta's main target group consists of women between 15 and 35 years of age at both upper-income and lower income levels. These segments are reached via two different revenue models. In order to reach

the wealthier customers, the Delta's cups are distributed through the extensive network of a leading distributor of pharmaceutical products in Kenya, for approximately $18. However, Delta's main goal is to enable underprivileged girls to go to school without being afraid of leaking during their period. It is currently targeting the school girls in the slums of Nairobi, namely Kibera, Kawangware and Korogocho. In order to reach these girls, Delta follows two distribution strategies. First, it works closely with NGOs that purchase the product in bulk sales and distribute it for a subsidized price in local communities. Second via cross-subsidization, for every cup sold in the Western European market at $35, a Delta Cup for a Kenyan school girl through a 'Buy One, Give One' scheme.

## Case 5: Zeta

Finally, the story of Zeta is quite unique. The founder of this venture is chosen as one among the Times magazine's 100 most influential people for the year 2014. He almost single-handedly designed and developed an entire production unit of making low-cost sanitary napkins. His start-up has produced over 600 machines that are sold to women entrepreneurs in the most rural parts of India. They make their own brand of sanitary pads. In turn, these entrepreneurs sell the sanitary pads locally. They also employ a small group of women as employees since the machine can produce large quantities of sanitary pads per day. The founder's goal is creating a revolution in the industry dominated by a handful of commercial companies.

**Table 2.2: Firm Profiles of the Social Business Ventures**

| # | Firm Name | Founding Year | Product | Business Model | Markets |
|---|---|---|---|---|---|
| 1. | Alpha | 2009 | Washable cloth based pad line in multiple models | Subsidized sales in BOP; Full price sales in Western markets | East Africa and Canada |
| 2. | Beta | 2005 | Disposable and 95% bio-degradable pads from papyrus and recycled paper scrap | 90% sold to UNHCR; 10% at affordable pricing to locals | Uganda |
| 3. | Gamma | 2010 | Washable cloth based pad line in multiple models | Local sales; Cross-subsidization by selling in Western markets for a marked-up price; 'Pad-for-pad' scheme | India and multiple markets in Europe and western hemisphere |
| 4. | Delta | 2011 | Re-usable menstrual cup | Local full-price as well as subsidized price sales; Sales in Western Europe supports a "Buy One, Give One" program in Kenya | Kenya and Western Europe |
| 5. | Zeta | 2005 | Entire sanitary pad production unit | Selling of the machines – (600 machines sold to date | 23 states in India |

**Table 2.3: Data Sources for the Case Studies**

| # | Case | Data Sources |
|---|------|--------------|
| 1. | Alpha | Management team interview, media articles, user testimonials, employee interview, radio interviews, documentary videos, Facebook page, website data, annual report, research report |
| 2. | Beta | Media articles, founder interviews*, video documentaries, Press releases, Project documents |
| 3. | Gamma | Multiple (longitudinal) interviews with 2 co-founders, product test report, media articles, Facebook page, documentary videos |
| 4. | Delta | Management team interview, user testimonials, radio interview (translated from German), website data |
| 5. | Zeta | Founder interview, full-length documentary film, media articles, website, videos |

  * Secondary source due to lack of access

## 2.4 FINDINGS

## 2.4.1 Barriers to Moral Legitimacy

Based on the analysis we identified three major barriers to moral legitimacy of product-based SVs. They stem from a) the social context where the ventures operate, b) nature of the competitive product offering and, c) quality-affordability conundrum. All of these factors are interrelated and they, in turn, affect both the market logic and the social impact logic components of the moral legitimacy. This list is by no means exhaustive but is a reflection of saturation of the findings arising from repeated observations.

*Social Context.* Contextual characteristics were found have a major say in the acquisition of legitimacy of the product-based SVs selling menstrual health solutions. The stigma attached to the issue of menstruation renders setting up the social business difficult. Customers are not ready for adoption of the product and sometimes question the commercial nature of the SV owing to historical distrust of aid-related activities to solve the issue. Locally manufactured products are not considered to be of high quality compared to the imported goods. Power imbalances between the genders and hierarchical family structure where men decide whether to allocate money for women's health needs constraints the ability of the women to buy the product. In spite of spending more money on alcohol consumption on a regular basis, men are found not to prioritize spending on menstrual health of the women in their family in

certain geographies. Thus the problem is not just affordability. Furthermore, impact investors may not consider menstrual hygiene as a critical problem to be solved as opined by one of the founders below. Other quotes that follow substantiate the above-said arguments.

> "menstruating women and girls are wrongly considered to be 'contaminated, dirty and impure'… It's a challenge to secure funding because menstruation is not seen as a critical or life-threatening issue." (Alpha)

> "Everything coming from outside Uganda is cool and a success. The opposite is true for local products" (Alpha)

> "If there is income, it resides mainly with the males of the family, who will not necessarily prioritize scarce resources on purchasing expensive female sanitary protection" (Delta)

> "The best feedback we've ever received is that the girls are so happy because they are no longer dependent on asking their fathers or boyfriends for money every month to buy pads, something that is often very shameful to ask for" (Delta)

*Nature of the competitive product offering.* Product-based SVs offer a solution in competition with commercially available alternatives which are sanitary napkins produced by large multinational firms. Even though the price of the commercial product is more than what the customers in the bottom of the pyramid market can afford, it does command some attractiveness. Two aspects regarding the commercial

pads recurred time and again in our case analyses and video coding of the advertisements namely, disposability of the used pads and aspirational quality of the costlier alternative. Disposability is related to the stigma attached with the usage of sanitary napkins. Commercial use-and-throw pads can be discretely disposed, a feature not shared by cheaper alternatives such as washable (reusable) pads and menstrual cups. As one of the studies found,

> "The most common challenge in cleaning the cup was lack of private place to clean it and fear that others will see…" (Delta)

A founder of a cloth-based reusable pad venture observed that,

> "We have faced a lot if resistance at times especially from [local] NGOs who have really decided to focus on promoting disposable sanitary napkins. They have fully adopted a mindset… that cloth is unhygienic and old-fashioned and is a practice that should not be encouraged." (Gamma)

> "Surprisingly it was the doctors we met who needed convincing. They were all female doctors but they had all these assumptions about cloth pads being unhygienic and that girls can't be expected to wash cloth pads, and would need to get their mothers to do it." (Gamma)

Moreover, the commercial alternative is both perceived and marketed as an aspirational product that signals upward mobility of the social status of the customer. Advertisements repeatedly show young girls

engaged in challenging activities such as playing sports or attending job interviews. The voice-over messages talked about increased confidence, avoiding shameful accidents and a positive attitude besides highlighting superior product design features. Therefore, even though the commercial alternative is unaffordable, its appeal as a high-quality option with attractive functionality does pose a threat to the legitimacy of the product offering from the SVs. One of the users said that,

> "Local pads are cheaper but they are bulky and not nice. I like Always. I like the commercials. Most Kenyan ladies are Always users."

Furthermore, when aid organizations collaborate with multinationals to distribute the commercial pads for free for a short period of time, the sales of the SVs is adversely affected.

*Quality-Affordability Conundrum.* One of the first things that the SVs realized when they entered the market was the challenge involved in balancing the cost of production and pricing. New ventures in the MHM sector incur a whole host of costs in their attempt to produce a quality product. For instance, right raw materials with excellent absorption capability and easy availability had to be sourced. Manufacturing processes were streamlined through iterative research and development activities. Employees needed training and the distribution channels had to be figured out. Each of these requirements affected the manufacturing cost of the pads and increased sales price so that the SVs can break-even. The product had to be designed well to appeal to the customers in terms of

usability. At the same, the product has to be priced in such a way that the prospective customers are able to buy them. Some of them have the opportunity to get napkins free from charity based organizations in certain locations but that was only a temporary solution. Some of the manufactures turned to reusable cloth-based pads to keep the prices low for the customers. As discussed before, reusable product design could not circumvent discreetness and disposability. A quality product with manageable manufacturing costs adheres to the market logic. Setting a higher price to break even affects social impact since excessive profits are shunned by the partners and customers. This causes barriers for attaining moral legitimacy. The following quotes illustrate these arguments.

> "The product is designed to be a low-cost intermediary, in between unhygienic rags and unaffordable disposable products… This means keeping the per unit cost competitive." (Alpha)

> "There have been lots of logistical and production hurdles in terms of sourcing the right types of materials, trial and error with different patterns and procedures, and keeping ahead of the whole process." (Delta)

In summary, the interaction between the social contextual characteristics, nature of the high-cost high-status commercial product alternative and solving of the quality-affordability puzzle raises complexity of new SVs achieving the required legitimacy both as a viable business and a trusted impact-driven venture in the evaluation of the stakeholders. In the following section we capture as to how the ventures overcame these barriers. Acquisition of each type of moral legitimacy,

consequential, procedural, structural and personal, is shown in the following sections.

## 2.4.2 Consequential Legitimacy

The consequential legitimacy of SVs comes from the outputs produced by the organizations. Owing to their emphasis on alleviating a social problem, consequential legitimacy supplies mainly to the social impact logic. From our analysis we found three levels of outputs - primary, secondary and tertiary - that accord consequential legitimacy to SVs. The primary level is the intended outcome produced by the SV to solve the social problem at hand, in this case, creating an affordable solution to the menstrual health needs of the women.

> "[We] provide effective, low-cost protection to every girl and woman. Sells for 50% less than other brands." (Beta)

The secondary level of outputs come from related impact closely connected to the primary output. For instance, SVs highlight the opportunity to improve girls' education through the solving of the primary social problem by reducing absenteeism rates.

> "As many as 10 per cent of school-aged girls miss school because of it. The effect of these missed days is devastating, with girls missing up to 20 per cent of their education, thereby increasing the

likelihood of dropping out, earlier marriage and pregnancy, as well as limiting career options." (Alpha)

"An Oxford University study in Ghana found that when puberty education and sanitary napkins were provided to girls, absenteeism was dramatically reduced, with an average of 6.6 days per term saved per girl" (Alpha)

"I realized that the basic reason girls were missing school was because they could not afford sanitary pads during the menstruation periods…" (Beta)

Finally, at the tertiary level of consequential legitimacy, SVs tout their environmental sustainability outputs and employment creation in the local population. The effect of disposable commercial alternatives piling up on landfills has caused havoc on the environment and the SVs are being careful in their choice of materials used[1]. One of the ventures (Beta) chose papyrus that can be sourced widely from local environment and does not use any chemical additives to make the sanitary napkins. They claim that their product is 93% bio-degradable. The remaining 7% comes largely from the packaging material. Others (alpha, delta, gamma) have opted the reusable way to reduce the environmental impact. These choices reflect the environmental commitment of the SVs and shield them against inadvertently creating another problem while seeking to solve the healthcare issue. In addition to environmental benefits, SVs also are creating jobs for the local men and women at the manufacturing plants where the pads are made. One of our cases (zeta), does not sell the products directly to the customer but sells the equipment to women entrepreneurs

who can then produce and sell pads under their brand name. This has created a lot of women micro-entrepreneurs who train and educate their own sales force. Employees are also taken on-board as partners and some of the SVs have instituted profit sharing in a bid to reinvest the money earned from sales. Thus consequential legitimacy is boosted by actions that highlight the appropriate outcomes at three different levels. By producing these outcomes SVs are able overcome the legitimacy barriers described above.

### 2.4.3 Procedural Legitimacy

Procedural legitimacy is acquired by using the right means to achieve the intended outcomes. It is not enough that a social venture is able to produce the desired outcomes to earn consequential legitimacy. It is also necessary that outcomes result from approved techniques and procedures (Suchman, 1995). From the social impact perspective ventures should guard against exacerbating the problem they are trying to solve inadvertently or otherwise. For example, norms of the market logic would require that SVs run on sales based earned revenue. Simultaneously, social impact logic would caution against a potential mission-drift from too much focus over sales. We found the following techniques used by SVs towards earning procedural legitimacy namely, cross- subsidization of revenue, operational efficiency, attention to product design and usability and employee socialization.

*Cross-subsidization of revenue.* As explained in the quality-affordability dynamic, SVs are constrained by the purchasing power of the customers while pricing the pads. To bridge the difference between manufacturing costs and sale price they started to export the products to Western countries. Gains from profit margins are invested in research and development besides making up for the cost difference. Delta exports their reusable sanitary napkins to 14 countries including those in Europe and North America. Alpha has partnered with an organization that sells pads in the west on a 'buy one, give one' to generate capital for its operations in Africa. Gamma has three different types of sales options. First, they sell to customers at upper-income level through a supermarket chain at a competitive price point. Second, they partner with NGOs that buy in bulk and distribute their product in the slums. Finally, they sell at a higher price in the Western markets and use a 'buy one, give one' model to reach more customers in the economically deprived regions. SVs in the MHM sector are capitalizing on the sustainability trend of consumers preferring reusables in the developed markets to increase their sales. For legitimacy, exporting of the products has resulted in positive evaluation of product quality. Fair pricing proves that the SVs are committed to creating a positive impact than merely interested in monetary profits (social impact logic) and aids better adoption of the product. The sales revenue based cash-flows receive appreciation from investors (market logic). Thus different ways of cross-subsidization ensure that the procedures used for revenue generation are appreciated as legitimate choices both from the market and impact standpoints.

*Operational efficiency.* The environmental impact of commercial sanitary pads due their chemical composition is a factor that SVs often underscore while arguing for a better alternative. Many of them are careful in designing manufacturing operations that do not affect the environment in a significant way. For example, Beta uses solar power-based electricity and has incorporated the use of sunlight in the production to reduce the carbon footprint. Alpha's manufacturing process completely avoids the need for electricity and therefore aids the setup of manufacturing facilities in rural areas. Thus SVs stand to gain procedural legitimacy through manufacturing techniques. Zeta obtained a patent for their manufacturing equipment. Others have trademarked their product. Such investments yielded recognition among commercial partners and investors.

*Attention to Product Design and Usability.* Customizing product design to the needs of the customers is an important aspect for increasing product appeal. The SVs found out that unlike the tampons sold in the west, women in the developing countries preferred external pads. The SVs also had to make design adjustments in terms of size, thickness, shape, color, packaging, accessories such as holders and liners etc. In spite of these improvements, concerns remained about the availability of water and privacy to wash the reusable pads. With limited waste management infrastructure girls in schools could not find a way to dispose the used pads and were taunted by boys. This prompted Beta to build incinerators on school premises. In addition to its functional utility of used pad disposal, the incinerator also served to counter the stigma of using sanitary pads by

young girls. Thus attention to product design and help with disposability (usability) contribute to the procedural legitimacy of the SV.

*Employee socialization.* A direct benefit from the SVs covered are the employment opportunities that they have generated. Pads are made by and consumed by the local women. They act as ambassadors to their own product increasing the legitimacy of the option. Most of the profit made by the SVs are reinvested in the community or towards further research and development. Employees hired at lower levels have grown to become managers. The local market knowledge of the women is an asset that SVs could leverage to scale up sales. For example, Beta has set up manufacturing in refugee camps run by United Nations. The UN also buys 90% of the produced pads. They report that 70% of the money invested by UNHCR goes towards paying employee salaries. Zeta has sought to turn local women into micro-entrepreneurs by arranging them to buy the manufacturing equipment from them through a bank loan. Providing local employment and profit-sharing arrangements have increased the procedural legitimacy of the SVs.

## 2.4.4 Structural Legitimacy

Structural legitimacy comes from organizational systems and structures that can be aggregated from individual procedures. In general, structural legitimation can be related to organizational form to clarify the questions

of, "with whom [the organization] will compete and from whom it will draw support" (Suchman, 1995 p. 581). In terms of organizational form, the ventures describe themselves as a "social business" or a "for-profit company… business model with social impact embedded into it" (Alpha) indicating the equal importance of market and impact norms. Patents (Zeta) and trademarking (Beta) legitimizes SVs in the eyes of market observers. All the ventures draw extensive support from partnering organizations in realizing their impact. Partnerships are forged with local NGOs that educate the consumers through awareness programs and also distribute the products. Universities that perform feasibility studies and supermarket chains that carry their products.

Accumulated procedures of quality increase and sales have helped Delta to move from a donor based venture to an entirely revenue based venture. Such structural changes confer much-needed legitimacy in the market. Delta cited 5 different partner organizations from their ecosystem who helped them with consumer surveys, product design, loans for material procurement, business incubation, customer education and awareness, development of international ties through cultural exchanges and capacity building for scaling. They were one of the successful ventures that were able to leverage the diverse strengths of their partners. Beta partnered exclusively with UN's refugee camps. Gamma's work with partners was similar in case of feasibility studies and product distribution. Zeta works alongside local banks and NGOs to train the micro-entrepreneurs. Even though these SVs could be far away from competing

with multinational firms in a market oligarchy, their product offering and impact size has been growing steadily overtaking the charity option.

### 2.4.5 Personal Legitimacy

SVs gain personal legitimacy from the founders and their commitment to social change. Social entrepreneurs are lauded for the transformative changes that they bring about in solving complicated social problems. Their passion for positive change and larger-than-life image lends the requisite legitimacy to the ventures they launch. A documentary film was made about the founder of Zeta that followed his struggle in the process of inventing a patented method of sanitary napkin production. He gained international attention through numerous awards and media articles in global news outlets. Even in other cases we repeatedly found the local media covering the founders and the founding stories of the SVs. They wrote about the education qualifications and experience of the entrepreneurs. In these outlets they could articulate both the need for social change and highlight the success of the organization. From the interviews we found how the founders of all the organizations were a source of inspiration to their employees and local communities. These sources accorded personal moral legitimacy to the SVs. In the following table an overview of the moral legitimation strategies used by the product-based SVs in the MHM sector is presented.

**Table 2.4 Moral Legitimation Strategies used by Product-based Social Business Ventures**

| Type of Moral Legitimacy | Description<br>Legitimacy conferred through evaluation of organizational… | Strategies |
|---|---|---|
| Consequential Legitimacy | outputs and consequences | <ul><li>Primary level – highlight solving the social problem</li><li>Secondary level – show contributions to solving social issues closely related to the primary problem</li><li>Tertiary level – underscore environmental sustainability and societal outcomes through employment creation</li></ul> |
| Procedural Legitimacy | procedures and techniques | Cross-subsidization of revenue, attention to product design and usability, employee socialization, operational efficiency, patenting or trademarking |
| Structural Legitimacy | categories and structure | Embrace business identity, competing with commercial offering, partnership building |
| Personal Legitimacy | leaders and representatives | Exemplification through founder ethos, motivations, awards, media exposure |

## 2.4.6 Process Model for Moral Legitimation

The case analyses yielded a revised process model that connects moral legitimacy and the scaling of social business ventures. This is displayed in figure 2.2. The model shows the four types of moral legitimacy that supply to both the market and social impact logic. The aggregate moral legitimacy of a SV depends upon how the moral legitimation from each logic come together. In other words, adherence to one logic should not negatively impact the other. Some of the strategies identified in this study could potentially provide a synergizing effect instead of self-cancelling each other.

Since organizational outcomes, procedures and structure are intricately tied to one another, SVs need to pay attention to all types of moral legitimacy if they were to exceed the legitimacy threshold. Furthermore, the legitimacy of the SVs in total not only come from just moral legitimacy but also other types of legitimacy such as pragmatic or cognitive legitimacy. Since the scope of our study is limited to moral legitimacy, the other inputs are depicted using dotted lines. But it should be noted that the contributions from other types of legitimacy should also be taken into account in assessing the final legitimacy threshold of a venture. Similar to moral legitimacy, acquisition of other types of legitimacy is also subject to influence from the contextual elements and the nature of the competing product offering in the market. The aggregate legitimacy of the SV is instrumental in the attraction of resources for

scaling. Each resource brought to fore has the potential to contribute to the legitimacy of the venture as shown by the recursive loop.
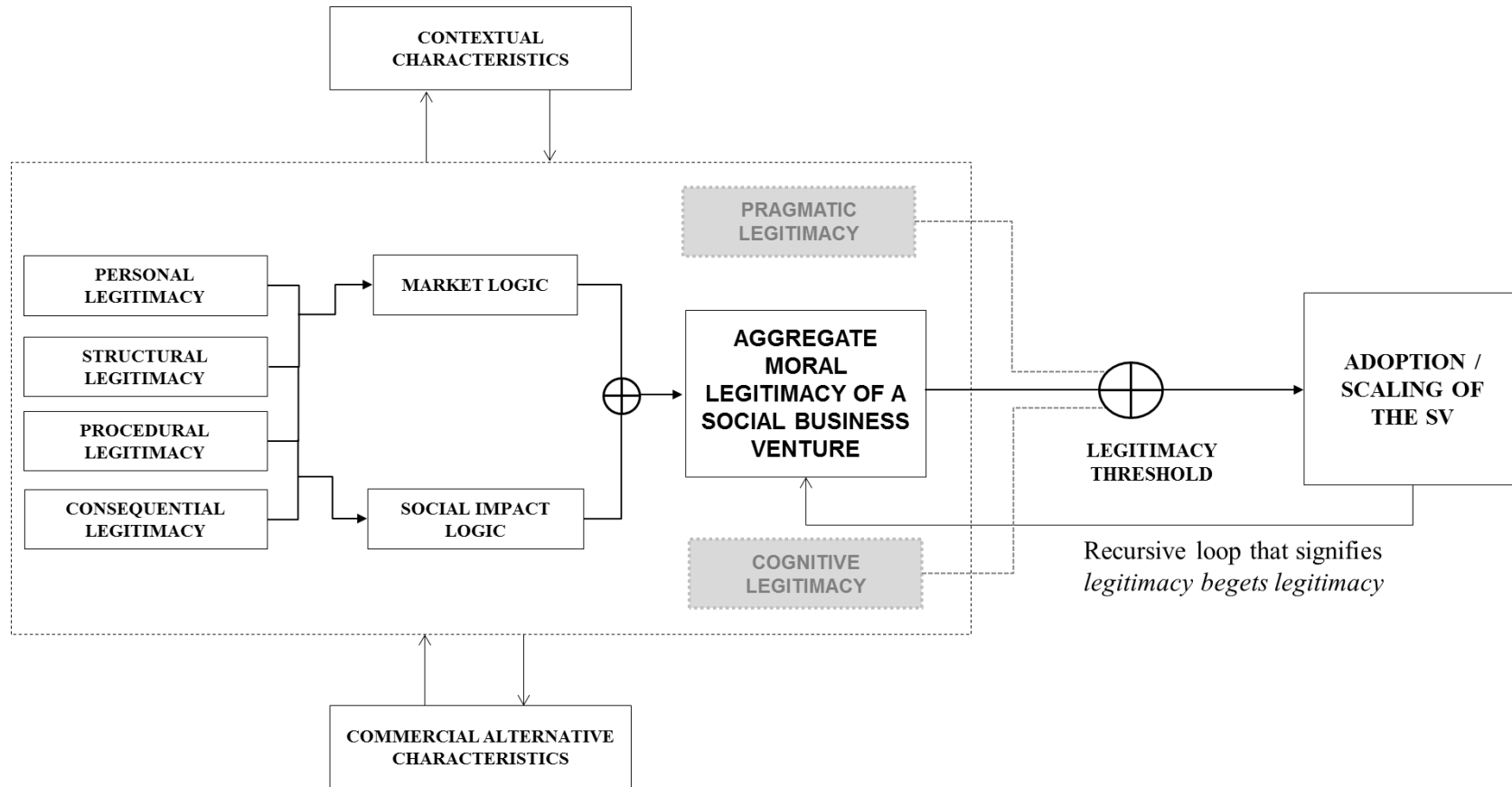
**Figure 2.2 Revised Process Model of Moral Legitimation and Scaling of Social Business Ventures**

**2.5 DISCUSSION**

Social business venturing encompasses both business-related activities that have to adhere to the norms prescribed by the market logic and impact-related activities that have to follow the social impact logic. Moral legitimacy of SVs come from actions that cater to both these logics. To answer the research question as to how (product-based) social business ventures attain moral legitimacy threshold we conducted a multiple case study of exemplar ventures in the MHM sector. We clarified the normative expectations behind the market logic and social impact logic which once satisfied would confer moral legitimacy for the SVs (see Table 2.1). Next, with the help of the cases we delved deeper into the barriers to unpack the problems related to acquisition of moral legitimacy by the SVs. Finally, the legitimation strategies used by the SVs to overcome each type of moral legitimacy namely, the consequential, procedural, structural and personal legitimacy were described in detail. In this section we discuss the theoretical and practical implications of our findings.

**2.5.1 Theoretical Implications**

*Moral Legitimacy:* One of our primary contributions to theory lies in the extension of the concept of moral legitimacy to the context of social entrepreneurship. Even though moral or normative legitimacy is defined in terms of the moral outcome the organizations produce (Suchman, 1995), the concept has been invoked in a normative sense close to what is

expected of business organizations for quite some time now. Adoption of sound business practices to compete in the market has been lauded as appropriate behavior in the commercial realm. This idea is echoed in different scholarly works. In discussing the legitimacy of business organizational forms, Delacroix and colleagues argue that the 'profit-seeking activity' is considered valid (Delacroix, Swaminathan & Solt, 1989). The same argument is re-emphasized in the description of sociopolitical legitimacy by Aldrich & Fiol (1994). But more recently, Cloutier and Langley (2013) argue that the morality aspect of institutional logics is downplayed in the extant literature. Research on social entrepreneurship highlights the equal importance of social impact and business sustainability to the moral legitimation of a hybrid entity like a social business venture. Our findings show how different stakeholders care deeply about the aspects of business and impact. But what is more insightful is just by attempting to solve social issues however critical they may be, SVs are not conferred moral legitimacy by default. The customers or beneficiaries of their offering, products in our case, demand certain procedural legitimacy which when done right can help the SVs positively. Procedural legitimacy answers the 'how' question of moral legitimation whereas consequential legitimacy deals with what must be achieved. Cumulative set of procedures then gives rise to a coherent structural legitimacy. Going from consequences to procedures to structures, we observed a hierarchy of legitimation that is stacked upon one another. When the organizational outcomes are not clear then observation of moral legitimacy is occluded and in such occasions, the organizations and its audience use certain proxies to achieve legitimacy. Our findings suggest

that in addition to alleviation of the social problem which remains the main motivation of the SVs, environmental sustainability could also serve as a proxy for legitimate behavior. Recent empirical evidence that connects sustainability orientation and crowdfunding success supports this claim (Calic & Mosakowski, 2016).

*Hybrid ventures and institutional logics:* Social businesses are considered as hybrid ventures that need to resolve tensions arising from competing institutional logics (Battilana & Lee, 2014). Studies that have dealt with the identification of the resolution strategies have largely focused on established service-based organizations (e.g., Pache & Santos, 2013; Jay, 2013). Our contribution to the hybrid organizations' literature comes from two aspects namely focus on the early stages of venture building and, the nature and level of analysis. By studying the SVs that are engaged in the process of scaling and growth, we move the vantage point of observation to earlier stage of organizational development. Our choice is supported by Pache and Santos (2013) who found evidence that the way hybrids perform selective coupling of the institutional logics is tied to their 'founding origins'. This helped us to obtain deeper insights into barriers against legitimacy in the early stages. We have shown that the legitimacy barriers arise out of a combination of forces that encompass elements from the social context, competing commercial offering and the quality-affordability conundrum. The approach of institutional logics and the organizational response to tensions from competing logic is *internal focused* whereas the nature of analysis on legitimacy is *external focused* since legitimacy lies in the eyes of the stakeholders that care about the

issues (Ashforth & Gibbs, 1990). From our findings, the legitimating actions taken by the SVs to maintain the hybrid nature of their organization early on such as cross-subsidization of revenues, partnership building and employee socialization are uncovered. Battilana and Lee (2014) propose five dimensions of hybrid organizing that can either differentiate or closely integrate the market and impact logics. They include inter-organizational relationships, culture, organizational design, workforce composition and organizational activities. Except for culture, our findings provide input to rest of the four dimensions. We also explain the strategies in relation to acquiring four types moral legitimacy of the SVs. Thus we argue that moral legitimacy provides the underpinnings upon which market and social impact logics are built. Strategies to acquire moral legitimacy then address the microfoundations of institutional logics which has attracted calls for more scholarly attention (Thornton & Occasio, 2008 p.120; Zucker, 1991).

### 2.5.2 Practical Implications

Our findings underscore the need for social entrepreneurs to gain a nuanced understanding of the social context in which they intend to launch their products and services. Deeply ingrained social hierarchies such as the power of men in making purchase decisions could hinder product adoption. As the successful ventures in our case study have shown repeatedly, education of the consumers by SVs on the critical nature of the social problem and its consequences is essential. The cases also offer

useful tips on scaling. Detailed attention to product design features would lead to an expansion in the versions of the product offered. A large export market available for organic products and an environmentally minded western customer base expands the opportunity for SVs to internationalize their operations. The export premium is a useful investment that has been keeping their operations self-sustained. As competition grows in this sector, ventures will have to up their game in terms of product offering.

### 2.5.3 Limitations and Future Research

We do acknowledge the limitations of our study. Owing to the unique nature of the product offering, there were not many social ventures to choose from in the MHM sector. Hence we were not able to compare the strategies of successful ventures and those who failed. Also, we were not able to uncover any differences based on performance. Due to the wide area of geographical focus such as parts of Africa and India there might be telling differences in the institutional structures which can certainly influence the choice of legitimation strategies adopted by the firms. We did not do field visits on each of the cases in order to get the first-hand opinion of the customers. We relied on their testimonies from sources put out by the companies themselves. We did not have access to actual financial performance metrics of each firm in our study. Therefore, we were not able to observe or investigate the variation in performance and its reason. Problems in social impact measurement and the lack of financials make it hard to gauge the overall performance of the ventures. Future

studies can attempt to ameliorate some of the limitations by diving deeper into a particular venture longitudinally in line with Jay (2013). Longitudinal observations would also inform us of the long-term merits and shortcomings of the legitimation strategies report in this study. More research on product-based SVs would inform us about various aspects of venture building in social entrepreneurship.

### 2.5.4 Conclusion

Market and institutional failures have given rise to several social iniquities whereby a large group of global population is economically disadvantaged. The access to basic hygiene is a critical issue that demands immediate attention with regards to women's health in the developing world. Alternative forms of organizations have to step up to provide for these needs. By creating a robust set of outcomes, achieving the outcomes using an appropriate set of procedures, building organizational structure based on the procedures and through the inspiring personal characteristics of leaders in charge, social business ventures are able to acquire moral legitimacy beyond threshold levels. These ventures then are able to successfully scale both their operations and impact.

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**Notes**

1. UNICEF report on menstruation downloaded on Nov 11, 2015, from: http://changeobserver.designobserver.com/media/pdf/unicef_girls.pdf
2. http://www.theguardian.com/lifeandstyle/2012/jan/22/sanitary-towels-india-cheap-manufacture

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# CHAPTER 3: Legitimation Strategies of Nascent Social Business Ventures: A Textual Analysis of Incorporation Documents of Community Interest Companies

Predicting the survival of any new venture remains challenging. This uncertainty is pronounced in the case of social ventures that are started to alleviate social ills rather than make profits. The introduction of Community Interest Companies as a separate legal entity provides us a unique opportunity to observe new social venture survival. Organizational legitimation has been successfully connected to new venture survival and growth. We investigate the legitimation claims submitted at inception and longitudinally in the first three years by community interest companies. Content analysis of incorporation documents and annual reports of high performing CICs versus those that were dissolved reveal that legitimation efforts go hand-in-hand with survival. We discuss the theoretical and practical implications of our findings for social entrepreneurship and legitimacy literature.

## 3.1 INTRODUCTION

Predicting the performance of new entrepreneurial ventures is not an easy task (Cooper, 1993). Nevertheless, new venture survival has been a topic that has received extensive scholarly attention (Gartner, Starr & Bhat, 1999). Several studies in the past have examined the effect of founder characteristics, firm characteristics and contextual factors that can predict new venture survival and growth (Gilbert, McDougall-Covin & Audretsch, 2006). Legitimation strategies adopted by the entrepreneurs have been linked to survival of their nascent firm (Delmar & Shane, 2004) and gaining of resources (Zimmerman & Zeitz, 2002; Navis & Glynn, 2011; Pollack, Rutherford & Nagy, 2012). Researchers have studied the importance of organizational legitimacy extensively in multiple contexts such as the establishment of new industries (Aldrich & Fiol, 1994), the founding of new organizations (Singh, Tucker & House, 1986), and the emergence of specific organizational forms (Suddaby & Greenwood, 2005; Vaara & Tienaari, 2008). For social entrepreneurship in particular, the issue of legitimacy becomes crucial since the field is deemed to be at a 'pre-paradigmatic' stage (Nicholls, 2010a). At the field level, Nicholls (2010a) has applied neo-institutional theory to analyze the discourses of prominent actors in social entrepreneurship practice. Hervieux, Gedajlovic and Turcotte (2010) extend the discourse analysis to include academics, consultants and foundations among others to highlight the advances in legitimacy. At the organizational level, Ruebottom (2013) has studied the efforts social enterprises in overcoming legitimacy barriers through rhetorical strategies. In spite of these research efforts, the lack of a separate

legal form hitherto has been cited as a major methodological hindrance to study social enterprises (Nicholls, 2010a: p.613). This situation is assuaged to an extent by the introduction of new legal entities that differentiate social enterprises from commercial ventures and traditional non-profits. Benefit Corporation, Low-profit Limited Liability Company in the USA and Community Interest Company in the UK are some of the examples of new organizational forms that are introduced by respective governments to encourage growth in this sector.

The number of social enterprises is growing in the UK in recent years owing to several policy actions. The introduction of the Community Interest Company (CIC) as an alternative organizational form in the year 2005/2006 can be seen as one such event. This legislation allows for a greater degree of differentiation between traditional charities and social enterprises. Some of the important features of this organizational form are explained by Nicholls (2010b) from an accounting perspective. The essential differences that add strength to this organization form are, among others,

1. CICs are allowed to issue shares and thus raise capital if they so desire. They are free to choose between the options of "with share capital" and "without share capital"
2. They can pay dividends to their investors, if they prefer to do so, at a rate stipulated by the government regulator that oversees their operations

3. CICs can pay reasonable remuneration to their trustees which can affect their ability to attract talent

4.  Asset-lock clause of this law mandates that all the assets of the company along with surplus proceeds generated from trading must be used exclusively for the benefit of the community

5. There are no default tax benefits for this legal form unlike the charities. If a CIC is working in a particular sector that is deemed tax exempted, then they receive some tax relief.

As a first step to participating in the new organizational form, the founders behind CICs are required to file appropriate paperwork with a regulating agency. The CIC regulator was set up solely for monitoring and approving the work of the companies subscribed to this form. The founder-entrepreneurs have to establish their bona fides with this regulator. Furthermore, the incorporation documents are publicly accessible upon paying a nominal fee. Any potential stakeholder such as an investor or a customer who is interested in the financial records of a social venture can obtain the respective documents from the government. The documents are mandated legally hence the entrepreneurs are better served by providing accurate information about their organization and their goals. These factors make the Community Interest Companies an ideal organizational form to be studied for legitimation efforts within the realm of social entrepreneurship.

In accordance with previous research findings we can expect that as new social business ventures, that subscribe to a new legal form, CICs

could gain requisite resources by investing in organizational legitimation activities. But extant research has not shown as to how nascent social ventures legitimize themselves and what effect these efforts have on their organizational survival and growth. To bridge this gap, we study the legitimation strategies adopted by nascent Community Interest Companies using the framework proposed by Zimmerman and Zeitz (2002). These authors proposed that legitimation could start with conformance to existing institutional norms. But new ventures could also make strategic efforts through selection, manipulation and creation in order to strategically transform or introduce new norms and practices. We sought to find evidence for each type of legitimation strategy and investigate their prevalence frequency at various stages of the life cycle of CICs. Another reason for choosing this framework comes from its focus on three specific types of legitimacy that are appropriate to be investigated at the inception and early stages of social business ventures. They are sociopolitical normative legitimacy, sociopolitical regulative legitimacy and cognitive legitimacy (Hunt & Aldrich, 1996). Since we were able to draw the data from the incorporation documents and annual reports of CICs, observing and operationalizing these three types of legitimacy was possible.

As shown by Zimmerman and Zeitz (2002), sociopolitical regulatory legitimacy is acquired by adhering to laws, completing incorporation paperwork and securing professional certification. Sociopolitical normative legitimacy is closer to moral or normative legitimacy as explained by various authors (Hunt & Aldrich, 1996; Ruef & Scott, 1998). It has to do with organizations showing that their behavior is appropriate

and following the norms and values. For commercial ventures it has been suggested that some of the norms include, "profitability, fair treatment of employees, endorsements and networks" (Zimmerman & Zeitz, 2002 p. 419). Owing to the hybrid nature of CICs, sociopolitical normative legitimacy must come from both the business side of affairs as well as the benefits to the community they serve. We examine not only the strategies used by the CICs to gain this type of legitimacy but also analyze the content upon which it is argued for. Finally, cognitive legitimacy is acquired from addressing *the beliefs and taken for granted assumptions* about a new venture and it accumulates through the spread of knowledge about the venture among its stakeholders (Aldrich & Fiol, 1994; Zimmerman & Zeitz, 2002). The prescribed way for new ventures to attain cognitive legitimacy is by working on the "ideas, models and practices" to either conform or strategically transform them (Zimmerman & Zeitz, 2002 p. 424).

By performing content analysis on the text available from the incorporation documents and annual accounts of CICs, we explicate the legitimation strategies and the associated legitimacy types adopted by CICs. Thus we find empirical evidence for the prevalence of legitimation strategies in the context of social entrepreneurship. We report on how each of these strategies is implemented by the CICs both at the inception and as well as longitudinally during the first three years of operations. Then, we compare the difference in legitimation between CICs that have performed well and those that have been dissolved in the first three years. Our

findings suggest that at inception the frequency and type of legitimation strategy used by high performers and liquidated CICs are no different. But right after the first year itself the frequency of legitimation varied significantly when the annual reports were compared. From our findings we provide rich descriptions of how nascent social business ventures apply the legitimation strategies and show how legitimation is connected to organizational survival. We discuss the implications of these findings to social entrepreneurship and new venture legitimation literature.

## 3.2 THEORY

Organizational legitimacy is defined as, "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions" (Suchman, 1995 p. 574). New venture literature has often taken the strategic route as opposed to the institutional route in studying the legitimation activities since it places the agency on the organizations and the individuals that run them. Dowling and Pfeffer (1975), whose work is oft cited as part of the strategy school, underline that organizations actively "seek to establish congruence between the social values associated with or implied by their activities and the norms of acceptable behavior in the larger social system of which they are a part." Researchers in this stream have studied the strategic action employed in legitimacy building. For example, Elsbach and Sutton (1992) studied the legitimacy seeking behavior of social movements that sought attention to

their causes by performing activities with a high *shock factor* which often led them to engage in unlawful action. Elsbach (1994) analyzed the verbal accounts of spokespersons of the cattle industry and their efforts in regaining legitimacy after a set of "controversial" events. Efforts and their intensity towards acquiring legitimacy are not always the same as shown by Ashforth and Gibbs (1990). They caution that organizations can sometimes overstep in their legitimation attempts which can ultimately result in a negative perception with its constituents.

Extending the notion of strategic actions performed for gaining legitimacy for new ventures several authors have shown the importance of legitimacy for new venture's survival and growth (Zimmerman & Zeitz, 2002). Singh, Tucker and House (1986) explicate the need for establishing external legitimacy for social organizations to overcome "liabilities of newness" and thus increasing the chances of organizational survival. Tracing exemplar accounts of entrepreneurial stories, authors were able to propose that new venture identity created by strong entrepreneurial narratives confer legitimacy from various stakeholders such as customers, investors and competitors which in turn helps the ventures to acquire capital resources (Lounsbury & Glynn, 2001). Subsequent empirical evidence has strengthened the link between new venture legitimacy and resource acquisition. Founders who engaged in legitimation activities in the first thirty months of inception of their ventures realized that the risk of dissolution drops down to a considerable extent (Delmar & Shane, 2004). Even though conformance activities definitely helped with new

venture survival, subsequent empirical evidence showed that strategic legitimacy takes precedence over conformance in explaining organizational emergence (Tornikoski & Newbert, 2007). Creation of legitimacy through symbolic actions relevant to founder credibility, professional organizing, organizational achievement and stakeholder relationship management have been found to remarkably increase the resource acquisition capabilities of new ventures (Zott & Huy, 2007). In summary effectiveness of strategic action towards gaining legitimacy has borne out through accumulating empirical evidence. In this paper we examine the efforts of nascent social business ventures in acquiring legitimacy and its effect on their survival in the first three years from inception.

Just as any new venture, nascent social business ventures also need to overcome legitimation challenges during their early stages (Dart, 2004; Nicholls, 2010a). Legitimacy literature on social enterprises is in its early phases and hence detailed empirical studies on the attempts of entrepreneurs to gain legitimacy are still in the making. Researchers have started to examine if the processes involved in legitimacy seeking for social enterprises are different than their counterparts in both commercial and non-profit space. The use of textual material to examine organizational legitimacy in new ventures has been brought forth by discourse analysis methods that focus on rhetorical devices used by the actors (Suddaby & Greenwood, 2005; Phillips, Lawrence & Hardy, 2004; Vaara & Tienari, 2008). Specific to social entrepreneurship, Ruebottom (2013) analyzed the rhetorical strategies used by social entrepreneurs, especially those that are

engaged in effecting change in the behavior of their constituents, in describing their goals and their stakeholders. These studies attest the value of textual analysis to examine legitimation strategies. Content analysis of text data from CIC documents falls in line with this research stream.

### 3.2.1 Legitimation Strategies and Legitimacy Types

The importance of sociopolitical legitimacy and cognitive legitimacy to the emergence of new industries is underscored by researchers in the past (Aldrich & Fiol, 1994). They argue that lack of clear guidelines in an emerging industry hinders cognitive legitimacy and the lack of existing institutional support structures constraints sociopolitical legitimacy. This is largely true for social business ventures who are trying to stake a new territory by blurring the lines between for-profit and non-profit organizational forms. In the case of new CICs, two types of sociopolitical legitimacy described by Hunt and Aldrich (1996) are quite critical. First, sociopolitical regulatory legitimacy is important for new CICs because they are required to follow the rules and regulations that are laid out by the government to incorporate with this legal form. They also have to comply with the legal requirements that are part of the industry sector they operate in, whether it be getting the required certifications or accreditations. Second, sociopolitical normative legitimacy would entail CICs complying with the impact side of the norms since the regulating agency explicitly requires them to report on the community benefits while filing the incorporation paperwork. On cognitive legitimacy, CICs have to

exemplify their adherence to practices, models and ideals related to the problem they are solving in the community and the way they go about achieving the results.

We dive deeply into the legitimation strategies that are used to gain the discussed legitimacy types namely, conformance, selection, manipulation and creation (Zimmerman & Zeitz, 2002). Paraphrasing from the work of Zimmerman and Zeitz (2002) we can understand the essence of each legitimation strategy. Conformance is self-explanatory in the sense organizations that violate strongly established institutional norms will not be accepted. Conformance is executed by following the rules set out by the institutions and for this reason, it is the least strategic of four types of legitimation approaches. Selecting a favorable environment to start a venture accords legitimacy. The customized solutions a social venture can offer to stakeholders from a particular location not only bring unique value but also legitimizes the efforts of the organization. Manipulation relates to the innovations that ventures could introduce in an industry that takes the existing norms and practices in new directions. Creation of a new social context for, "rules, norms, values, beliefs, models etc." is the highest form of strategic legitimation (Zimmerman & Zeitz, 2002 p. 423). How social business ventures such as CICs implement these strategies, what do they change when they adopt them and how effective are the strategies to their survival are core issues of our research. Thus our research questions are as follows:

> *What are the legitimation strategies used by nascent social business ventures and what is the effect of legitimation on organizational survival?*

## 3.3 METHOD

### 3.3.1 Data Collection

The incorporation documents and the annual reports of CICs are the sources of text data for our research. At inception, we focused on a particular section known as Community Interest Statement otherwise called Form CIC36/37. Form CIC 36/37 contains the detailed description of the activities undertaken by the CIC and the consequent benefits to the community through these actions. It also requires the companies to state how the surplus profits generated from the operations will be put to use. For a short time, the regulator also required them to state how they are different from a regular commercial company. This was discontinued in later forms. For capturing the legitimation efforts longitudinally, we analyzed text data from Form CIC 34. This form was part of the annual reports and it asked for a report on the social impact realized, stakeholder engagement achieved by the CICs in the previous financial year. CICs were also required to report if there were any remuneration paid to the directors and if any asset transfer occurred in this period. The space available in the standardized form gave the same room for text length to all the CIC companies rendering them comparable. The CIC forms were downloaded from a subscription service that provided information on all

the incorporated firms in liaison with the government agency called Companies House which keeps track of all the legal documentation and filings in the UK. Our sample involved two sets of text corpuses collated from, a) CICs that have been performing well and b) CICs that did not survive. We compared these two text data to find out if they differed in terms of legitimation strategies.

## 3.3.2 Sample

The sampling method we used throughout was purposive in nature. We started with a large pool of CICs that were listed in the Social Enterprise 100 (SE 100) Index published in the UK. The index is published annually by the Royal Bank of Scotland in partnership with several organizations that are part of the social enterprise ecosystem such as the SROI Network, Ashoka Foundation, School for Social Entrepreneurship etc. It includes social enterprises subscribing to all organizational forms including charities or non-profits, NGOs, Private Limited Companies operating in the social service sector along with the CICs. Based on a detailed evaluation criteria starting with the social impact achieved, verified financial accounts, organizational capabilities and operational efficiency, the index publishes a total score as well as a specific social impact score for the CICs. This means that even those organizations scoring high in terms of social impact need not be ranked higher in the index. Beyond the top 100 ranks the index also ranks organizations that have filed at least three years of annual returns. We chose the CICs that made this list on the

basis of their overall performance and social impact for at least two times in the top 50 spots in the past three years, 2013, 2014, 2015. We excluded companies that were established before 2005 since they are originally charities that eventually converted to the CIC form. The reason for this was that these organizations were not required to submit a community interest statement. They just filed an amendment to their existing memorandum of articles. Following the high performers, a random sample was drawn from all the CICs that were dissolved in the first three years. From this, we included those CICs that were able to submit their annual reports at least twice after the year if inception. The result was a sample of 97 CICs in total that consisted of 50 high performers and 47 dissolved entries.

### 3.3.3 Coding

From the activities and intended benefits described by the founders of the CICs in the incorporation documents, we identified several statements that spoke directly to establishing the legitimacy of the firm. The text files were qualitatively coded by the lead author and two research assistants. The unit of analysis was each sentence from the document. For each legitimation strategy and legitimacy type we generated a working definition and identified exemplar quotes. An initial coding scheme was devised based on Zimmerman and Zeitz (2002) and it was iteratively revised among the coders. The coding process consisted of the coders agreeing on a set of initial classifications, followed by independent coding and frequent

comparisons to examine for alignment. Through successive iterations of coding cycles, we were able to achieve a high degree of inter-rater agreement (83.7%). At each stage of coding the coders discussed and resolved the differences. The total number of pages coded were more than 300 in total. Details of the coding scheme are listed in table 3.1.

### 3.3.4 Data Analysis

Once the text data from the incorporation documents and annual reports were coded, we were able to count the frequency of occurrence of the legitimation strategies espoused by both the high performers and the dissolved CICs. As explained before, the frequency of legitimation at the inception per each legitimation strategy was noted down from the incorporation documents (CIC 36/37). Then from the coding on the annual reports (CIC 34), the average frequency of legitimation instances over the first three years of the CICs were captured. We ran an ANOVA test to compare if there were any differences between the said two groups of CICs in terms of legitimation instances. This test was chosen owing to the number of CICs being compared to be nearly 100 as opposed to a t-test. We report on the frequency differences among the legitimation strategies between the two groups of CICs categorized by performance.

**Table 3.1 Coding Scheme for Legitimacy Strategies of Community Interest Companies**

| Legitimation Strategy and Description | Type of Legitimacy | Codes | Sample Keywords |
|---|---|---|---|
| **Conformance:**<br><br>text segments from CIC 36 / CIC 34 documents are identified as following conformance strategies if they indicate the new venture is "following the rules". | **Sociopolitical Regulatory** | • Following the rules<br>• Link with programs that follow the rules | Qualified, training, accredited, CBR check |
| | **Sociopolitical Normative** | • Social impact related norms are followed<br>• Economical norms related to business are followed<br>• Adhering to or intentions to adhere to societal rules and norms | Equal opportunity, exclusion, regardless of [age, gender…] |
| | **Cognitive** | • Compliance, intentions to comply and links to compliance with practices, models, ideas, etc. from which it is assumed to be correct | Specialists, award winning |
| **Selection:**<br><br>text segments from CIC 36 / CIC 34 documents are coded as selection if they involve the CIC to strategically locate in an environment that is assumed to be favorable. Also, if CICs strategically address the inherent needs of the community they operate in. | **Sociopolitical Regulatory** | • Intentions to locate the new venture based on favorable rules and regulations | Enabled [by local rules] |
| | **Sociopolitical Normative** | • Selecting a domain that is more in line with CIC's norms and values<br>• Address the problems of the community; Address a demand; Tailor solutions for a particular community<br>• Activities based on proximity to the location of the CIC | Conserve [resources], traditional<br><br>Residing, community, local, national, rural |
| | **Cognitive** | • Selecting domains where the practices, models, ideas, etc. are more in line with the new venture | Taking inputs [from the community] |

**Table 3.1 Coding Scheme for Legitimacy Strategies of Community Interest Companies - continued**

| Legitimation Strategy and Description | Type of Legitimacy | Codes | Sample Keywords |
|---|---|---|---|
| **Manipulation:**<br><br>Text segments from CIC 36/ CIC 34 documents are coded as following manipulation strategies if they aim to achieve consistency between the CIC and its environment by initiating changes. | **Sociopolitical Regulatory** | • Partnering and lobbying at the regulatory level | Partnerships; Work with; Collaboration; Network [on the regulation side] |
| | **Sociopolitical Normative** | • Intention to *change* norms and values | Awareness; Understanding; Focus; Promote; Spirit |
| | | • Partnering and lobbying | Partnerships; Work with; Collaboration; Networks [with non-regulatory partners] |
| | | • Intervention into the environment | Dedication; Improve; Enhance; Increasing; Decreasing; Change |
| | **Cognitive** | • Intentions related to changing existing practices, models, ideas, etc. towards the new venture | Management Practices; Company's activities |
| **Creation:**<br><br>Text segments from CIC 36/ CIC 34 documents are coded as following creation strategies if the CIC is developing/offering something that did not exist before. Creation strategies involve the creation of new social context. | **Sociopolitical Regulatory** | • Intentions to create favourable rules and regulations | Creation of Impact; Policy |
| | **Sociopolitical Normative** | • Intentions to *create* new norms and values | New approaches; Develop; |
| | | • Creation of new social context through developing/offering something that did not exist before | Impact; Acceptance; Otherwise not; Encourage |
| | **Cognitive** | • Intentions towards and related to new operating practices, ideas and models | Enhancement; Research; Learn; Training; Working Model |

## 3.4 FINDINGS

From our qualitative examination of the text documents we uncovered legitimation efforts by the CICs. In this section we list some selected quotes that fall under each legitimation strategy type. Conformance has to do with the organizations' efforts to follow rules set forth by the government, espousing societal norms and complying with approved practices and models among others (Zimmerman and Zeitz, 2002). It can be argued that in registering as a Community Interest Company with the government regulator, the social ventures conform with such expectations. In order to increase the sociopolitical regulatory legitimacy, they also frequently showcase their efforts towards adhering to the rules as shown in the following examples that deal with the founders assuring their audience that their employees have gone through Criminal Records Bureau checks on their background information.

> "Anyone in the company who has contact with or will be working with young people or vulnerable adults has had a CRB check."

> "All those working directly with children, young and/or vulnerable people will have consistently valid CRB checks through LEAs and bona fide organizations such as sound sense and family placements."

Selection strategies comprise of choosing favorable locations, appropriate product or service and seeking domains that fit the ideas,

models and practices of the organization (Zimmerman and Zeitz, 2002). For Community Interest Companies this is of prime importance in the sense that their activities and intended benefits must address the inherent needs of the community they operate in so that they achieve higher degrees of legitimacy. Sociopolitical normative legitimacy is sought by arguing for the appropriateness of location and the provision of services tailored to the particular community as seen in the following quotes.

> "Suffolk has a long historical association with the herring and herring fisheries. Now there is little demand for the herring, and, apart from the kipper, it is hardly eaten either at home or in restaurants. The company is set up to develop a greater awareness of this affordable, sustainable local food."

> "Support non-European immigrants, refugees and asylum seekers to undertake the UK citizenship exam by providing, for example, classroom tuition, 1:1 tutorials and workshops. Provide advocacy, information and support to individuals who need to access, for example health and social care services."

Selection of services offered to specific demographics in the community or the need for the service provided by the CIC is justified using social and environmental needs of the community.

> "Youth crime is a considerable and growing issue for London. Our communities will continue to lose our youth in this deplorable manner unless society attempts to try and address some of the

issues our younger generation are facing. Choice will aim to try, as difficult as this may be, to educate/re-educate not only our youth, but society as a whole."

"Suffolk Circle aims to help people over 50 stay sorted, stay connected and contribute in meaningful ways to their community, thereby maintaining a sense of purpose in life. Our activities will benefit this community by reducing social isolation, decreasing risk of accidents, as well as increasing well-being and quality of life."

Manipulation strategies to achieve legitimacy described by Zimmerman and Zeitz (2002) indicate the efforts of the organizations to bring about changes in existing norms, values and practices various levels. There were numerous instances where the CIC's community interest statements spoke about these efforts.

"The Company will influence local government and policy makers by contributing to the development of policy documents and working within partnerships that are responding to the desire to become more sustainable."

"Create beneficial and networking links and relationships with public, private, charitable, voluntary and social enterprise organizations to promote and advocate forward thinking m and

innovative partnership approaches to resource use and efficient environmental and waste management."

Effecting changes in norms and values also requires the social enterprises garner sociopolitical regulatory legitimacy through their advocacy efforts for a better future. This could be achieved through arguing for socially desirable outcomes for their actions, embedding themselves in institutions and proselyting as explained by Suchman (1995). For instance, the UK government launched Every Child Matters initiative to protect children's rights and prevent child abuse. Organizations have aligned themselves to these goals.

"To support Every Child Matters agenda and focus on enjoying and achieving, economic awareness, staying safe, positive activities and contributions and healthy lifestyles."

"Energy saving initiatives in conjunction with the London Borough of Richmond upon Thames within The Mayor of London's Low Carbon Zone initiative - publicity, training and assistance to Ham residents and businesses. As a participant in the Greener upon Thames project - education and promotion to local merchants and residents aimed at decreasing the use of plastic bags and other disposable packaging."

Creation strategy as outlined by Zimmerman and Zeitz (2002) requires collective action towards creating new laws, norms and practices. Creation of new social context through developing or offering something

that did not exist before. We could observe this more in terms of the new and innovative services offered by the CICs that sought to change the social headwinds.

"… we obtained Home Office funding to run a pilot crime prevention programme aimed at delivering young people from gangs and knife crime, a very successful initiative which we are continuing with in this financial year".

"We have been secure funding to run these programmes until 2010 and last year we engaged with 204 service users, helping 80 of them to move into jobs and/or sustainable training".

Thus we found empirical evidence for the use of the different type of legitimation strategies outlined in theory. We did not find any other strategy that was used consistently by the CICs apart from the ones outlined above. The analysis of the type of legitimacy used in tandem with these strategies is explained in the following section.

### 3.4.1 Results from Statistical Analysis

The descriptive statistics and correlations are displayed in table 3.2. On the average, both at inception and during the first three years of their tenure, all the CICs regardless of performance put most of their legitimation effort in the manipulation strategy that any others. This shows the transformative nature of the work pursued by the companies in incrementally changing

the social context they work from. The most common techniques used to accomplish this by both groups were, a) intervention into the current environment to change something and, b) partnering and lobbying. Inspecting the correlation table, there were no correlations of significance between the frequency of use of legitimation strategies between inception and the first three years. Considering the type of legitimacy used by the CICs in the first three years, we found that on the aggregate sociopolitical normative legitimacy was invoked the maximum number of times (high performers = 90.83% and dissolved CICs = 93.03%). Sociopolitical regulatory legitimacy (high performers = 7.13% and dissolved CICs = 4.40%) and cognitive legitimacy (high performers = 2.04% and dissolved CICs = 2.55%) were used only sparingly in comparison. In examining whether CICs are more strategic than confirmatory we found that the sum of conformance and selection were always lower than the sum of manipulation and creation. This finding held true for all the CICs beyond performance at inception as well as in the first three years of operations. What was different for the high performers was that the difference between the two groups (conformance + selection versus manipulation + creation) was much larger at every instant.

At inception, the scores for the legitimation strategies between the high performing CICs and those that were dissolved looks almost similar. Upon comparing the means using ANOVA no significant differences can be found in the frequency of legitimation strategies at inception. This shows that all the CICs engage in the same amount of legitimation and it has no impact on their future survival prospects. All the four legitimation

strategies, conformance (F (1, 96) = 0.00, p = .981), selection (F (1, 96) = 1.39, p = .241), manipulation (F (1, 96) = 0.14, p = .706) and creation (F (1, 96) = 1.24, p = .268) looked quite similar when the group comparison of the means were made. However, right from the end of year one, we observed that the high performers differed from the dissolved companies in terms of their legitimation behavior. The trend continued through the first three years. When we compared the average legitimation effort at the end of the third year, we could find that the legitimation claims of the two groups were quite different per legitimation strategy of conformance (F (1, 96) = 21.46$^{***}$, p = .000), selection (F (1, 96) = 9.91$^{**,}$ p = .002), manipulation (F (1, 96) = 13.81$^{***}$, p = .000) and creation (F (1, 96) = 16.57$^{***}$, p = .000). The high performers scored high on all the legitimation strategies during this time. Among the two types of CICs namely, limited by guarantee and limited by shares, the later could issue shares and distribute the dividends from their earnings at a rate prescribed by the regulator. We did not find many cases where dividends were paid out. Considering that over interval of observation was in the first three years of operation, this finding was not surprising. When the ANOVA test was run with CIC-Legal type as a control variable, our results were not altered and CIC-legal type was not significantly different between the high performers and the dissolved CICs. The results from the ANOVA are shown below in table 3.3

**Table 3.2 Descriptive Statistics and Correlations**

| Variable | Mean | SD | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| At Inception | | | | | | | | | | | |
| 1. Conformance | 0.74 | 0.96 | - | | | | | | | | |
| 2. Selection | 1.65 | 1.30 | -0.12 | - | | | | | | | |
| 3. Manipulation | 4.15 | 3.06 | 0.02 | 0.36*** | - | | | | | | |
| 4. Creation | 1.67 | 1.74 | 0.01 | 0.37*** | 0.55*** | - | | | | | |
| Avg. Over first 3 years | | | | | | | | | | | |
| 5. Conformance | 1.82 | 1.80 | 0.01 | -0.18 | -0.06 | -0.01 | - | | | | |
| 6. Selection | 1.52 | 1.35 | -0.10 | -0.06 | 0.17 | 0.13 | 0.54*** | - | | | |
| 7. Manipulation | 4.02 | 2.98 | -0.06 | -0.02 | 0.10 | 0.12 | 0.66*** | 0.68*** | - | | |
| 8. Creation | 1.69 | 1.56 | 0.08 | -0.05 | 0.05 | 0.03 | 0.45*** | 0.55*** | 0.78*** | - | |
| 9. Performance | 1.48 | 0.50 | 0.00 | -0.12 | 0.04 | 0.11 | 0.43*** | 0.31** | 0.36*** | 0.39*** | - |

$N = 97$; $^{*}p < .05$; $^{**}p < .01$; $^{***}p < .001$

**Table 3.3 ANOVA Analysis of Legitimation Claims between Dissolved and High Performing CICs**

| Legitimation Strategy | Dissolved CICs N = 47 | | | High Performers N = 50 | | | F (df), p-value |
|---|---|---|---|---|---|---|---|
| | Min | Max | Mean (SD) | Min | Max | Mean (SD) | |
| **At Inception** | | | | | | | |
| Conformance | 0 | 4 | 0.74 (0.92) | 0 | 4 | 0.74 (1.01) | $F (1, 96) = 0.00$, p = .981 |
| Selection | 0 | 6 | 1.80 (1.46) | 0 | 6 | 1.49 (1.10) | $F (1, 96) = 1.39$, p = .241 |
| Manipulation | 0 | 14 | 4.04 (2.82) | 1 | 21 | 4.28 (3.32) | $F (1, 96) = 0.14$, p = .706 |
| Creation | 0 | 5 | 1.48 (1.23) | 0 | 13 | 1.87 (2.14) | $F (1, 96) = 1.24$, p = .268 |
| **Avg. Over first three years** | | | | | | | |
| Conformance | 0 | 8 | 1.07 (1.37) | 0 | 8.33 | 2.61 (1.88) | $F (1, 96) = 21.46^{***}$, p = .000 |
| Selection | 0 | 5 | 1.12 (1.23) | 0 | 5.67 | 1.95 (1.35) | $F (1, 96) = 9.91^{**}$, p = .002 |
| Manipulation | 0 | 10 | 3.00 (2.79) | 0 | 15.67 | 5.11 (2.80) | $F (1, 96) = 13.81^{***}$, p = .000 |
| Creation | 0 | 4.5 | 1.11 (1.24) | 0 | 5.67 | 2.31 (1.63) | $F (1, 96) = 16.57^{***}$, p = .000 |

$^{*}$p < .05; $^{**}$p < .01; $^{***}$p < .001

## 3.5 DISCUSSION

Community interest company is a legal form introduced by the government of UK to enable social enterprises to grow. This separate legal form presented us with the opportunity of observing how new social business ventures legitimize themselves in the early years of their starting. Also, we were able to check if the legitimation efforts have any effect on the survival of the CICs in the first three years. From the results, we can report that all the CICs at the inception engage in legitimizing the benefits that they bring to the community using the strategies laid out by Zimmerman and Zeitz (2002). We are able to explicate on the type of legitimation strategy that is most commonly used from inception throughout the first three years of venture age. The results from ANOVA underscore that high performers' markedly increased the frequency of legitimation compared to the dissolved companies. In this section, we discuss the theoretical and practical implications of our results, acknowledge the limitations of our approach and suggest directions for future research.

### 3.5.1 Theoretical and Practical Implications

We contribute to the social entrepreneurship literature by researching a new legal form within the gamut of social business ventures namely the community interest company (Haugh, 2007). As called for by previous

authors (Dacin, Dacin & Matear, 2010) we apply an existing, well established theoretical lens to understanding the phenomenon of social entrepreneurship. We introduce a new actor in the form of a regulator and cover the institutional change effected by them and the organizational response by organizations who wish to register as community interest ventures. Methodologically, we add to the studies that have performed content analysis on the text produced by social ventures and micro-enterprises (e.g., Moss et al., 2011; Allison et al., 2013).

*Nascent social venture legitimation.* As suggested by our findings CICs, even though all the CICs were equally persuasive in making legitimacy claims at the inception, all of them were not successful in getting through the liabilities of newness. Majority of the dissolved firms fell into the pattern of displaying fewer legitimation claims in their filings to the regulating agency. We extend the literature on new venture legitimation in the following ways. We show the importance of legitimacy in the early stages for new ventures and support the claims made by the previous research with additional empirical evidence. Our findings are in line with Delmar and Shane (2004) who showed the importance of legitimation activities such as registration and business plan completion in the first thirty months for commercial ventures that seemed to decrease the risk of disbanding. We demonstrate this in the context of social business ventures in a slightly different time scale. Our point of observation starts with incorporation or registration of the CICs followed by longitudinal observation over the first thirty-six months. The pattern emerging from our

data showed the prominence of sociopolitical normative legitimation during this period even though there were a few instances of sociopolitical regulatory and cognitive legitimation. We advance theory in showing that for hybrid ventures that bring community benefit and sustainable venturing together, successful sociopolitical normative legitimation that has a positive effect on their survival. Our findings are also in line with Tornikoski and Newbert (2007), who showed the importance of strategic legitimacy over conformance in explaining organizational emergence of new firms. Similarly, we show that two specific strategic legitimation strategies of manipulation and creation work well for new social business ventures. Our results will be useful to theorists interested in studying the nature of start-up events and firm survival in emerging organizations (Katz & Gartner, 1988).

*Sociopolitical Legitimacy*. Across the Europe and North America, local and national governments have taken notice of the current success and future potential of social entrepreneurship to solve intractable societal problems. Given the availability of a robust legal system that supports traditional non-profits and commercial firms in these economies, the introduction of new legal forms can be seen as boundary blurring. Support for community interest company, benefit corporations etc., marks the development of new institutional infrastructure necessary for the genesis and growth of social enterprises. The role of state in this development needs to be underlined for at least two reasons. It fills the gaps known as "institutional voids" which might have been a barrier for the establishment

of social ventures in the past (Mair & Marti, 2009). Also, the new laws confer sociopolitical legitimacy for social entrepreneurship at the field level (c.f. Nasra & Dacin, 2010). At the onset of a new industry or a new organizational form, such sociopolitical legitimacy is critical since it provides *collective identity* to the fledgling organizations in this sector (Wry, Lounsbury & Glynn, 2011). From our findings we observe that in the context of communicating their impact to the regulator, new social ventures like the CICs are mostly engaged in acquiring sociopolitical normative legitimacy through purposeful manipulation of extant norms and values (Oliver, 1991). These strategies are enacted through partnering and lobbying with stakeholders, changing the norms and values in the environment. Developing new programs that accelerate the said changes is a strategic way of *creating* new norms. This finding is in line with strategic effort required by new ventures to gain approval from important stakeholder such as the government in a new industry (Hunt & Aldrich, 1996; Zimmerman & Zeitz, 2002). This claim is further strengthened when juxtaposed with the observation that shows relatively lesser frequency of conformance and also the invocation of sociopolitical regulatory legitimacy which deals with existing laws as opposed to transforming them. Thus we add to the literature on legitimation through strategic action (Uberbacher, 2016).

## 3.5.2 Limitations and Future Research

Lack of financial information to track performance is a short-coming that we had to deal with. Many of the CICs were audit exempt and did not supply their annual reports in a uniform format to be compared against. Even though we tracked the SIC-codes of each of the CICs, there were barely a handful of CICs that fell under a particular code. This introduced a wide degree of variation in the industry sectors involved. Future studies can delve into a particular sector to get a better understanding of venture building and control for the industry sector. Studying the way in which the regulating agency enacted the requirements set out for incorporation calls for several interesting avenues of further investigation on the process behind legitimation. As indicated by the name of the legal form, the implicit expectation is to produce highly customized, local impact that benefits a particular community. This speaks to *local validation,* the second of the four-part legitimation process (Johnson, Dowd & Ridgeway, 2006). Further evolution of this process can be uncovered by studying the actions of the regulator longitudinally. For instance, the regulator decided to allow existing charities operating under a non-profit legal structure to convert to a CIC form. But during that legal form change, the charities were not asked to fill the CIC 36/37 form. In the absence of any track record, new CICs were asked to present their arguments for community benefit. At the same time, for experienced charities that might already enjoy high levels of legitimacy, this step was not enforced. Future studies can delve deeper into the legitimacy expectations set up by the regulator.

Voluntary dissolution when the venture is doing well or because of circumstances that had nothing to do with performance were not a part of our study. Attention into the reasons why CICs disband would help future research understand founder and organizational exit in social entrepreneurship.

### 3.5.3 Conclusion

The literature on social entrepreneurship is slowly maturing beyond issues of definition that have come to dominate the research efforts for some time now. The wider adoption of new organizational forms such as the community interest company requires practitioners and researchers to focus on the challenges faced by the companies starting from early stage legitimation. This paper has been an attempt at investigating effective legitimation strategies pursued by nascent social ventures. The content analysis method provides a first step to assessing the strength of each type of legitimation strategy and legitimacy type. The use of incorporation documents to build a large text corpus on social enterprises, we believe, further adds to the further methodological novelty in a field that is edging beyond case studies towards much more quantitative studies (Short et al., 2009).

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# CHAPTER 4: Cognitive Legitimacy of Social Business Ventures: An Analysis of Business Plans

Extant empirical evidence suggests that for entrepreneurial ventures in the early stages, establishment of cognitive legitimacy increases the chances of funding. Features of the venture that confer cognitive legitimacy to new social businesses are not well established. We derive theory-based hypotheses on the possible sources of cognitive legitimacy and test their effect on funding of social business ventures. In recent times, business plan competitions have emerged as a substantial source for funding of social ventures. We performed content analysis of 124 business plans submitted to social business plan competitions to test our hypotheses. In addition to analyzing the information content of the business plans, we also examine the effectiveness of the ventures' arguments by analyzing the discursive legitimation strategies used. We find that cognitive legitimacy derived from information related to social innovation, scalability and partnerships have a positive effect on funding success. Discursive legitimation strategies of rationalization and authorization were used most frequently by the winners. We contribute to social entrepreneurship literature by connecting cognitive legitimation and funding success and exploring a novel context of social business plan competitions. We advance the understanding of cognitive legitimacy via the comprehensibility tradition which can be a precursor to taken-for-grantedness.

**Manuscript History:**

Singaram, R., Kraaijenbrink, J., Lau, A., Groen, A. (2014). Perceived Legitimacy of Social Business Ventures: A Qualitative Comparative Analysis of information content of Business Plans. 11th Annual Social Entrepreneurship Conference. Nov 5-7, Boston, USA.

Singaram, R., Kraaijenbrink, J., Mols, N. (2016). Cognitive Legitimacy of Social Business Ventures: An Analysis of Business Plans. 76th Annual Meeting of Academy of Management. Aug 5-9, Anaheim, USA.

*This chapter is closely based on the recent version of the manuscript presented at the AOM 2016 conference. This version has additional data and an improved coding and rating method from what was presented at the 11th Annual Social Entrepreneurship Conference.*

## 4.1 INTRODUCTION

New social business ventures (SVs) launched by social entrepreneurs face a number of challenges in attracting the required resources (Austin, Stevenson & Wei-Skillern, 2006). Even though the ecosystem of social entrepreneurship has grown in leaps and bounds in recent years, access to funding and other critical resources do not come easy (Short, Moss & Lumpkin, 2009; Lehner, 2013). Compared to commercial start-ups that may write a business plan (Karlsson & Honig, 2009) to approach investors, there are no standardized templates that SVs can follow to attract funding. The criteria by which they can establish their plausibility or viability in the minds of investors has not been well established since venture financing within social entrepreneurship has been gaining traction only in the past few years.

Growing literature in entrepreneurship has covered the intricacies of funding of new ventures from different formal and informal sources (Cassar, 2004; Bruton, Khavul, Siegel & Wright, 2014). Large scale studies have been conducted to understand the criteria used by venture capitalists (Macmillan, Siegel & Narasimha, 1985; Hall & Hofer, 1993) and angel investors (Mitteness, Sudek & Cardon, 2012). Differences in how bankers, VCs and business angels evaluate a business plan have also been studied (Mason & Stark, 2004; Chen, Yao & Kotha, 2009). In spite of these advances in understanding venture funding, scholars recognize

that for starting SVs the listed conventional sources of funding are of limited use (Austin et al., 2006, p.12). The funding sources for SVs are different from commercial ventures. Beyond the grants, SVs could tap into corporate philanthropy funds (Gautier & Pache, 2015), venture philanthropy funds (van Slyke & Newman, 2006; Mair & Hehenberger, 2014) and program-related investments from fellowship-based foundations such as Echoing Green (Battliana, Lee, Walker & Dorsey, 2012), Ashoka (Meyskens, Robb-Post, Stamp, Carsrud, & Reynolds, 2010) and others. In addition to these sources microfinance has found increasing attention in recent times within the social entrepreneurship literature (Khavul, 2010).

One of the alternative ways through which starting SVs try to acquire financial resources and which has not been studied in the past within the social entrepreneurship literature is raising money through business plan competitions. There is an explosion in the number of business plan competitions aimed specifically at socially responsible ventures[1] in recent years which makes our study topical. Even though the set of criteria that decides the winners is published several issues remain in studying the evaluation of business plans. First, in the absence of established templates for social business venture business plans there is considerable variation in the information sought by the competitions. This renders comparisons across competitions difficult. Second, information regarding the scoring systems used by the judges is not always useful to accurately assess who wins and why. Much of this information is

confidential and is not published. Even if the judges were to publish their scores, previous research in judgment analysis has shown that there is a considerable difference in the claimed cue-weighting and the actual cue-weighting used by the judges in arriving at their decisions (Blevins, 1975; Hitt & Barr, 1989). Finally, audience participating in voting for the winners in an era of crowdfunding (Mollick, 2014) also complicates our efforts to understand who will win. The criteria by which these ventures are judged depends on the stakeholder that is assessing them (Nicholls, 2010).

We problematize this situation by invoking organizational legitimacy, a body of literature that has contributed extensively to the study of acquisition of resources by new ventures (Dowling & Pfeffer, 1975; Singh, Tucker & House, 1986). The positive link between legitimacy and the ability to attract resources for venture survival past the liabilities of newness has been empirically examined (Delmar & Shane, 2004; Tornikoski & Newbert, 2007). Beyond survival securing legitimacy would lead to better access to resources that can help new ventures realize growth ambitions (Zimmerman & Zeitz, 2002). Of the numerous types of legitimacy identified in the literature (see Bitektine, 2011), we focus on cognitive legitimacy of new social ventures since it is recognized as one of the basic forms of legitimacy that is crucial for ventures in new industries (Aldrich & Fiol, 1994). Cognitive legitimacy of a new venture is attained by making it *comprehensible* to the stakeholders so that its activities are perceived as, "predictable, meaningful, and inviting"

(Suchman, 1995, p.582). In addition to comprehensibility, cognitive legitimacy also communicates predictability and plausibility of new ventures about which investors are quite interested in before making investment decisions (Navis & Glynn, 2011). Ventures that are successful in gaining cognitive legitimacy have been shown to be successful in attracting investments (Pollack, Rutherford & Nagy, 2012). Even though many studies within entrepreneurship have researched cognitive legitimacy (Shepherd & Zacharakis, 2003; Nagy, Pollack, Rutherford & Lohrke, 2012), little empirical evidence exists as to how social business ventures achieve cognitive legitimacy. Furthermore, studying cognitive legitimacy is essential for the social entrepreneurship context since the industry itself is nascent and the rules of engagement are currently being formulated with the introduction of new legal forms, new funding sources and new support structures (Austin et al., 2006; Short et al., 2009).

As shown by previous empirical evidence (e.g. Choi & Shepherd, 2005) cognitive legitimacy is an important aspect by which stakeholders make decisions on which ventures to support. In each of the instances described above, investors process information relevant to new ventures in order to decide whether they are legitimate. But very little is known about what information they use and how they weigh different kinds of information about the ventures against each other to make their decisions. To be specific, the sources of cognitive legitimacy of a new social business venture has not received scholarly attention. We take a two-pronged approach to address this situation. First, we examine the information

content that confers cognitive legitimacy to a SV. Second, we analyze the discursive legitimation strategy employed in presenting the said information content related to cognitive legitimacy. We performed content analysis of business plans of 124 social business ventures who participated in six different business plan competitions. Our results show the importance of explaining the social innovation, partnerships forged and, explaining scaling or growth prospects of budding ventures in order to attract investment. We show that social impact, even though necessary, may not always be a differentiating factor between ventures vying to win funding. We also report on the use of effective discursive legitimation strategies such as rationalization and authorization by ventures that were chosen as finalists in the business plan competitions.

We make three distinct contributions to literature through our study. First, we extend the application of comprehensibility based cognitive legitimacy to SVs who act in an environment where the rules for operation and evaluation are not clear as of yet. Second, we analyze the differential contribution of sources of legitimacy to funding. From the results, we can report the importance of social innovation and partnerships rather than social impact of the venture in attracting funding. Finally, we explicate on legitimacy judgments made upon new social ventures. From a practical standpoint we clarify as to what type of information these ventures can provide and how effective their legitimation styles can be in order to win investments.

## 4.2 THEORY AND HYPOTHESES DEVELOPMENT

In this section, first we briefly review the challenges faced by SVs who approach new sources of funding such as social venture capital and crowdfunding. Thereby we build a case for analyzing business plan competitions. We follow this with a summary of new venture legitimacy. We scope our attention to cognitive legitimacy and explain why the investigation into cognitive legitimacy is essential for the study of new SVs. The cognitive aspects behind making legitimacy judgments lead us to examine both the content and style of legitimation. Thus for examining the information content that helps stakeholders to make cognitive legitimacy judgments we derive theory-based hypotheses that connect the sources of cognitive legitimacy to the funding outcome. For studying the style of legitimation, we focus on the discursive legitimation strategies used by the SVs and check the effectiveness of these strategies.

### 4.2.1 Funding Social Business Ventures

Social business ventures are started by entrepreneurs to alleviate such social issues where the market or other institutions have failed before (Zahra, Gedajlovic, Neubaum, & Shulman, 2009; Mair & Marti, 2006; Santos, 2012). Attracting investment for these ventures is an important task and the sources of investment are evolving. The possibilities range

beyond the traditional sources into crowdfunding (Calic & Mosakowski, 2016), microfinance, venture and corporate philanthropy, peer-to-peer lending and so on (Bruton, et al., 2014). As the non-traditional sources of funding expand the criteria for funding becomes unclear. For instance, the hybrid nature of the SVs requires that these organizations focus on twin priorities of achieving scalable positive social impact and while remaining financially viable in the long-run (Pache & Santos, 2013; Katre & Salipante, 2012). In order to legitimize themselves in the eyes of the funders, new ventures should provide information on both these elements to prove their business viability as well as intended purpose of social value creation. But what is unknown is how do the stakeholders weigh the information provided to them when two SVs compete for investments. Miller and Wesley (2010) examined the criteria used by social venture capitalists while evaluating a venture's effectiveness including, social sector criteria, social mission, founder's passion and community-based networks. They found that the emphasis the investors placed on the link between social mission and venture effectiveness differed based on their investment focus. This means that ventures have to present the right type of information to convince the investors. Social ventures that expressed themselves in line with the dimensions of entrepreneurial orientation were more likely to be funded as opposed to those who espoused on organizational virtue orientation when seeking investments on online platforms such as www.kiva.org (Moss, Neubaum & Meyskens, 2014). Using data from the same platform, Allison and colleagues found that venture narratives that argue for the urgency of the situation were funded faster than those who exhibited more accomplishment, tenacity and variety

(Allison, Davis, Short & Webb, 2014). As the funding ecosystem of social ventures has expanded, new sources of funding have increased. Business plan competitions is one such non-traditional source of funding. Previous studies have analyzed how new ventures gain investment from venture capitalists in pitching contests such as Dragon's Den (Maxwell, Jeffrey & Levesque, 2011; Maxwell & Levesque, 2014) and Shark Tank (Pollack et al., 2012). In line with these new and non-traditional venture funding sources, we find a burgeoning number of business plan competitions for new SVs. As documented by support entities such as the William James Foundation, social venture business plan competitions have increased not only in number but also in terms of the prize amount and the support offered. For instance, the Hult Prize offers up to one million US Dollars in seed capital and also facilitates networking with important partners in the industry such as accelerators, NGOs etc.  Scant attention has been paid to systematically analyze this funding category. This necessitates further investigation to better understand how funders of such competitions differentiate between ventures during funding decisions.

## 4.2.2 New Venture Legitimacy for Social Business Ventures

Organizational legitimacy is defined, as a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995, p.574). The legitimation efforts of new ventures have also been widely researched (see Uberbacher, 2014

for a review). Within this literature, the relationship between new venture legitimacy and resource acquisition is well established (Lounsbury & Glynn, 2001, Zott & Huy, 2007). Successful legitimation can be the difference between survival and shut down of new a venture as shown by extant empirical evidence (Delmar & Shane, 2004; Tornikoski & Newbert, 2007). Stressing that legitimacy of a new venture is accorded by the audience researchers observe that, "legitimacy ultimately exists in the eye of the beholder" (Zimmerman & Zeitz, 2002, p416). These legitimacy judgments are subject to cognitive and social factors (Bitektine, 2011). Therefore, the audience as judges are influenced by bounded rationality of their cognitive capabilities and are susceptible to framing effects. Given that the field of social entrepreneurship is in its pre-paradigmatic state (Nicholls, 2010), the funders who judge the viability of new SVs may not find any precedence in both the industry and the geographical context of operation to guide their decision-making. We argue that this lack of exemplars within the social entrepreneurship field leads the funders to base their judgment on the knowledge gathered about the venture that contributes to cognitive legitimacy rather than the broad industrial or institutional norms that build sociopolitical (or normative) legitimacy (cf. Aldrich & Fiol, 1994). The comprehensibility view of cognitive legitimacy further aids them in the judgment process for it offers a, "coherent understandable account [of the social ventures] and presents a plausible explanation for the organizations and its endeavors (Suchman, 1995, p. 528). For these reasons, studying cognitive legitimacy is most appropriate for understanding the funding success of SVs. In the following section we

provide an in-depth look at cognitive legitimacy, its prior application in new venture studies and extend it to the study of SVs.

### 4.2.3 Cognitive Legitimacy

Cognitive legitimacy of a new venture denotes the extent to which its stakeholders perceive its key attributes as "comprehensible" or "taken-for-granted" (Suchman, 1995). As noted by Suchman (1995), the notion of taken-for-granted does not lend itself easily to managerial or entrepreneurial agency and might be rare to observe. Existing cognitive frameworks in the minds of funders of new social ventures can be manipulated by strategic actions of social entrepreneurs striving to increase the comprehensibility aspect of cognitive legitimation. This view is in line with the strategic action perspective of new venture legitimation (Uberbacher, 2014). Comprehensibility means that the stakeholders can understand the new venture attributes and actions, and find them "predictable" or "plausible" (Suchman, 1995). Comprehensibility in the funding situation assures the funders that, "the venture is indeed competent, efficient, effective, worthy, appropriate, and/or needed" (Zimmerman & Zeitz, 2002, p.416). Some studies in the past have dealt with comprehensibility and therefore cognitive legitimation, from a knowledge provision perspective. Aldrich and Fiol (1994) describe cognitive legitimation as spread of knowledge about the new venture in terms of product or service offered. Building on increased knowledge that lowers uncertainty, researchers have studied the effect of cognitive

legitimacy on the buying decisions made by customers from new ventures (Shepherd & Zacharakis, 2003). In the context of new venture investment pitching competitions, perceived cognitive legitimacy is shown to mediate the relationship between the preparedness of the entrepreneurs and the amount of funding received (Pollack et al., 2012). Furthermore, in analyzing pitching, entrepreneurs' credentials and impression management behavior have been found to be positively related to cognitive legitimacy of new ventures (Nagy et al., 2010). Nevertheless, it must be noted that in these studies were conducted on commercial ventures and the judges who seek to assess them could follow market guidelines in estimate risks or predicting future performance. This might not be the case for new SVs. Aldrich and Fiol (1994) discuss the difficulty of stakeholders that have to judge the competence of new ventures in new industries. They underscore the lack of established assessment criteria to ascertain risks and rewards, consequent information asymmetries that make decision-making under uncertainty prone to biases. This situation is analogous to funding of new SVs since standards regarding impact measurement and return-on-investment are still in the making (Grimes, 2010; Ormiston & Seymour, 2011). We thus argue that the information provided by new SVs in their business plans can increase the knowledge about the venture, reduce uncertainty and make it easy for the judges to fit and even extend perception on what qualifies as a competent social business venture.

In studying the cognitive legitimacy of new social ventures, we direct our attention to two particular aspects. First, we focus on the

knowledge content from relevant sources that confers cognitive legitimacy. Scholars have proposed that there might be a legitimacy threshold beyond which new ventures can survive (Zimmerman & Zeitz, 2002; Rutherford & Buller, 2007). We posit that higher the levels of perceived cognitive legitimacy of new SVs with the judges, greater will be their chances to win their approval for funding. Therefore, we find knowledge sources that can contribute to increasing cognitive legitimacy in order to be successful in funding efforts. Second, we focus on the discursive legitimation style that is appropriate for each source.

### 4.2.4 Sources of Cognitive Legitimacy and Resource Acquisition

The link between legitimacy and resource acquisition is well-known (Zimmerman & Zeitz, 2002). According to both perspectives, institutional as well as strategic, resource mobilization through legitimation is quite well accepted (Suchman, 1998). Even though there are many sources of cognitive legitimation starting with certification and accreditation, we are not aware of which sources are the most effective in leading to funding success. From the research literature, we identify the four most important sources of legitimacy and test whether they lead to funding namely, social innovation, social impact, scalability and partnerships. Even though this is not a comprehensive set of factors, we argue that they are most salient and could lead to a parsimonious explanation of funding success through cognitive legitimation.

Extant research on new venture legitimacy has taken multiple approaches to mapping the sources of cognitive legitimacy. Drawing from marketing literature, Shepherd and Zacharakis (2003) model cognitive legitimacy of a venture as a combination of customers' knowledge of product, organization and management. Others have used the chances of high-profile endorsements, favorable press coverage and top management effectiveness to measure cognitive legitimacy (Nagy et al., 2012; Pollack et al., 2012). Given that SVs are distinct from commercial ventures in several aspects (Austin et al., 2006) we sought to derive theory-based hypotheses on the information sources that would confer cognitive legitimacy on them based on what different stakeholders value the most. Cognitive legitimacy as comprehensibility of the ventures from an information perspective guides our approach to hypotheses development (Suchman, 1996).

Thus our first research question,

Research question 1: How do different sources of cognitive legitimation affect funding success of new social business ventures?

*Social Innovation*. Innovative ways of solving social problems by coming up with new low-cost product innovations or service innovations have been the bedrock of the social innovation (Hart & Christensen, 2002; Christensen, Baumann, Ruggles & Sadtler, 2006). The notion of innovation is recurrent throughout the various definitions, conceptualizations as well as theoretical expositions of the social

entrepreneurship phenomenon. This is reflected well in the compilation of definitions and descriptions to date on social entrepreneurship (Zahra et al., 2009, p.521). SVs are expected to engage in a sustained process of innovation to achieve their goals (Dees, 1998). Innovation in opportunity creation and decision-making (Mort, Weerawardena, & Carnegie., 2003), making profits (Tan, Williams & Tan, 2005), products (Christensen et al., 2006) and business models (Seelos & Mair, 2007) have been underscored by different authors. Market-based mechanisms such as earned revenue through sales, licensing, service and even micro-franchising (Kistruck, Webb, Sutter & Ireland, 2011) have been studied in the context of social ventures. Innovation has become an essential criterion that could confer the required cognitive legitimacy of SVs. Social innovation captures information about the social problem addressed, business models incorporated, product or service offered etc., by a particular SV. In addition to innovation in the sense of differentiation, we also took into account the information that provides detailed explanation of how the social innovation is implemented along with operational details of the organization. As shown by previous research perceptions on innovation, novelty or distinctiveness can be an important component in investor assessment of venture plausibility (Navis & Glynn, 2011) and therefore we expect a strong relationship between social innovation and funding success of new SVs. Therefore, we hypothesize that,

> H1:  *As cognitive legitimacy derived from social innovation-related information increases, the greater is the likelihood of funding success.*

*Social Impact.* Creation of sustained social value has been stressed as the quality that confers legitimacy on social ventures (Dart, 2004). Scholars and practitioners alike place social value proposition at the core of social entrepreneurship (Austin et al., 2006). SVs are different from their commercial businesses and non-profit based charities in that they strive to, discover, define, and exploit opportunities in order to enhance social wealth (Zahra et al., 2009). Earlier work in social entrepreneurship has focused on fulfilling the social mission as the objective function of a social enterprise (Dees, 1998; Alford, Brown & Letts, 2004; Bornstein, 2007; Mair & Marti, 2006; Dorado, 2006). Any digression to this goal is viewed as "mission drift" which stands to weaken the legitimacy of the social venture among its constituents with dire consequences (Ormiston & Seymour, 2011). Funders that provide capital for new social business ventures have been explicit in their requirement to ascertain the social impact of venture (Miller & Wesley, 2010). Notwithstanding the measurement issues (Behn, 2003; Emerson, 2003), social impact still forms the essence of the social entrepreneurship phenomenon. Previous research delving deeper into funding relationships in the social sector has shown that the way social impact is measured forms a big part of not only how ventures prove their accountability but also has an effect on organizational sensemaking (Grimes, 2010). Any new social business venture therefore has to clearly articulate the demonstrated or expected social impact to gain legitimacy in the eyes of the funders. The more comprehensible the explanation of social impact, the higher would be the chances of funding since funders assessing plausibility consider social

impact as a key performance criterion. Thus we hypothesize that information on the business plan that provides the details of social impact and well-articulated arguments towards achieving such outcome would confer legitimacy on the new venture.

> H2: *As cognitive legitimacy derived from social impact-related information increases, the greater is the likelihood of funding success.*

*Scalability.* Lounsbury and Glynn (2001) stress the entrepreneurial narrative on growth orientation and its importance in acquiring capital. This is echoed by subsequent research work that relates legitimacy, growth and funding success (Zimmerman and Zeitz, 2002). Providing information about future growth plans thus leads to a positive perception with the funders in terms of scalability. The issue of scaling is critical to the funders who are looking for investing in such ventures that would be able to reach as many beneficiaries as possible (Dees, Anderson & Wei-Skillern, 2004). Even though this is the case, many of the SVs in the past have remained smaller projects and studies have investigated why they remain so (Smith, Kistruck & Cannatelli, 2014). Other authors have proposed models that can predict the factors that affect scaling (Bloom & Smith, 2010). The geographical setting of the organization also has a say in the scaling (Smith & Stevens, 2010; Perrini, Vurro, Costanzo, 2010). Scholars have also raised the ethical challenges of scaling up social enterprises (Andre and Pache, 2016). Information on scalability thus can make it clear for the

funders to assess the attractiveness of the social ventures considered for funding. Furthermore, funding sources in practice are increasingly moving from project-based funding to supporting entrepreneurial ventures that have the potential to scale to a self-sustaining organization. They place special emphasis on replicability and internationalization potentials of a venture in order to expand the impact (Zahra, Rawhouser, Bhawe, Neubaum & Hayton, 2008). Comprehensibility through information on scalability thus has a direct effect on funding. Therefore, we posit that,

> H3: *As cognitive legitimacy derived from scalability-related information content increases, the greater is the likelihood of funding success.*

*Partnerships*. Partnerships are an enduring feature of successful venture building within social entrepreneurship (Seelos & Mair, 2005; 2007). Rather than using partnerships as a moderator variable, we decided to use it as a predictor variable since the subject matter of interest is cognitive legitimation through partnerships as opposed to how social ventures produce impact. Partnerships serve as a good indication of venture plausibility in the evaluation of investors in the early stages because of multiple reasons. Social ventures seek to combine their resources with their partners to develop new capabilities that they might be lacking erstwhile (Austin et al., 2006). The ecosystem of SVs derives its complexity as well as uniqueness from the participation of multiple partners in realizing the social mission together (Bacq & Lumpkin, 2014).

Some of the earliest work in literature have focused on the cross-sector partnerships between socially responsible commercial businesses and non-profits (Sagawa & Segal, 2000; Waddock, 1989). The circumstances where the ventures operate are an important reason why partnerships are crucial. In reviewing a decade-long research in the area of bottom-of-the-pyramid (BOP) markets, Kolk, Rivera-Santos and Ruffin (2014) underscore the continuing contribution of cross-sector partnerships (Selsky & Parker, 2005; Vurro, Dacin & Perrini, 2010) in expanding our understanding of how partnerships for social change under the auspices of BOP initiatives work. The turn towards 'co-creation' in the BOP initiatives has enduring partnerships between stakeholders as its backbone (London & Hart, 2004). Support from reputed universities and corporate philanthropy funds contribute to inter-partner legitimacy to the early stage social business ventures (Kumar & Das, 2007). Evidence suggests that partnering with the right stakeholders can increase the chances of resource acquisition and success for social ventures (Meyskens, 2010). Partnerships thus are a useful source of legitimation that can have an effect on funding.

> H4: *As cognitive legitimacy derived from partnership-related information content increases, the greater is the likelihood of funding success.*

## 4.2.5 Discursive Legitimation Strategies

In the previous section we hypothesized on the sources of cognitive legitimacy that lead to funding. The hypotheses collectively answer the question as to 'what' sources of legitimacy can result in positive funding. The discursive legitimation strategies on the other hand provide the answer to 'how' the arguments are made in the written statements in the context of business plans for each of the above said factors. In addition to providing detailed information that increases the stakeholders' knowledge of the new ventures, legitimacy is attainted through the efforts of entrepreneurs strongly arguing for the validity and appropriateness of their actions. This is accomplished in various ways including the use of symbolic language and behavior (Aldrich & Fiol, 1994), story-telling (Lounsbury & Glynn, 2001) and impression management behavior (Nagy et al., 2012). For the analysis of business plans we chose to study the discursive legitimation strategies used in the arguments for making the venture comprehensible. Scholars have previously looked at effective rhetorical strategies that are used in legitimation efforts by analyzing relevant textual material (Phillips, Lawrence & Hardy, 2004). For instance, Suddaby & Greenwood (2005) have studied the rhetorical strategies used to legitimate new organizational forms.

Vaara and colleagues have analyzed media texts for discursive legitimation strategies in the context of issues dealt by multi-national

corporations such as mergers (Vaara, Tienari & Laurila, 2006) and shut-down (Vaara & Tienari, 2008). Within social entrepreneurship, the rhetorical strategy used by social entrepreneurs to legitimize their actions relative to commercial alternatives has been documented (Ruebottom, 2013). Similarly, entrepreneurial rhetoric of ventures that seek funding in a microlending platforms have been shown to affect the investment decisions of the participating community (Allison, McKenny, & Short, 2013). Rhetorical nature of the text from such platforms has also been studied for the effect of signaling entrepreneurial orientation over funding success (Moss et al., 2014). For this paper, we use the discursive legitimation strategies laid out by van Leeuwen and Wodak (1999) in line with Vaara et al (2006). Out of the legitimation strategies suggested, we chose to focus on three specific types which we consider are relevant to analyzing arguments related to cognitive legitimation from the text of business plans. They are rationalization, authorization and narrativization. The fourth legitimation strategy of moral evaluation, we deem, is more in line with moral or normative legitimacy and hence is not included in our focus of cognitive legitimacy.

> Research Question 2: Which discursive legitimation strategies are effective in helping cognitive legitimation of social business ventures to attract investments?

Rationalization is defined as, legitimation by reference to the utility of specific actions based on knowledge claims that are accepted in a given context as relevant (Vaara & Tienari, 2008). SVs tend to justify the utility
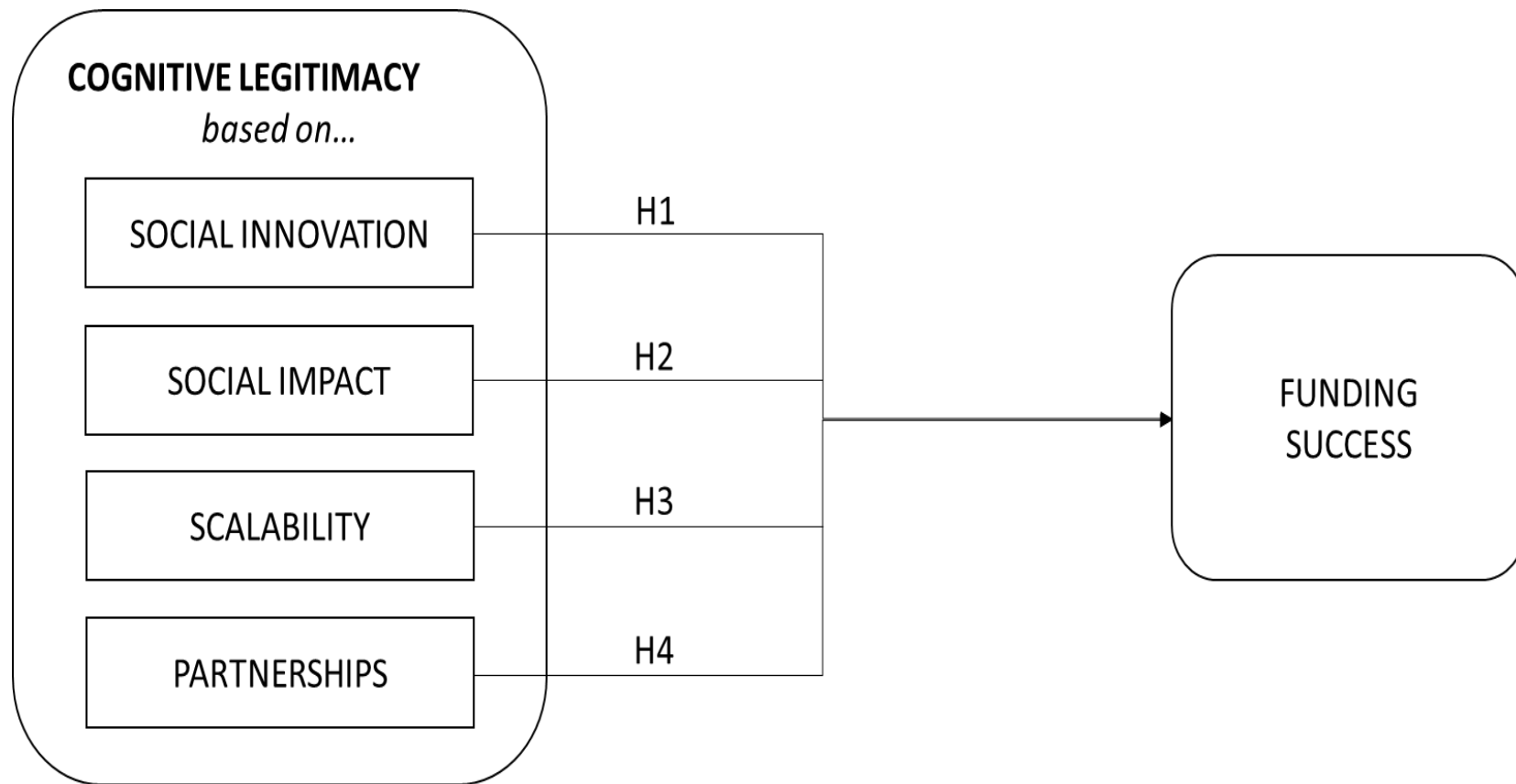
**Figure 3.1 Relationship between Cognitive Legitimacy and Funding Success**

of the actions taken by them throughout the business plan whether it is explaining their innovation or arguing for the steps taken towards growth and so on. Hence, we expect to observe frequent instances of legitimation by rationalization. As fledgling new ventures, firms tend to borrow on the legitimacy of other actors such as their partners or accreditation agencies and sometimes even an important investor. When arguing for such collaboration they could be using the legitimation strategy of authorization. It is defined as, legitimation by reference to the authority of tradition, custom, law, and persons in whom institutional authority of some kind is vested (Vaara & Tienari, 2008). As noted previously, story-telling is a strategy that entrepreneurs and new firms utilize frequently convince their stakeholders (Lounsbury & Glynn, 2001). Narrativization thus involves legitimation conveyed through narratives. This means telling stories or constructing narrative structures to indicate how the issue in question relates to the past or the future (Vaara & Tienari, 2008). For social ventures to strengthen their arguments as to why their innovation is compelling and to illustrate their impact, narrativization could be a useful tool. Since all the strategies of legitimation can accentuate the effectiveness of the arguments we have,

> H5: *The higher the use of discursive legitimation strategies of rationalization, authorization and narrativization during cognitive legitimation, the greater are the chances of funding success.*

## 4.3 METHOD

### 4.3.1 Data and Sample

We draw our sample from Changemakers®, an organization part of the renowned Ashoka foundation which promotes social entrepreneurship globally. Changemakers® conducts internet-based competitions bringing together a network of actors such as innovators, social entrepreneurs and partners who fund them such as GE, Google, and the Rockefeller Foundation. These competitions are separate from the Ashoka Fellowships offered to proven social entrepreneurs. The competitions aim at funding potential social ventures at early stages. Each competition has a particular theme such as health care or girls' education and is sponsored by a notable corporate partner or a group of partners. The partners provide monetary funding for the winners. They also make future grant opportunities and support available for the finalists in some cases.

The competing social ventures are required to provide their details on a standardized funding application form. In some cases, this is slightly modified with additional questions to suit the theme of the competition. The initial part of the form seeks details about the entrepreneur and the organization. This is followed by open-ended questions covering a list of items to assess the quality of the ventures. Set word limits on each open question requires ventures to present themselves in the best possible manner within the given space. This in turn is favorable, methodologically

speaking, to perform content analysis of the text on the business plans as the narrative length is almost equal for all the ventures. A panel of expert judges nominate the finalists from the participants based on their evaluation of the business plans. From the group of finalists, the winners are picked by votes cast by the Changemakers® online community. The criteria of evaluation are subjective for each competition but certain guidelines are published. The guidelines state the innovativeness as the most important criterion. Next to innovation, social impact demonstrated by the venture and its long-term sustainability are stated as other important criteria for evaluation. Rating of the judges is kept confidential. Also, the financial details of the ventures, even though collected in only certain competitions, are not displayed on the Changemakers® website.

## 4.3.2 Sampling Strategy

For our analysis we chose competitions that paid a prize money of at least 10,000 US Dollars and above. The reason for this limit is driven by, 1) the standardized forms that were used as funding application, 2) the presence of working social ventures beyond ideation taking part in the competition and, 3) the value of the prize amount which when converted to the local currency where the venture is located might be a substantial boost to the organization. Based on these criteria we were able to collect data from 6 separate competitions that were open to participants globally. Each competition received hundreds of entries totaling 2875 submissions. We included all the finalists (47) and the winners (21). When we read through

the participant submissions we found that an extremely large percentage of them were submitted by ventures that were not even remotely related to the competition theme at hand. This explains the high number of entries. We then followed a purposive sampling technique to choose participants (56) from the six competitions for our dataset. Our sampling rationale was to include entries that satisfied a set of criteria which would have made them suitable for the judges to consider them for finalists. This includes, 1) language – only English language entries were considered, as required by the competition guidelines, 2) completeness of information provided the entry that checks whether all the questions were answered and finally, 3) fit with the competition theme by cross-checking if the entry solved the social issue and other thematic requirements spelled out by the organizers of the competitions. First, we filtered the entries by their name looking for relevant keywords and started opening them. Upon exhausting this method, we opened every $10^{th}$ entry till we procured a number the of entries in proportion to the entries submitted to the competition. In total, we have a total dataset of 124 entries with the non-finalists, finalists and winners.

### 4.3.3 Dependent Variable

The dependent variable in our analysis is the funding outcome which can take the following values: 0-participant, 1-Finalist and 2-Winner. Since the levels are discrete and the outcome cannot take intermediate values, and

also since the outcome is rank-ordered, the dependent variable qualifies as an ordinal variable. Participants denote those SVs who were not chosen by the judges as finalist and can also be termed as non-finalists. Finalists are those who were chosen by the judges but did not get enough votes from the community to win. Winners are those SVs that were chosen by the judges as finalists and also won the votes of the audience to win the funding.

## 4.3.4 Independent Variables

As identified in the hypotheses, sources of cognitive legitimacy of social ventures were captured by the four main independent variables for the ordinal logistic regression analysis namely, Social Innovation, Social Impact, Scalability and Partnership. Each of the variable names denotes the cognitive legitimation derived from that particular source. For the ANOVA test on discursive strategies, each of the sources of legitimacy is paired with rationalization, authorization and narrativization.

## 4.3.5 Control Variables

We used two firm-level control variables which we considered as those would have an effect on funding outcome. In making this choice, we were constrained by the data that was available for all the competition entries. Legal form of the venture was a dummy variable with three possible values

namely, non-profit (0), hybrid (1) and for-profit (2). Venture's age was a dummy variable with values of (0) idea phase, (1) less than a year, (2) between 1 and 5 years and (3) more than 5 years. Finally, we controlled for the prize money of the competition. In the competitions we chose there were only two possibilities, either 10,000 or 50,000.

### 4.3.6 Content Analysis

Applying content analysis (Neuendorf, 2002; Krippendorff, 2004; Duriau, Reger & Pfarrer., 2007) to business plan texts allows for the use of mixed method analysis. Previous studies in social entrepreneurship have exploited the advantages of content analysis in studying various text material such as mission statements (Moss, Short, Payne & Lumpkin, 2010) and, microenterprise narratives on microlending platforms (Moss et al., 2014; Allison et al., 2014). Following their example, we first perform qualitative analysis followed by ordinal logistic regression and ANOVA which are described in detail in this section (cf. Choi & Shepherd, 2005).

*Scoring of the independent variables.* The unit of analysis was each statement in the business plan. The scoring consisted of two steps namely, coding for relevance and rating each coded statement for information content. For coding we zeroed in on statements that described the social innovation, social impact, scalability and partnerships throughout the text of the business plan. A brief description of the coding scheme is displayed

on table 4.1 (please see appendix 4.1 for an extensive description). Simultaneously, we also examined as to what discursive legitimation strategy (van Leeuwen & Wodak, 1999) was employed in rendering the statement. Each statement was assigned to rationalization, authorization or narrativization based on discursive legitimation strategy employed in the argument (c.f. Vaara & Tienari, 2008). The definition of each type of legitimation strategy and an example quote is provided in table 4.2.

Following the best practices for qualitative coding (Babbie, 2013), two authors scored all the competition entries in several rounds. During the scoring of the business plans, competition outcome and other descriptive details of the organization was kept separate to avoid any biases. Initially, the scorers collaborated to establish the guidelines. Thereafter, each of us scored entries separately in round one. Scoring discrepancies were discussed and clarified at the end of round one. Atlas.ti software was used to complete the coding. This was followed by independent scoring and a final comparison on a given number of entries. Thus we were able to achieve a high degree of inter-rater agreement (over 85.3%). Once the coding was complete, the statements were rated for information content. We used *autonomous counting* as prescribed by Hannah and Lautsch (2010) to accomplish this. In this process, each statement was given points according to its descriptive depth, use of specific language to clarify the nature of venture and its operations, and appropriate quantitative facts to underscore the results achieved.

**Table 4.1 Sources of Cognitive Legitimacy**

| Cognitive Legitimation Source | Description* | Example |
|---|---|---|
| Social Innovation | Includes specific actions towards solving a social problem. May provide a new improvement to the field, which is innovative. It can also include the exemplification of a working business model or the primary activities. | Patient or their relatives can contact Blood Donors by sending an SMS. It is the only helpline of its kind which connect needy patients to Blood Donors in real time through a mobile phone. All at the Cost of a Normal SMS. The services of the Blood Donors and helpline is free of cost. Blood Donors can be contacted in times of Emergencies, citywise, Blood Group wise, areawise. This also can be used in Disaster Management." |
| Social Impact | Includes information about who is affected by the solution and how many. The social impact differs from the solution in a way that the impact is about consequences of behavior, whereas solution is derived from operational plans, functions and descriptions. | "Since September 2000 Adelante has disbursed over 74,300 loans to more than 54,983 clients. These loans total over 9.3 million dollars. Without these loans, many women would have never been able to improve their families' standard of living through the application of small business loans." |

*language in this table and the coding scheme is inspired by descriptions posted on www.changemakers.com*

**Table 4.1 Sources of Cognitive Legitimacy - continued**

| Cognitive Legitimation Source | Description | Example |
|---|---|---|
| Scalability | Highlights what the organization wants to do in the future. It includes specific tasks and actions that need to be fulfilled in order to scale the impact and financial contributions of the organization. They can talk about key goals that the social venture strives for in the future. | Continuing into 2011 and onward we are concentrating on developing a Management Information System (MIS) to track operational and social impact. The inputs will be received by our SMS platform and on-ground surveys. As a result of the investment to create these systems, processes and platforms, InVenture will be able to maintain greater efficiency and should see costs drop significantly in proportion to assets under management." |
| Partnerships | Informs about current partners and how they are related to the applicant's organization. It can range from naming or listing the partners, to explaining their functions and what they work together on in the partnership. | "We are developing the SolConnect supply chain platform tool in partnership with Grameen Foundation's AppLabs team in Uganda, which is also committed to using innovative technologies to empower the poor with life-changing information." |

**Table 4.2 Discursive Legitimation Strategy: Definitions and Example Quotes**

| Discursive Legitimation Strategy | Definition | Example Quote |
|---|---|---|
| Rationalization | Legitimation by reference to the utility of specific actions based on knowledge claims that are accepted in a given context as relevant | *"The MFA catalyzes and grows a portfolio of franchise opportunities to empower low-income people in order to build commercially viable micro franchise business solutions, drive growth in the small, medium and micro enterprise sector (SMME) and generate socio economic development at scale, while creating a growth opportunity for the franchisor."* |
| Authorization | Legitimation by reference to the authority of tradition, custom, law, and persons in whom institutional authority of some kind is vested | *"We have a number of important partnerships. In Colombia, we are working with the largest microfinance network in the country – Bancamia – to identity shopkeepers who may be interested in our point-of-sale solution. Also in Colombia, we are working with a poverty lab associated with Harvard University called Ideas42 to measure the impact of our technology on businesses."* |
| Narrativization, also known as Mythopoesis | Legitimation conveyed through narratives. This means telling stories or constructing narrative structures to indicate how the issue in question relates to the past or the future | *"As a specific example we will explain what an individual experience at one week's Steps to Health Project, covering the areas of Nutrition and Exercise Psychology, completing the cycle guidance, practice and discussion…"* |

In developing this rating scheme we made sure that there is an upper limit in the ratings received from the unit of analysis which is a statement in the business plan. This was done to control for the number of statements in the coded version belonging to a particular business plan. In other words, we made sure to check if the funding success is just a function being overly descriptive or the number of statements used but came from statements building the cognitive legitimacy of the venture. Furthermore, in selecting the statements that had to be coded and rated, we made sure that the statements were specific to build knowledge about the venture. As a result, statements that purely reflected moral reasoning as to why a solution must be found for a social problem and did not convey the *how* operations took place or results were achieved were not included.

We performed ordinal regression on the data to estimate the effect of different sources of legitimacy on the funding outcome of the competitions. In performing ordinal logistic regression, we made sure that the required assumptions were satisfied including, 1. Proportional odds assumption, 2. Model fit and 3. Goodness of fit. The proportional odds assumption was checked using the test of parallel lines in the SPSS software. This is done to make sure that the effect of the independent variables on the dependent variable is consistent across the different categories (in our case levels from participant to winner) in the outcome variable. In other words, this criterion makes sure that the effects are "proportional across different thresholds" (Kleinbaum & Klein, 2010). Multicollinearity between the independent variables was dealt with by

introducing each independent variable in a step-wise manner in the successive regression models to check for the effect of the individual independent variables on the outcome as well as their different combinations.

## 4.4 RESULTS

From the descriptive statistics results displayed in Table 4.3 we find some correlation between the independent variables. But none of them were high enough to be cause for concern in terms of multicollinearity. The same can be said about the control variables which do not correlate significantly with the independent variables or the dependent variable of funding outcome. Cognitive legitimacy through social impact was the variable with the highest mean as it can be expected from the nature of the competition. This followed by those from social innovation, scalability and finally partnerships.

The results of the ordinal logistic regression are shown in tables 4.4.1 and 4.4.2. Models 1a through 1d test the individual effect of cognitive legitimacy from social innovation, scalability, social impact and partnerships respectively. Models 1e through 1o test the effect of these independent variables in different combinations. Inspecting the tables, we can arrive at the following conclusions. The factors that confer cognitive legitimacy from information on social innovation, scalability, partnerships

are significant in each and every model of regression. Social impact on the other hand, loses its effect when taken together with all the other factors. Therefore, Hypothesis 1 which deals with the positive effect of social innovation based cognitive legitimacy on funding success is supported (Pseudo $R^2$ = 24.5%, $p$ < .001). Hypothesis 2 which posits a positive relationship between scalability based cognitive legitimacy on funding is supported (Pseudo $R^2$ = 19.6%, $p$ <.001). Hypothesis 4 that predicts a positive relationship between the partnership related cognitive legitimacy and funding success is also supported (Pseudo $R^2$ = 17.5%, $p$ <.001). On the other hand, Hypothesis 3 which asserts the positive effect of social impact related cognitive legitimacy on funding outcome is not fully supported. Although by itself social impact related cognitive legitimacy can account for 11.6% (Pseudo $R^2$ McFadden) of explained variance, in combination with other variables it loses significance. For instance, in the full model (1o) which takes together all the independent variable, social impact does show an effect on the funding outcome moving from the ventures being participants to winners. Furthermore, we conducted tests that checked the interaction effect between different combinations of independent variables on the funding outcome. We did not find any significant results from these tests and in some of test the assumptions behind the ordinal logistic regression were not satisfied. Therefore, there were no interactions effects in our sample.

**Table 4.3: Descriptive Statistics and Correlation Table**

| | Mean | SD | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. Social Innovation | 9.48 | 5.50 | 1 | | | | | | | |
| 2. Partnership | 7.38 | 5.90 | 0.38** | 1 | | | | | | |
| 3. Scalability | 8.4 | 4.62 | 0.60** | 0.34** | 1 | | | | | |
| 4. Social Impact | 10.44 | 6.99 | 0.38** | 0.31** | 0.36** | 1 | | | | |
| 5. Prize | 25,238 | 19,502 | -0.06 | 0.33** | -0.15 | -0.14 | 1 | | | |
| 6. Venture Legal Form[a] | 1.56 | 0.89 | 0.04 | -0.07 | 0.07 | -0.07 | -0.10 | 1 | | |
| 7. Venture Age[a] | 2.38 | 0.63 | 0.10 | 0.11 | 0.03 | 0.08 | 0.11 | -0.50 | 1 | |
| 8. Funding Outcome[a] | 1.26 | 1.17 | 0.64** | 0.44** | 0.54** | 0.37** | -0.06 | 0.10 | 0.28 | 1 |

N= 124; [*]$p < .05$; [**]$p < .01$; [***]$p < .001$

[a] Spearman's rank correlation co-efficient is calculated for ordinal variables

The results of the ANOVA on the legitimation strategies employed by SVs to make their arguments are displayed in Table 4.5. We observe that rationalization is the most used discursive legitimation strategy by all the groups, participants, finalists and winners. At the same time, they also differ remarkably from each other in the use of rationalization ($F(2, 121)$ = 52.34[***], $p<.000$). Each and every source of cognitive legitimacy hypothesized (social innovation through partnerships) were argued using rationalization and the frequency of usage of this discursive strategy was different between the groups. The frequency of usage increased from participants to finalist and winners in ascending order. Rationalization is followed by authorization in terms of frequency. We found significant differences in the use of authorization between the groups ($F(2, 121)$ = 7.16[*], $p<.001$). Narrativization on the other hand was not observed as much and in addition, there were no difference between the participant groups i.e., winners, finalists and non-finalist in its usage. Even though some questions in the funding application explicitly ask for examples, the format of the business plans did not seem to provide space for extensive narratives that might involve story-telling.  We did not observe any narrativization strategy with respect to partnerships and scalability within our sample.

**Table 4.4.1: Results of Ordinal Logistic Regression Main Effects**

| Regression Models | 1a | 1b | 1c | 1d | 1o |
|---|---|---|---|---|---|
| **Control Variables** | | | | | |
| Venture Legal Form | | | | | |
| Non-Profit to Hybrid | -0.670 (-1.95) | -0.818 (-2.27) | -1.060[*](- 2.89[*]) | -1.028[*] (-2.80[*]) | -1.018 (-2.77) |
| Hybrid to For-Profit | 1.029 (2.80) | 1.277 (3.59) | 0.908 (11.93) | 0.762 (2.14) | 0.641 (1.90) |
| Venture Age | | | | | |
| <1 year to 1-5 years | -1.310 (-3.71) | -1.551 (-4.72) | -0.776 (-2.17) | 0.818 (-2.27) | -1.365 (-3.92) |
| 1-5 years to > 5 years | -0.692 (-2.0) | -0.867 (-2.38) | -1.072[*] (-2.92[*]) | -0.919 (-2.51) | -0.769 (-2.16) |
| Prize Amount | -1.285E-5 | -4.519E-6 | -7.902E-6 | -3.983E-5[**] | -2.101E-5 |
| | (-1.01) | (-1.00) | (-1.01) | (-1.04[**]) | (-1.02) |
| **Independent Variables** | | | | | |
| Social Innovation | 0.262[***] (1.299[***]) | | | | 0.175[***] (1.19[***]) |
| Scalability | | 0.274[***] (1.315[***]) | | | 0.126[*] (1.13[*]) |
| Social Impact | | | 0.115[***] (1.12[***]) | | 0.044 (1.05) |
| Partnerships | | | | 0.204[***] (1.23[***]) | 0.117[**] (1.12[**]) |
| -2 log likelihood | 161.470[***] | 166.463[***] | 193.463[***] | 175.125[***] | 170.608[***] |
| Pseudo $R^2$ (McFadden) | 0.245 | 0.196 | 0.116 | 0.175 | 0.327 |

N = 124; *p < .05; **p < .01; ***p < .001; () The odds are calculated by the following formula: odds=e [(regression coefficient)]

**Table 4.4.2: Results of Ordinal Logistic Regression**

| Regression Models | 1e | 1f | 1g | 1h | 1i | 1j | 1k | 1l | 1m | 1n |
|---|---|---|---|---|---|---|---|---|---|---|
| **Control Variables** | | | | | | | | | | |
| **Venture Legal Form** | | | | | | | | | | |
| Non-Profit to Hybrid | -0.732 | -0.819 | -0.887 | -0.996 | -1.013 | -1.152* | -0.880 | -0.930 | -0.978 | -1.116 |
| | (-2.08) | (-2.27) | (-2.43) | (-2.707) | (-2.75) | (-3.17*) | (-2.41) | (-2.54) | (-2.66) | (-3.05) |
| Hybrid to For-Profit | 1.133 | 0.760 | 0.694 | 1.041 | 0.921 | 0.611 | 0.867 | 0.784 | 0.547 | 0.796 |
| | (3.11) | (2.14) | (2.00) | (2.83) | (2.51) | (1.84) | (2.38) | (2.19) | (1.73) | (2.22) |
| **Venture Age** | | | | | | | | | | |
| <1 year to 1-5 years | -1.647 | -1.107 | -1.176 | -1.252 | -1.354 | -0.602 | -1.466 | -1.496 | -1.031 | -1.142 |
| | (-5.19) | (-3.03) | (-3.24) | (-3.50) | (-3.87) | (-1.83) | (-4.33) | (-4.46) | (-2.80) | (-3.13) |
| 1-5 years to > 5 years | -0.701 | -0.764 | -0.704 | -0.964* | -0.884 | -0.978* | -0.788 | -0.720 | -0.748 | -0.936 |
| | (-2.02) | (-2.15) | (-2.02) | (-2.62*) | (-2.42) | (-2.66*) | (-2.20) | (-2.05) | (-2.11) | (-2.55) |
| Prize Amount | -8.342E-6 | -1.036E-5 | -2.989E-5* | -2.397E-6 | -2.571E-5* | -3.280E-5** | -6.451E-6 | -2.38E-5 | -2.652E-5* | -2.166E-5 |
| | (-1.01) | (-1.01) | (-1.03*) | (-1.00) | (-1.03*) | (-1.03**) | (-1.01) | (-1.02) | (-1.03*) | (-1.02) |
| **Independent Variables** | | | | | | | | | | |
| Social Innovation | 0.204*** | 0.240*** | 0.223*** | | | | 0.192*** | 0.181*** | 0.211*** | |
| | (1.23***) | (1.41***) | (1.25***) | | | | (1.21***) | (1.198***) | (1.24***) | |
| Scalability | 0.155** | | | 0.242*** | 0.223*** | | 0.144*** | 0.132* | | 0.205*** |
| | (1.17***) | | | (1.27***) | (1.25***) | | (1.16***) | (1.14*) | | (1.23***) |
| Social Impact | | 0.071* | | 0.079** | | 0.175*** | 0.062* | | 0.050 | 0.057 |
| | | (1.07*) | | (1.08**) | | (1.08***) | (1.05*) | | (1.05) | (1.06) |
| Partnerships | | | 0.143*** | | 0.148*** | 0.079** | | 0.128** | 0.130** | 0.133** |
| | | | (1.15***) | | (1.16***) | (1.19**) | | (1.14**) | (1.14**) | (1.14**) |
| -2 log likelihood | 182.138*** | 186.176*** | 177.364*** | 194.058*** | 184.958*** | 199.171*** | 178.878*** | 172.494*** | 175.619*** | 183.771*** |
| Pseudo R² McFadden | 0.279 | 0.266 | 0.298 | 0.225 | 0.257 | 0.205 | 0.295 | 0.320 | 0.308 | 0.270 |

N = 124; *p < .05; **p < .01; ***p < .001; () The odds are calculated by the following formula: odds=e $^{(regression\ coefficient)}$

**Table 4.5 Results of ANOVA between Groups on Discursive Legitimation Strategies Related to Cognitive Legitimacy**

| Legitimation Type + Cognitive Legitimacy | Participants Mean (SD) N = 60 | Finalists Mean (SD) N = 43 | Winners Mean (SD) N = 21 | Total Mean (SD) N = 124 | F(df), p-value |
|---|---|---|---|---|---|
| **Rationalization** | | | | | |
| Social Innovation | 5.00 (2.01) | 9.12 (4.33) | 10.71 (4.24) | 7.40 (4.12) | $F(2, 121) = 30.67^{***}$, p = .000 |
| Scalability | 5.07 (2.24) | 7.77 (2.74) | 8.14 (2.65) | 6.52 (2.85) | $F(2, 121) = 20.03^{***}$, p = .000 |
| Social Impact | 3.42 (2.52) | 5.23 (3.32) | 6.33 (4.40) | 4.54 (3.36) | $F(2, 121) = 8.11^{***}$, p = .000 |
| Partnership | 1.25 (1.30) | 3.26 (3.27) | 3.52 (3.34) | 2.33 (2.72) | $F(2, 121) = 10.74^{***}$, p = .000 |
| Total Rationalization | 14.73 (4.99) | 25.37 (7.60) | 28.71 (7.80) | 20.79 (8.80) | $F(2, 121) = 52.34^{***}$, p = .000 |
| **Authorization** | | | | | |
| Social Innovation | 0.13 (0.70) | 0.88 (1.35) | 0.95 (1.02) | 0.53 (1.09) | $F(2, 121) = 8.89^{***}$, p = .000 |
| Scalability | 0.25 (0.79) | 0.16 (0.48) | 0.71 (1.27) | 0.30 (0.83) | $F(2, 121) = 3.48^{*}$, p = .034 |
| Social Impact | 0.85 (1.54) | 1.02 (1.54) | 1.43 (1.91) | 1.01 (1.61) | $F(2, 121) = 1.01$ p = .366 |
| Partnership | 0.77 (1.18) | 1.63 (2.18) | 1.95 (2.87) | 1.27 (1.97) | $F(2, 121) = 4.12^{*}$, p = .019 |
| Total Authorization | 2.00 (3.08) | 3.70 (3.31) | 5.05 (4.46) | 3.10 (3.59) | $F(2, 121) = 7.16^{**}$, p = .001 |
| **Narrativization** | | | | | |
| Social Innovation | 0.48 (1.10) | 1.05 (1.69) | 0.43 (1.08) | 0.67 (1.35) | $F(2, 121) = 2.67$, p = .074 |
| Social Impact | 0.33 (0.91) | 0.19 (0.63) | 0.62 (1.40) | 0.33 (0.93) | $F(2, 121) = 1.53$, p = .221 |
| Total Narrativization | 0.82 (1.35) | 1.23 (1.76) | 1.05 (1.86) | 1.00 (1.59) | $F(2, 121) = .869$, p = .422 |

## 4.5 DISCUSSION

In this paper, we sought to delineate the effect of different sources of cognitive legitimation on the funding success of social business ventures in the context of business plan competitions. Our evidence clarifies the importance of information content related to four different cognitive legitimation sources on the funding outcome. As hypothesized, cognitive legitimacy gained through information regarding social innovation, scalability, social impact and partnerships all have a positive effect on the funding outcome. But all the sources are not equally useful in attracting resources. Hypothesis 1 covers the positive relationship between social innovation and funding success. The knowledge of the social innovation provided by an SV most valued by the judges to differentiate participants and finalists. Our results show that up to 24% of the variance in funding outcome can be explained by cognitive legitimacy from social innovation-related information which is the highest compared to other factors. We find that Hypothesis 2 that positively relates social impact and funding success is supported. But the effect disappears when all the independent variables are taken together.

Even though all the ventures provide extensive information about their achieved social impact, it does not seem to determine the winners when all factors are taken together. This tells us that since every entrant claims social impact of appreciable magnitude, judges are not able to differentiate them just based on social impact. Thus even though social

impact based cognitive legitimacy is a required condition it is not sufficient by itself in determining funding success because it cannot adequately distinguish a venture from others in the context of business plan competition. We find that competition winners employ all the discursive legitimation strategies better than the participants to present their arguments. They draw from rational arguments and support the legitimacy of their actions by reference to authority of other legitimate sources. Next to social innovation, cognitive legitimacy conferred by information on scalability and partnerships affect funding. Finalists and winners mention twice the number of partnerships on average than the participants. Thus the winners seem to leverage the legitimacy of some of the well-known entities in the social venture community such as research institutions, incubators and corporate partners.

### 4.5.1 Theoretical and Practical Implications

From our study, we contribute to two interrelated literature streams namely, new venture legitimation and social entrepreneurship. In this section we discuss our contributions around three themes. First, we apply an alternate operationalization of cognitive legitimacy based on comprehensibility (c.f. Shephers & Zacharakis, 2003). A majority of extant research studies have focused on the taken-for-granted aspect of cognitive legitimacy (Nagy et al., 2012; Pollack et al., 2012). In an emerging field such as social entrepreneurship taken-for-granted notions that accrue over time are yet to happen. Therefore, we resolved to focus on

the substantive information content based on which cognitive legitimation is sought by the ventures in a new market category (Aldrich & Fiol, 1994). Our findings answer the call for researching the specific sources that confer legitimacy to organizations (Bitektine, 2011; Tost, 2011). We find that just as the cognitive legitimacy of a business among customers increases with the knowledge and understanding of its features (Shepherd & Zacharakis, 2003), the cognitive legitimacy of SVs among investors increases with the information on social innovation, partnerships, scalability and social impact.

Second, in studying the funding applications and investors' verdict upon them, our research aligns with the recent efforts with the legitimacy literature towards understanding legitimacy judgments made by individual audience members (e.g., Finch, Deephouse & Varella, 2015). Investors that make legitimacy judgments of new ventures are not only looking for legitimate ventures that subscribe to approved norms but they are also in search of distinctive ventures that can sustain against competition. Thus the concept of legitimate distinctiveness highlights the paradox of not succumbing entirely to isomorphic pressures of the industry thus losing distinctiveness while at the same time not deviating too much away from the norms to be rendered incomprehensible (Navis & Glynn, 2010). Positive funding outcome identifies those ventures that are able to perform the balancing act of legitimate distinctiveness successfully. Therefore, the legitimation sources such as social innovation instrumental to funding

success confer not just legitimacy but also distinctiveness to the ventures from their competition (van Werven, Bouwmeester & Cornelissen, 2015).

Finally, the medium of written text from the funding applications also enabled us to observe the manifestation of cognitive legitimation by tracking the discursive legitimation strategies used. Our results highlight the plurality of discursive legitimation strategies that winners employ in their arguments. They use rationalization to underline social innovation, support their partner selection with authorization and narrativize through stories when required. These findings are in line with the Golant and Sillince (2007) that explain the organizational legitimacy construction using discursive strategies underscore the persuasiveness of the organizations rather than the conformation to isomorphic pressures.

For practice, our results suggest the importance of furnishing different types of details about the venture in a situation where similar ideas compete. SVs that are vying for funding can write effective funding applications by focusing on content and form of arguments. In terms of content, innovation reigns supreme as a way to convince the investors. In terms of form, rationalization and authorization based arguments increase the plausibility of the ventures which in turn can increase the funding chances. The fact that each venture is designed to solve a social problem makes the social impact related information less effective in conferring distinctiveness. Therefore, ventures cannot afford to rely just on the promise of intended impact or morality-based arguments to sway the investors when vying for funding.

## 4.5.2 Limitations and Future Research

We would like to acknowledge some of the limitations of our study that arose directly from the empirical context. We were limited by the variety of questions asked and formats of business plan competitions in our ability to include the number of competitions. Therefore, we had to limit our analyses to 6 competitions. The competitions also took on different themes and within each competition there were multiple industries too many to be counted and controlled for. All the data from the business plans were not published. For example, some of the financial performance information which might have been a crucial source of information was not published to protect the privacy of the ventures. Also, there was limited and unfilled information on the founders and their characteristics. Finally, there was limited information on the past accolades achieved by the ventures in terms of prizes won and the like. We were not able to check if this contributed to the legitimacy of the ventures. Future research can explore other sources of legitimacy than the ones studied here. Recent research that examines the influence of rhetoric on legitimacy seeks to build a bridge between the importance of communication by the organization and the role played by cognition of individual audience members in the formation of legitimacy judgments (Hoefer & Green, 2016). From the business plan competitions, we can make inferences of legitimacy judgments based on the funding outcome. Future studies could explore the role of cognition of the evaluators much more in-depth by interacting with them. Cognitive legitimacy is not stable over the life of an organization. There is plenty

more to explore in terms of the changes in cognitive legitimacy over the lifetime of a social business venture which future research could tap into.

Notes: [1] http://www.williamjamesfoundation.org

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**Appendix 1.0**

**Coding Scheme for Social Innovation:**
Text segments that are coded as social innovation includes specific actions towards solving a social problem.
It may provide a new improvement to the field, which is innovative.
It can also include the exemplification of a working business model or the primary activities.

*Question set*

-Does it describe a new product/service offering?
-Does it describe specific actions towards solving a social problem?

-Does it describe a new way of performing an activity?
-Does it provide meaningful details about the execution of activities?        → Code as Social Innovation

-Does it describe the link between actions and how they enable impact?

-Does it outline targeting process of niche market?
-Does it describe a new improvement to the field?
-Does it exemplify the working model?
-Does it exemplify primary activities?

**Example quotes: Social Innovation**

-" Volunteers in the classroom is a key contributing factor to AWIM's proven effectiveness. This project would focus on recruiting and training college students to participate in AWIM classrooms as volunteers. Those students would receive professional development training to ensure accurate content delivery of the JetToy curriculum. At the same time, these students would interact with corporate participants as well, thereby, offering these students an valuable interaction and exposure to practicing STEM professionals."

-" Patient or their relatives can contact Blood Donors by sending an SMS. It is the only helpline of its kind which connect needy patients to Blood Donors in real time through a mobile phone. All at the Cost of a Normal SMS. The services of the Blood Donors and helpline is free of cost. Blood Donors can be contacted in times of Emergencies, citywise, Blood Group wise, areawise. This also can be used in Disaster Management."

**Coding Scheme for Scalability**

Text segments related to scalability, highlight what the organization wants to do in the future. It includes specific tasks and actions that need to be fulfilled in order to scale the impact and financial contributions of the organization.

They can talk about key goals that the social venture strives for in the future.

*Question set*

-Does it describe future objectives?
-Does it describe how to achieve growth?
-Does it describe future activities?
-Does it describe how to measure growth?                    → Code as Scalability
-Does it identify the activities to be done to reach objectives
(in 6-12 months)?

**Example quotes: Scalability**

- "Secure at least $45,000 in outside funding to be invested in the Home Improvement Loan in the next six months"
- "Continuing into 2011 and onward we are concentrating on developing a Management Information System (MIS) to track operational and social impact. The inputs will be received by our SMS platform and on-ground surveys. As a result of the investment to create these systems, processes and platforms, InVenture will be able to maintain greater efficiency and should see costs drop significantly in proportion to assets under management."

**Coding Scheme for Social Impact**

Social Impact describes the social footprint of the organization, so what is the successful outcome of the activity. It can include information about who is affected by the solution and how many. Further it exemplifies how the effects are measured. The social impact differs from the solution in a way that the impact is about consequences of behavior, whereas solution is derived from operational plans, functions and descriptions. The projected social impact comprises the outcome and power of the future activities of the applicant and how they are measured.

*Question set*

-Does it describe/list the realized impact (conceptual and events)?
-Does it describe the successful outcome of specific actions?
-Does it describe how the impact/success is measured?　→ Code as Social Impact
-Does it outline the predicted impact (1-5 years)?
-Does it describe how future impact is going to be measured?

**Example Quotes: Social Impact**

- "Since September 2000 Adelante has disbursed over 74,300 loans to more than 54,983 clients. These loans total over 9.3 million dollars. Without these loans, many women would have never been able to improve their families' standard of living through the application of small business loans."

- "Rang De has supported more than 15000 entrepreneurs across India with access to low cost capital for business and education. The organization has disbursed more than Rs.89 million across 13 states with the help of 4000 social investors."

**Coding Scheme for Partnership**

Text segments coded as partnership inform about current partners and how they are related to the applicant's organization. It can range from naming or listing the partners, to explaining their functions and what they work together on in the partnership.

*Question set*

-Does it list the partners (conceptual and brand names)?
-Does it claim credibility of the partners?
-Does it describe the contribution of the partner?
-Does it describe the working relationship?
-Does it describe the link between partner's actions and how it enables impact?          → Code as Partnership
-Does it describe how critical the partnerships are for success?

**Example Quotes: Partnership**

- "Wennovation Hub entered a partnership with this program (MIT-AITI team focused on Nigeria) since 2011, to identify the top 2-3 teams and incubate their biz plans upon completion of an accelerated technology training (focused on mobile applications development)."

- "We are developing the SolConnect supply chain platform tool in partnership with Grameen Foundation's AppLabs team in Uganda, which is also committed to using innovative technologies to empower the poor with life-changing information."

**Appendix 2: Discursive Legitimation Strategies Coding Scheme**

| Code | Coding scheme |
|---|---|
| Authorization | - Claimed authority through demonstration of successful pilot project; official survey results that underline accomplishment |
| | - Stakeholders with brand names occupying authority; credibility provided for stakeholders that make them appear as an authority |
| | - Key word: according to, pilot, survey |

**Examples:**

1) "We have a number of important partnerships. In Colombia, we are working with the largest microfinance network in the country – Bancamia – to identity shopkeepers who may be interested in our point-of-sale solution. Also in Colombia, we are working with a poverty lab associated with Harvard University called Ideas42 to measure the impact of our technology on businesses."[6]

2) "Based on research conducted by past volunteers, Primeros Pasos has had proven and measureable impacts on Valley residents. At the heart of Primeros Pasos efforts to fight malnutrition and preventable sicknesses of children, the Healthy Schools program reaches approximately 3,000 students annually. Two published studies have quantified the positive effects that the program is having on the children in the Valley. One study (Cook 2009) revealed a significant decrease in three common parasitic infections in school children over a four-year period. The other study concluded an annual reduction in all three levels of malnutrition from the time the clinic started treating school children (Seccombe 2009)." [7]

3) "Information delivered as part of their clinician visit has a higher perceived value and the waiting room is the last actionable moment before the clinician/patient encounter. Patients indicate that they are willing to ask for a specific treatment and discuss their symptoms after reviewing health information: – 36% after visiting a website (ePharma Consumer® v6.0) – 13.6% after seeing a DTC advertisement (Archives of Internal Medicine, 2/04) – 50% after seeing a message on Phreesia in the waiting room Post Campaign Survey. In 2009, a colon cancer awareness and screening message was delivered to all patients using Phreesia to check-in for their clinician visit who indicated a family history of colorectal cancer or who was perceived to be at risk for colon cancer. The objectives of the campaign were to increase the dialogue between patients and clinicians regarding colon cancer and improve patient follow through of a colon cancer screening. At the conclusion of the six month campaign, 77% of the

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[6] https://www.changemakers.com/economicopportunity/entries/tiendatek-mobile-business-tools-for-micro

[7] https://www.changemakers.com/empower-patient/entries/healthy-steps-empower-women-and-children-rural

patients who were recommended to schedule a screening had scheduled the screening."[8]

4) "This project builds off of tremendous community support and a well-tested prototype. The first version of the iPhone and Droid apps were released in November 2010 to great fanfare, including articles in the New York Times and the Guardian, and coverage on most national new networks."[9]

5) "Each year, the partnership with Guatemala's San Carlos University yields consecutive groups of fourth-year medical and dental students which enables full-time medical support for the clinic to serve thousands of program participants. Primeros Pasos also has strong partnerships Vanderbilt University and the University of Virginia where visiting medical students and health educators obtain valuable experience in health services, Spanish language and cultural immersion while providing the human resources needed to carry out program objectives."[10]

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[8] https://www.changemakers.com/empower-patient/entries/transforming-patient-check-through-self-service

[9] https://www.changemakers.com/girltech/entries/hollaback

[10] https://www.changemakers.com/empower-patient/entries/healthy-steps-empower-women-and-children-rural

| Code | Coding scheme |
|------|---------------|
| Narrativization | - Testimonies, quotes, voice of the beneficiary |
| | - Key words: as an example, for example |

**Examples:**

1) "Aida Zulema is an example of one Adelante client who has seen a dramatic increase in economic opportunities since taking out her first loan five years ago. Although her children are older, she is now responsible for raising two grandchildren as her own and is also partially responsible for three more. With the help of Adelante, Aida began her own convenience store after selling lottery tickets in local communities for more than 25 years. Although she continues to travel to sell lottery tickets on the weekends, she is grateful that she and her husband have a steadier source of income with the grocery store. Her husband helps her with the store and also grows vegetable local crops to feed his family. Her first loan was for about $26.00 and her eleventh, most current loan is for about $633.00. The growth that Aida has experienced demonstrates that many women only require very small loan amounts in order to get started on a successful business venture and expand the economic opportunities for their family. Aida's story is only one from the over 6,000 clients Adelante currently serves and 54,983 clients since beginning in 2000."[11]

2) "Already waiting for around 1 year, housewife and little farmer Maria José (not her real name), 70, arrives anxious to receive eye care in Health Truck in the city of Itapema, brought by her son due to a visual deficit. After being received at the front desk, she is rapidly directed to medical consultation as she has an appointment with determined hour and a printed card. She is impressed by the agility. The doctor asks: Good Morning, Dona Maria, how are you doing? – Doctor, I can't see a thing. They say I am losing my sight, answers her. – OK, lets check that. You are not going to lose your sight. You have a disease called cataract and we will make a little surgery tomorrow and you will see again, explains the physician. – Ah, I am not going to lose my sight, son? Thanks God! and cries of happiness. The physician explains the procedure to her son. Next day, Maria arrives to the surgery that is finished 15 minutes after (phacoemulsification) leaving with her eye covered. After 24 hours she comes back to evaluation and withdrawal of the eye cover, with the same doctor. – Son! Wonderful! I can see! And leaves the room crying of happiness. That is a portrait of just one medical specialty and just one of the 200 surgeries done. You can imagine the 10 specialties together!"[12]

3) "Primeros Pasos measures success by the community's perception of the quality of the clinics healthcare services. For Doña Marta from Chuicaracoj, "When I go to the clinic with my kids they always give me good service. The program is a great benefit for me and my family and the educators teach us a lot of things that we didn't know…they teach us to have self-esteem…the good-hearted people that support the clinic benefit me and my family.""[13]

4) "A user of the hotline noted, "I am now able to get help even before reaching the hospital." In addition, women note that they appreciate being able to talk with a health

[11] https://www.changemakers.com/powerofsmall/entries/adelante-foundation

[12] https://www.changemakers.com/innovations4health/entries/inovador-projeto-de-saúde-itinerante-atendeu-mais-de-40

[13] https://www.changemakers.com/empower-patient/entries/healthy-steps-empower-women-and-children-rural

provider freely as opposed to being rushed through a health center visit. Similarly, employees at the health centers are noticing a difference. One health care worker said that the hotline is "helping to reduce the flow [at the health center] because women [used to come] for reasons that were not treatable, now they are caring for themselves at home. Now they are coming with genuine problems." Users of the hotline have also noted that it is helped them know what to expect during their pregnancy and be more prepared for delivery."[14]

5) "Saraswati's story is an example of the impact of Rang De loans to encourage entrepreneurship at the grassroots. Saraswati Devi is a simple, yet sharp 30-year old woman of Gambharia Village in Bundu Block, Ranchi district.Saraswati Devi was sanctioned a loan amount of Rs. 8000 from Rang De. She established her VLSC in October 2010 with the loan and an additional Rs. 5000 from her personal savings. She became a proud entrepreneur and her venture was immensely successful. From her success, she developed confidence and gained popularity in her village and also went on to win an award in Jharkhand for setting an example for others in the community."[15]

**Code**                          **Coding scheme**

[14] https://www.changemakers.com/innovations4health/entries/chipatala-cha-pa-foni-health-center-phone
[15] https://www.changemakers.com/powerofsmall/entries/rang-de

| Rationalization | - | Key words: effective, to intend, to mobilize, to provide, as a result of, this will result in… |

**Examples:**

1) "Creating opportunities to advance economic security for emerging food-based microentrepreneurs is an effective strategy to build self-sufficiencym and alleviate poverty. Specifically, linking limited-resource, beginner farmers and informal, home-based culinary producers to industry-specific education, access to a shared-use commercial kitchen and equipment, capital, produce distribution networks, and new markets offers affordable, sustainable economic solutions for low-income food producers."[16]

2) "Nueva Oportunidad aims to create a business incubator model adapted to a penal institution for prisoners close to serve sentence, incubate their business ideas and have a real job option when they serve their sentence. Encouraging the entrepreneurial spirit in penitentiary institutions, inmates are no longer conceived as criminals. They become entrepreneurs, breaking a social common paradigm about people in prison."[17]

3) "To provide knowledge, Adel is building the Youth Entrepreneurship Training Center, where it will do training workshops, offer practical learning areas and laboratories. Youth will learn about efficient farming techniques, managerial tools and business and marketing planning and management. They`ll have full support to identify opportunities to build their innovative business models and plans. To provide credit, Adel launched the Vereda Fund, with three credit lines to young entrepreneurs. Adel is also designing a crowdfunding model to connect you, in partnership with successful models and organizations already working in Brazil. To provide collaborative networks and technologies, Adel is implementing Community Communications and Information Centers in communities that don't have access to Internet or even telephone. Adel is also building a social network for young entrepreneurs, where they`ll connect themselves, exchange solutions, access e-learning and tutoring models."[18]

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[16] https://www.changemakers.com/powerofsmall/entries/ooking-success-supporting-food-based-microenetrepreneur

[17] https://www.changemakers.com/powerofsmall/entries/nueva-oportunidad-privados-de-libertad

[18] https://www.changemakers.com/powerofsmall/entries/adel-local-economic-development-agency

# CHAPTER 5: Breaking the Stereotype: Legal Form Choice and Firm Narratives of Social Business Ventures

Legitimacy judgments made by audience collective on social business ventures can be affected by firm stereotypes. Social ventures can attempt to alter this by communicating in a strategic manner. First, we create a dictionary of terms for the two fundamental constructs of warmth and competence proposed by the Stereotype content model in a methodologically rigorous way. Using computer aided text analysis software 198 firm narratives of social ventures registered as non-profits and hybrids were then analyzed. We find that successful ventures primarily legitimize themselves through competitive orientation rather than prosocial orientation irrespective of their organizational form choice.

## 5.1 INTRODUCTION

Firms are always under scrutiny by different stakeholders such as investors, customers, government, media, industry watch dogs to name a few. They have to signal their intent and purpose continuously to their audience in order to gain legitimacy (Aldrich & Fiol, 1994), maintain their reputation (Deephouse & Carter, 2005) or repair the losses in legitimacy (Elsbach, 1994). Social value created by a firm is connected to the very identity orientation of a firm (Brickson, 2007). Social business ventures (SVs) seek to create a distinct identity for themselves by asserting that their core intent and very purpose of existence is towards creating positive social change (Zahra, Gedajlovic, Neubaum & Shulman, 2009; Santos, 2012). Organizational form choice[19], in other words the legal form, is a strategic decision for any firm. It gets especially complicated for SVs who have the simultaneous goals of creating positive social impact while remaining financially solvent.

Scholars in the past have called for more research into the organizational form choice of social ventures (Short, Moss & Lumpkin, 2009). There could be many antecedents that determine organizational form selection such as geographical context (Defourny & Nyssens, 2008), nature of the social problem being solved (Mair, Battilana & Cardenas, 2012) and local laws (Nicholls, 2010). But the consequences of choosing

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[19] *For the purpose of disambiguation, the social business venture in itself is an organizational form. We use the term organizational form interchangeably with legal form. How SVs are perceived as a result of registering with a particular legal form, non-profit versus hybrid, is the subject matter of this study.*

a particular organizational form also matters. Pragmatically speaking, for-profit organizational form allows ventures to raise money that includes venture capital, attract talent, find partners and distributors to disseminate their products. Some of these activities serve to increase the legitimacy of a new venture as shown by extant empirical evidence (Tornikoski & Newbert, 2007). Non-profits may be restricted in raising capital or distributing the dividends from the profits made. If for some reason, social ventures register as for-profits then the stakeholders, especially the partnering firms could also question them whether they are staying close to their core purpose as seen in cases of mission drift. Adoption of a particular organizational form not only signals the purpose of the organizations but it also invites social judgments. We build on the recent evidence from social cognition that shows that stakeholders stereotype firms the way they do with fellow human beings (Aaker, Vohs, & Moginer, 2010). Using stereotype content model (SCM) these authors were able to demonstrate that for-profits were judged more positively than non-profits. However, when further information on the non-profit was provided, the negative perception tended to shift to the positive side.

SVs may face the same kind of stereotyping from different stakeholders. Part of the problem is that the cognitive legitimacy of the legal form of "non-profit" so high that stakeholders take them for granted in a traditional non-profit sense. This stereotypical notion stands in the way of the legitimizing entrepreneurial credentials of social business ventures who are trying to build a distinct identity on their own. Scholars have

argued that, "social entrepreneurship is not defined by legal form as it can be pursued through various vehicles" (Austin, Stevenson &Wei-Skillern, 2006 p.2). Therefore, in this research we think of SVs as distinct from traditional non-profits even though they are registered legally as such. We conceptualize these companies in line with the definition of social enterprises provided by Mair and Marti (2006) who define them as organizations that work on social problems using tools from the business world. Many of them are registered as non-profits but a growing number of social ventures also operate as hybrids in the sense these firms have both non-profit and for-profit organizational forms combined within the same entity. In this paper, we examine if SVs registered as non-profits and hybrids express themselves in a manner that can break the firm stereotyping leveled against them. Using the stereotype content model (Cuddy, Fiske & Glick, 2008) we develop a dictionary set which checks for the two fundamental dimension that people use to judge the intent and purpose of firms namely, Warmth and Competence. We investigate if the firm narratives conceived and communicated by non-profits and hybrids are different in their expression of Warmth and Competence.

The use of firm narrative as the empirical source is inspired by previous studies on the narrative perspective of organizational legitimacy (Lounsburry & Glynn, 2001; Golant & Sillince, 2007; Garud, Schildt, Lant, 2014). Especially in the realm of social entrepreneurship, the firm narratives produced by the ventures are important because of their, "role as the carrier and manifestation of new ideals" necessary to legitimate themselves (Golant & Sillince, 2007 p. 1163). The firm narratives were

drawn from the profiles of social ventures that won the Ashoka Fellowship. Our findings clearly suggest that the non-profits on the aggregate do not differ from hybrids in their expression of competence. Upon further examination, we also find different sub-types of non-profits in terms of their expression of Warmth and Competence. Our methodological contribution is the development of dictionaries that researchers interested in content analysis could use to study the expression of Warmth and Competence any text data source. We contribute to the social entrepreneurship literature by advancing theory on firm narratives in connection to organizational form choice.

## 5.2 THEORY

### 5.2.1 Social Business Ventures and Organizational Form Choice

The choice between registering as non-profits versus hybrids or even for-profits depend on many factors. Chen (2013) outlines the benefits of spinning of a for-profit arm of a social business venture in order to raise capital while at the same time tapping into the potential of the NGO ecosystem as a non-profit.  This approach is supported by scholars that opine that the organizational form choice be made in order to enhance resource acquisition which ultimately enables the organizations to address the social problems they try to solve (Austin et al., 2006). According to Townsend and Hart (2008), perceived institutional ambiguity relevant to *stakeholder alignment, resource acquisition and legitimacy attainment* is expected to have a considerable effect on organizational for choice in

addition to the importance of social and economical goals set by the SVs. The logic provided here suggests that when SVs perceive that the stakeholders are interested in economic returns then the organizations would choose a for-profit organizational form and vice versa. Similarly, when the ventures perceive that their ability to secure investment capital as high, then they might prefer to register as for-profits. The authors base their propositions based on the push and pull between the primacy of social and economic goals of the venture. They also propose that perceived cognitive and sociopolitical legitimacy of economic versus social goals can determine the organizational form choice. The handful of antecedents to organizational choice suggested so far seem to stem from taking a pragmatic approach to solving the issues central to social business venturing. Having said this, research studies within social entrepreneurship have not explored the perceptual consequence for a venture after the organizational choice has been made. We address this issue in this research.

## 5.2.2 Judging the Social Business Ventures: Beyond Legitimacy Theory

Perceptions of intent and purpose are important to firms for many reasons. These perceptions confer legitimacy, send the right kind of signals to a variety of stakeholders and reward the firms with the necessary social license to operate. One of the theoretical lenses that deals with the judgment of SVs is the legitimacy theory (Suchman, 1995). Audience

make legitimacy judgment based on whether the direct exchange between them and the organization are beneficial (pragmatic legitimacy) or if the actions and behavior of the organization finds normative approval (moral legitimacy) or the behavior is found to be comprehensible, appropriate and hence taken-for-granted (cognitive legitimacy). Even though it has a robust body of literature behind it, critiques have pointed out the shortcomings of the legitimacy theory. Some of them include difficulties with operationalization and measurement (Zucker, 1989; Vergne, 2011), predominant focus on the macro-level necessitating more work on the microfoundations (Powell & Colyvas, 2008) and the paucity of research on understanding how the actual legitimacy judgments are made (Tost, 2011; Finch, Deephouse & Varella, 2015).

We pursue an alternative theoretical framework, the Stereotype Content Model (SCM), from social psychology to study social judgments made on SVs. This addresses one of the specific shortcomings of legitimacy theory namely the issue of how legitimacy judgments are made by individuals. It is also an appropriate framework to study SVs since they are an emerging organizational group that maybe more susceptible to misunderstanding. Using firm narratives also examine how firms can influence these decisions concerned with stereotyping.

### 5.2.3 Stereotype Content Model

Perception and categorization of the unknown into manageable groups are fundamental cognitive behaviors. In social psychology, "perception can

denote the downstream processes of forming and interacting with mental representations about people, such as categorizing or stereotyping…" (Phillips, Weisbuch & Ambady, 2014, p. 103). Stereotype content model helps us study how information on a firm is categorized and perceived by its stakeholders. Studies using SCM have explored self, interpersonal and group perceptions (Cuddy et al., 2008), providing us with insights about how we categorize or stereotype groups and their members.

At the core of the SCM lie the two fundamental perceptual dimensions of warmth and competence. Warmth covers the basic question of, "What is the intention of a person or a group or an entity?" while competence deals with "Is that person or group or entity able enough to carry out the intention?". The warmth dimension entails traits such as generosity, kindness, honesty, sincerity, helpfulness, trustworthiness, and thoughtfulness. Competence related traits include confidence, effectiveness, intelligence, capability, skilfulness and competitiveness (Cuddy et al., 2008; Aaker et al., 2010; Grandey, Fisk, Matilla, Janssen & Sideman, 2005). Based on these two dimensions, we make blank judgments and build stereotypes (Aaker et al., 2010). CEOs of multinationals, for example, are perceived as competent but not quite warm. Elderly people are perceived as high on the warmth scale but low on competence. Some individuals and groups also score high on the warmth as well as on the competence dimension (for a review see Fiske, Cuddy & Glick, 2007). The content of the stereotype matters because it not only reflects what people like or dislike but also what they respect and disrespect (Fiske, Cuddy, Glick & Xu, 2002).

### 5.2.4 Warmth and Competence in Organizational Settings

The two fundamental dimensions of warmth and competence have many parallels in the social psychology literature. In one of the seminal works on the perception of people, Rosenberg (1968) suggested the dimensions of social (good versus bad) and intellectual (good versus bad). Based on the profitability for oneself or others, Abele and Wojciszke (2007) proposed the dimensions of agency versus communion. The role father of the family in providing *instrumental functions* such as income, protection as well as nurturing *expressive functions* by Parsons and Bales (1955) evoke similarities to the dimensions of warmth and competence. The universal nature of these two fundamental dimensions also comes from evolutionary underpinnings. When determining whether a new entity is a friend or a foe, both humans and animals have to be expedient in categorizing the stimuli. This suggests that there might be a primacy between warmth and competence. Since the lack of warmth signals danger, it has been suggested that warmth could be assessed before competence and can feature in affective and behavioral reactions of human beings (Cuddy et al., 2008). Perception of warmth and competence is quite useful in adjudging the intent and purpose of other entities.

SCM model has been used in researching decision-making in firms in the past. Hiring decisions have been shown to be susceptible to stereotyping. Cuddy and colleagues provide several examples of

perceptions of warmth and competence in this setting (Cuddy, Glick & Beninger, 2011). People perceived as high in competence and low on warmth could be hired in technical positions that may not require high degree interpersonal skills. At the same time, due the perception that women are relatively more social than men, they are more often considered for job profiles that require high ratings on warmth. Decision-making prone to perceptions over warmth and competence have a high risk of leading to discrimination in work practices and are not always welcome. Proper training to avoid these biases are recommended (Cuddy et al., 2011).

According to Aaker et al. (2010) stakeholders not only form firm stereotypes, but they also make decisions based on the stereotypical perceptions. Their study finds empirical evidence for non-profit organizations being perceived as highly warm but not as competent as for-profit organizations. Furthermore, they also show that consumers are influenced by this information while making buying decisions from either organizational forms since they admire for-profits more. Stakeholders may judge SVs who signal a good intent through their social mission which relates to warmth and their capability to be a sustainable business hence related to competence. What is unknown is whether firms subject to stereotyping, even when cognizant of the negative consequences, respond in a pre-emptive way. Both the strategic arm of legitimation literature (Elsbach, 1994) and signaling theory (Moss, Neubaum & Myskens, 2014) suggest that ventures can affect the perception of the stakeholders by actively pursuing them. We investigate how social business ventures do

this by analyzing their firm narratives. Therefore, the central research question that drives our study can be summarized as,

> Research question: *How do social business ventures subscribing to different organizational forms differ in their expression of warmth and competence?*

## 5.3 METHOD

In this study we use firm narratives as a source to ascertain the expression of warmth and competence by social business ventures using computer aided text analysis (CATA). CATA of firm narratives in the past have been used to investigate many organizational constructs including, the entrepreneurial orientation of social ventures (Moss, Short, Payne, Lumpkin, 2010), ability of microenterprises to attract investments (Allison, McKenny & Short, 2013) and firm ambidexterity (Moss, Payne & Moore, 2013). The methods section consists of two distinct parts. First, we present construct validation for warmth and competence. This is followed by description of the comparison between two organizational forms.

### 5.3.1 Construct Validation for Warmth and Competence

We followed the steps prescribed by Short, Broberg, Cogliser and Brigham (2010) to validate the constructs for CATA. Step 1 of this involves content

validity. For this we defined the constructs using extant theory. Based on the definition we constructed the dimensionality. We used the instrument borrowed from Aaker et al. (2010) and surveyed the background literature Accordingly we chose the following dimensions for competence: capability, competence, competitive, confidence, effectiveness, efficient, intelligence, skillfulness. For the warmth construct we chose: generosity, helpful, honesty, kindness, sincerity, thoughtfulness and trustworthiness. Using Rodale's (1978) The Synonym Finder, an exhaustive word list for each of the dimensions were compiled. Two raters looked at each word in the dictionary assessed its inclusion. Cohen's kappa scores were calculated to deduce inter-rater reliability.

## 5.3.2 Sampling of the Narrative Text to Test External Validity of Warmth and Competence

After the compilation of the dictionary, the next step is to test this on a set of narratives. For firm narratives on social business ventures we used the organizations of Ashoka Fellows. When a social entrepreneur applies for a fellowship from a particular country, they prepare a company profile in collaboration with the country representative of Ashoka. This profile is used as the narrative text in our analysis. Each profile consists of four different sections containing about 800-2500 words in total. The content of this profile includes general information about the firm, description of the social problem dealt with, strategy used and details about the founder and their journey of social entrepreneurship. The general venture stage of

these companies is scaling or growth since Ashoka accepts fellows that have shown a reliable track record of social impact as opposed to firms in early stages.

Since the firms originate from different regions of the world, they also vary in terms of organizational form. We ascertained the organizational form using the following procedure to identify firms registered as non-profits and hybrids. First, keyword searches (using the terms "for-profit", "business", "venture", "revenue", "business model", "foundation", "non-profit") were performed on a list of over 2434 profiles. This was the master list of all the Ashoka fellows compiled during the time of our research. From the profiles thus filtered, the websites were checked. Furthermore, publicly available information sources from online media articles and social media (founder linkedin profile) were used to triangulate the organizational form. This process yielded 99 non-profits and 99 hybrids. Test of external validity consisted of running the dictionary on the narratives of two groups of firms chosen here a one sample t-test with test statistic set to zero. The results of the t-test are reported in the following section.

### 5.3.3 Assessing Dimensionality and Nomological Validity

A bivariate correlation test was performed between all the dimensions of both warmth and competence. As prescribed, we inspected the correlation

scores for each constituent dimension to ascertain if the constructs were single or multidimensional. The results are tabulated in the following section. We used an ANOVA test to compare the frequencies of warmth and competence related terms in the firm profiles of SVs that are registered as non-profits and hybrids.

## 5.4 RESULTS

The result of the content validation and dictionary building is a list of words validated by two experts. This list is tabulated in appendix 6.1. This includes a little over 500 word stems that were agreed upon by the experts. The percentage agreement between the raters in calculating Cohen's kappa was 58.5% which was in the acceptable range. The one sample t-test displayed in table 6.1 shows evidence for the language representing warmth and competence obtained from running CATA based tests using the wordlist from appendix 6.1. The intercorrelations between the dimension of the constructs showed high correlations between those of competence and hence we had to collapse it to a single construct. For symmetry, we also collapsed the warmth construct into unidimensional. The formative nature of the competence construct could be the reason for such high correlations.

**Table 6.1 Evidence of Language Representing Warmth and Competence – one sample t-test**

| | Hybrid Profiles | | | | Non-Profit Profiles | | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| | N | Mean | SD | t Test | N | Mean | SD | t Test |
| Comp_Capability | 99 | 5.83 | 4.58 | 12.66[*] | 99 | 6.54 | 5.45 | 11.93[*] |
| Comp_Competence | 99 | 5.96 | 3.93 | 15.05[*] | 99 | 7.61 | 8.14 | 9.31[*] |
| Comp_Competitive | 99 | 1.11 | 1.31 | 8.39[*] | 99 | 1.21 | 2.94 | 4.09[*] |
| Comp_Confidence | 99 | .57 | .74 | 7.70[*] | 99 | .42 | .67 | 6.28[*] |
| Comp_Effectiveness | 99 | 3.34 | 2.99 | 11.09[*] | 99 | 3.76 | 4.85 | 7.72[*] |
| Comp_Efficient | 99 | 3.14 | 2.47 | 12.61[*] | 99 | 4.31 | 4.38 | 9.77[*] |
| Comp_Intelligence | 99 | 1.63 | 1.72 | 9.41[*] | 99 | 2.56 | 4.28 | 5.96[*] |
| Comp_Skilfulness | 99 | 3.57 | 3.49 | 10.17[*] | 99 | 3.98 | 4.37 | 9.06[*] |
| Warm_Generosity | 99 | 1.48 | 3.24 | 4.54[*] | 99 | 1.06 | 1.72 | 6.11[*] |
| Warm_Helpful | 99 | 1.68 | 2.29 | 7.30[*] | 99 | 2.01 | 1.98 | 10.06[*] |
| Warmth_Honesty | 99 | .83 | 1.48 | 5.60[*] | 99 | 1.49 | 5.18 | 2.87[*] |
| Warm_Kindness | 99 | 4.78 | 3.86 | 12.33[*] | 99 | 6.28 | 4.60 | 13.58[*] |
| Warm_Sincerity | 99 | .04 | .19 | 2.03[*] | 99 | .07 | .25 | 2.73[*] |
| Warm_Thoughtfulness | 99 | .42 | .67 | 6.28[*] | 99 | .46 | .82 | 5.60[*] |
| Warm_Trustworthiness | 99 | .14 | .42 | 3.28[*] | 99 | .25 | .64 | 3.89[*] |
| Comp_Unidimensional | 99 | 25.18 | 15.09 | 16.59[*] | 99 | 30.42 | 27.37 | 11.05[*] |
| Warm_Unidimensional | 99 | 9.40 | 7.76 | 12.05[*] | 99 | 11.63 | 8.69 | 13.32[*] |

**Table 6.2 Intercorrelations among sub-dimensions of Warmth and Competence**

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1. Comp_Competence | 1 | | | | | | | | | | | | | |
| 2. Comp_Competitive | ,322** | 1 | | | | | | | | | | | | |
| 3. Comp_Confidence | ,139** | ,037 | 1 | | | | | | | | | | | |
| 4. Comp_Effectiveness | ,736** | ,344** | ,144** | 1 | | | | | | | | | | |
| 5. Comp_Efficient | ,448** | ,104** | ,099** | ,320** | 1 | | | | | | | | | |
| 6. Comp_Intelligence | ,504** | ,298** | ,058** | ,299** | ,206** | 1 | | | | | | | | |
| 7. Comp_Skilfulness | ,535** | ,341** | ,088** | ,442** | ,396** | ,532** | 1 | | | | | | | |
| 8. Warm_Generosity | ,105** | ,015 | ,056** | ,066** | ,043* | ,086** | ,092** | 1 | | | | | | |
| 9. Warmth_Helpful | ,082** | ,046* | ,014 | ,069** | ,052* | ,035 | ,049* | ,143** | 1 | | | | | |
| 10. Warmth_Honesty | ,071** | ,026 | ,007 | ,019 | ,099** | ,030 | ,060** | ,023 | ,049* | 1 | | | | |
| 11. Warmth_Kindness | ,157** | ,052** | ,100** | ,132** | ,137** | ,097** | ,119** | ,208** | ,384** | ,123** | 1 | | | |
| 12. Warmth_Sincerity | ,022 | ,000 | ,017 | -,017 | ,001 | ,080** | ,030 | ,044* | -,010 | ,027 | ,018 | 1 | | |
| 13. Warmth_Thoughtfulness | ,076** | ,001 | ,050* | ,045* | ,067** | ,022 | ,028 | ,052* | ,166** | ,030 | ,175** | ,002 | 1 | |
| 14. Warmth_Trustworthiness | ,030 | ,021 | ,058** | ,006 | ,044* | ,033 | ,051* | ,053** | ,027 | ,140** | ,002 | ,061** | ,023 | 1 |

*p < .05; **p < .01; N = 2434

The results of the ANOVA test that compares the construct frequencies of warmth and competence between the hybrid and non-profit firms are shown here. The unidimensional scores from warmth and competence did not show any difference between non-profit and hybrid forms. The variation within the non-profits was quite high in comparison (SD = 10.86). This prompted us to further investigate this group of firms. We performed two subsequent tests to better understand the results. First, we repeated the ANOVA comparison controlling for firm age and industry sector. This did not alter our results. A two-step hierarchical cluster analysis was performed using the warmth and competence scores of the hybrids and non-profits to examine the range of the scores within a particular organizational form. The results from the cluster analysis are tabulated in table 6.4.

**Table 6.3 One-way ANOVA Warmth and Competence Unidimensional Scores between Non-profits and Hybrids**

| SCM Dimension | Non-Profits Mean (SD) N = 99 | Hybrids Mean (SD) N = 99 | F(df), p-value |
|---|---|---|---|
| Competence | 15.66 (10.86) | 14.49 (6.52) | F(1, 196) = 0.85, $p = .358$ |
| Warmth | 6.21 (3.87) | 5.47 (3.67) | F(1, 196) = 1.864, $p = .174$ |

**Table 6.4 Results of Cluster Analysis of Warmth and Competence Scores**

| NON-PROFITS | | | | HYBRIDS | | | |
|---|---|---|---|---|---|---|---|
| Cluster # | N | Warmth M (SD) | Competence M (SD) | Cluster # | N | Warmth M (SD) | Competence M (SD) |
| NP1 | 47 | 4.96 (2.29) | 9.23 (3.30) | Hyb1 | 56 | 3.31 (1.39) | 11.79 (4.44) |
| NP2 | 19 | 12.12 (3.70) | 14.75 (4.48) | Hyb2 | 26 | 10.03 (3.54) | 13.06 (4.24) |
| NP3 | 32 | 4.61 (2.22) | 23.45 (7.68) | Hyb3 | 17 | 5.22 (2.77) | 26.66 (6.32) |

The results from cluster analysis shown above indicate three distinct clusters from each organizational form. The biggest cluster consisted of firms scoring low on warmth and moderately high on competence (NP1 and Hyb1). The surprising result from the cluster analysis is the presence of a sizeable cluster that showed extremely high

score on competence and a low score on warmth (NP3 and Hyb3). These two were sandwiched between a cluster that had firms scoring equally well on both warmth and competence. Accurate interpretation of these results could be obtained from reading the subject matter of all the 188 firm narratives.

## 5.5 DISCUSSION

To answer the research question, "How do social business ventures differ in their expression of warmth and competence", we first built a CATA based dictionary for the constructs of warmth and competence. As prescribed by Short et al. (2010) we showed the content validity, assessed the dimensionality of the constructs, assessed external validity by running the dictionaries on narrative data and performing a one-sample t-test, assessed dimensionality through intercorrelations of scores and finally checked the nomological validity by comparing two groups of firms. In the following section we discuss the theoretical and practical implications of the results, list the limitations and suggest future research directions.

### 5.5.1 Methodological, Theoretical Implications

*Methodological contribution.* Previous studies that dealt with SCM have used survey-based instruments to assess how individuals perceive other people or firms on the dimensions of warmth and competence (Fiske,

Cuddy & Glick, 2007). This method could only capture the perspective of the evaluator. In line with the strategic view of legitimation, firms also act in deliberate ways to establish their bona fides. By developing a validated dictionary for the constructs we have created a way to examine the role played by the organizations in affecting these perceptions strategically. The wordlist could be used with software tools to study both the aggregate frequencies and the invocation of the constructs in situ (e.g., Diction, LIWC). The dictionary based method allows for the analysis massive text corpuses in a reliable manner circumventing the taxing labors and subjective nature of qualitative coding. Even though we have developed the wordlist in the context of social entrepreneurship, it is sufficiently portable that it can be used in entrepreneurship or organizational research.

*Form choice and consequences.* Social business ventures that register as non-profits stand the chance of being viewed as not very competent in running a business. The organizational form choice of being a non-profit, for-profit or hybrid is not always straightforward since it may trigger different perceptions from the stakeholders (Chen, 2013). The consequence of misperception of competence can cause problems to the performance of the venture as shown by Aaker et al. (2010). From our results, we have shown that the successful non-profits in the scaling or growth phase deliberately showcase their competitive orientation by using appropriate vocabulary in firm narratives. They do so at a rate where there is no difference on the aggregate between them and the organizations that operate as hybrids in a legal sense.  This holds good irrespective of organizational age or industry sector of operation. By being careful in

asserting their competitive orientation, SVs can pre-empt the negative consequences of stereotyping. Thus our results inform organizational researchers interested in how may firms combat organizational stereotyping or stigmatization (Paetzold, Dipboye & Elsbach, 2008). Whatever maybe the antecedents of the organizational form choice, those who espouse non-profit form could alter their vocabulary to extract credibility from their audience (Fiske, Cuddy, Glick & Xu, 2002). The construct of competence appears similar to competitive aggressiveness, a dimension of entrepreneurial orientation which has been proven to be different for social and commercial ventures (Moss, Short, Payne, Lumpkin, 2010). Comparing the dictionary of terms, we find that our competence wordlist comparatively broad and can be used for SVs over the narrow conceptions of competition in the commercial world.

*Connections to organizational legitimacy.* Organizational narratives or firm narratives provide an opportunity for entrepreneurial ventures to assert their distinctiveness (Navis & Glynn, 2011). Given the importance of compassion and prosocial orientation to SVs one might expect high scores for warmth. But that was not the case in our sample. Both the hybrids and non-profits were focussed on expressing their competence in various ways. Warmth related information could help with the cognitive legitimacy and arguments regarding motivation. But competence is much more prominent in gaining sociopolitical normative or moral legitimacy since gives confidence to the evaluating audience that the organization has the right skills and resources to do its job (Suchman, 1995). Therefore, we submit that narrative legitimation of successful social

business ventures occurs by the organizations highlighting their competitive orientation more often than prosocial orientation.

Practicing social entrepreneurs and their ventures can learn from our study that they have the choice to break the stereotypical notions levelled against them based on the legal form they are registered under. By constructing firm narratives that can underscore competence, they can raise beyond simplistic perceptions related to social impact creation. Interested parties could analyze the text on websites or social media to gauge the expression of warmth and competence in different contexts as long the textual material is available.

### 5.5.2 Limitations and Future Research

One of the primary limitation comes of the empirical source of the SVs. All the firm narratives were chosen from Ashoka which can limit generalizability for SVs (cf. Meyskens et al., 2010; Mair, Battilana & Cardenas, 2012). Compared to Moss et al. (2010) who used the mission statements and "about us" sections in websites, we did not source the firm narratives directly from the websites of the ventures. The reason for this is not all the SVs from the economically deprived markets had web presence. The narrative analyzed is static in the sense it is written once but never revisited. Researchers interested in the process or longitudinal perspective can compare narratives from different points in time check for competitive

orientation. The dictionary can be applied to only English speaking firms. This excludes robust activities in the social entrepreneurship sector from other regions. Since Ashoka admits predominantly those organizations in the scaling or growth, researchers interested in the ideation or nascent stages of SVs must look for different source of firm narratives. Advances in SCM present work on mixed-stereotypes which are different configurations of warmth and competence. From the cluster analysis, we were able to show that there might be reliable patterns in how firms invoke each of these constructs relatively. Future research could delve deeper into the combinatory configurations of warmth and competence and its effects. Also, establishing more links between performance and stereotype content would be an interesting avenue for future research.

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**Appendix 6.1 Dictionary of terms for Warmth and**

**competence**

| *Competence Dimensions* | **Word stems validated by experts** |
|---|---|
| Capability | abilit*, acumen, aptitude*, apt*, brain, capacity, characteristics, cleverness, deftness, endowment*, endurance, forte, gifted, intelligence, knack, perspicacity, potential, proficienc*, qualit*, sagaci*, skill*, smart*, strength, talent |
| Competence | abilit*, able*, adept*, adroit*, authorit*, capabilit*, capableness, competenc*, deft*, dexterousness, dexter*, effective*, effectivity, efficaciousness, efficacy, efficien*, expertise, expertness, finesse, know-how, knowledgeability, qualification, mastery, prepared*, proficienc*, readiness, responsibilit*, savvy, savoir-fair, skill*, soundness |
| Competitive | aggressiv*, ambitious*, compet*, combativ*, corival, dog-eat-dog, emulative, emulous, opposing, ready to fight, rival, striving, vying |
| Confidence | assertiv*, assur*, backbone, certain*, certitude, fortitude, freedom from doubt, grit*, mettle, pluck, reassur*, reliance, self-assur*, self-confid*, self-reliance unblinking, Unflinching, unhesitating, unwavering |

| *Competence Dimensions* | **Word stems validated by experts** |
|---|---|
| Effective | capab[*], cogent, competen[*], effectual, efficacious[*], efficien[*], influential, powerful, remarkable, serviceable, standout, striking, adept[*], adroit[*], authorit[*], deft[*], dext[*], dynamism, effective[*], experience[*], expertise, expertness, finesse, know-how, mastery, prepared[*], productiveness, productivity, proficiency, qualification, readiness, skill[*] |
| Efficient | accomplished, adept[*], adroit[*], capable[*], clever, competent, crackerjack, deft[*], dexterous, dynam[*], economical, effecting, effective[*], effectual, efficacious, experienced, expert, fit, experienced, expert, fit master[*], potent, powerful, prepared, productive, proficient, qualified, skilful, slick, talented, thrifty, trained, well-grounded |
| Intelligent | able[*], ace, adroit[*], agile, alert, apt[*], astute, brainy, brilliant, capable[*], clever[*], commonsensical, competent[*], conscious[*], crackerjack, deft[*], discerning, erudite, first-rate, foxy, gifted, ingenious, insightful, intellectual, intelligential, judicious, keen, knowing, knowledgeable, learned, lucid, luminous, penetrating, perceptive, percipient, perspicacious, prudent, quick-witted, sapiential, sagaci[*], sage, sapient, savvy, sensible, sharp, sharp as a tack, sharp-witted, shrewd, smart[*], talented, top-drawer, topflight, topnotch, versed, well-read. well-schooled, wise, educated |

| Competence Dimensions | Word stems validated by experts |
|---|---|
| Skilful | able[*], accomplished[*], ace, adept[*], adequate, adroit[*], ambidext[*], apt[*], capable[*], clever[*], competen[*], conversant, crackerjack, deft, dexterous, efficient, endowed, experienced, expert, first-rate, gifted, good at, hotshot, knowledgeable, learned, master[*], practiced, professional, proficient, qualified, skilled, talented, topnotch, versed |

| Warmth Dimensions | Word stems validated by experts |
|---|---|
| Generosity | Altruism, benefaction, beneficence, benevolence, big-heartedness, charitableness, charity[*], donation[*], gift[*], giving, good deed, good will, grant[*], humanitarianism, magnanimity, noble[*], unselfishness |
| Helpful | aidful, aiding, benevolent, charitable, contributive , cooperative, friendly, helping, instrumental, kind, merciful, munificent, neighborly, philanthropic, supportive, valuable |

| *Warmth Dimensions* | **Word stems validated by experts** |
| --- | --- |
| Honesty | equitableness, equity, evenhandedness, evenness, fairness, forthrightness, frankness, free-speaking, free-spokenness, freedom from bias , genuineness, guilelessness, honor, impartiality, ingenuousness, integrity, justice, justness, objectiveness, objectivity, open-heartedness, open-mindedness, openness, outrightness, plain dealing, plain-speaking, plain-spokenness, sincereness, sincerity, square dealing, squareness, straight shooting, straightforwardness, straightness     truth-loving, truth-speaking, truth-telling, truthfulness, unabashedness, undeceitful[*], undeceptive[*], unequivocalness, uprightness, veraciousness, veracit[*] |
| Kindness | act of charity, act of grace, affability, affection, aid, almsgiving, altruism, amiability, amicability, beneficence, benevolence, benignancy, benignity, big-heartedness, bonhomie, bounty, brotherhood, brotherliness, brotherly love, charity, compassion, cordialit[*], courtesy, empathy, fatherliness, favour, fellow, feeling, fellowship, friendliness, friendship, generosity, geniality, gentilesse, gentleness, good deed, good turn, good will, good-heartedness, good-naturedness, goodness, graciousness, grandfatherliness, grandmotherliness, heedfulness, help, helpfulness, hospitality, humaneness, humanity, kind act, kindheartedness, kind[*], largesse, lionheartedness, love, lovingness, maternalness, mercy, mindfulness, motherliness, neighbourliness, niceness, paternalness, philanthropy, sisterhood, sisterliness, soft-heartedness, solace, tender-heartedness, tenderness, thoughtfulness, unselfishness, warm-heartedness, warmth |

| *Warmth Dimensions* | **Word stems validated by experts** |
|---|---|
| Sincerity | artlessness, dedication, down-rightness, earnestness, forthrightness, frankness, genuineness, guilelessness, honesty, honorableness, inartificiality, inartificialness, square dealing, square shooting, squareness, straight shooting       straightforwardness, straightness, telling it like it is, trueness, truheartedness, trustiness, trustworthiness, undeceitful[*], undeceptive[*], unequivocalness, unpretentious[*], uprightness, wholeheartedness |
| Thoughtfulness | attentive, beneficent, benevolent, compassionate, considerate, deep, heedful, kind, kindhearted, kindly, mindful, regardful, respectful, reverent, sympathetic, tender |
| Trustworthiness | credibilit[*], credibleness, dependabl[*], faithful[*], goodness, honestness, honesty, honorableness, integrity, loyalty[*], morality, openness, probity, reliabilit[*], reliableness, right-minded[*], sincereness, sincerity, true-heartedness, trustiness, truthfulness, uprightness, upstandingness, veraciousness, veracity, trust |

# CHAPTER 6: DISCUSSION AND CONCLUSION

## 6.1 REVISITING THE RESEARCH QUESTION

Social entrepreneurship has been viewed as an *essentially contested concept* and debate on definition of the phenomenon in the past decade supports this claim to a large extent (Choi & Majumdar, 2014). For the research discipline of social entrepreneurship to advance many authors have put forth different recommendations. For instance, Zahra and colleagues have proposed a definition based on the creation of ventures that maximize social wealth (Zahra, Gedajlovic, Neubaum & Shulman, 2009). Santos (2012) presents a theory based on solving social problems resulting in positive externalities. This development in theory is accompanied by burgeoning advances in the institutional structures that help social ventures to thrive. Avenues for funding in the form of micro-loans and crowdfunding (Allison, McKenny & Short, 2013; Moss, Neubaum & Meyskens, 2014), introduction of new legal forms (Nicholls, 2010b), support organizations that provide incubation and fellowship have been driving up the rate of social entrepreneurship in the recent past (Bosma, Schott, Terjesen & Kew, 2016). Such progress definitely helps with the legitimacy of social entrepreneurship at the field level. The cultural embeddedness stream of institutional research views legitimacy as an outcome of, "structural pressures and macro-level influences on organizational behavior and form" without taking organizational

innovation into account (Nicholls, 2010 p. 614). We moved from the field level to organizational level by taking the strategic action view. This view places much more emphasis on the role and ability of organizations to shape the institutions by successfully changing the extant norms and practices (Suchman, 1995). Hence the focus was on the "substantial" (organizational action) rather than the "symbolic" (organizational essence) aspects of legitimation (Ashforth & Gibbs, 1990; Nicholls, 2010). Following this approach, we asked the research question of,

> *"How do social business ventures in their early stages acquire the requisite legitimacy from critical stakeholders and what is the effect of legitimacy on their organization in return*?"

To answer this research question four empirical studies were undertaken. In three of these studies, a particular type of legitimacy (moral or cognitive) was examined in depth. In the final study, we investigated legitimation through competitive orientation inspired by research from social psychology on firm stereotypes. A quick snapshot of the content of the papers is provided in figure 6.1. In the following sections, we provide a brief recap of the research studies that are part of this dissertation highlighting the major findings and results.

|  | STUDY 1 | STUDY 2 | STUDY 3 | STUDY 4 |
|---|---|---|---|---|
| **CONSTRUCT** | MORAL LEGITIMACY | SOCIOPOLITICAL NORMATIVE LEGITIMACY | COGNITIVE LEGITIMACY | COMPETENCE WARMTH |
| **CONTEXT** | PRODUCT-BASED SOCIAL VENTURES; DEVELOPING ECONOMIES | COMMUNITY INTEREST COMPANIES IN UNITED KINGDOM | SOCIAL BUSINESS VENTURES; WORLDWIDE | SOCIAL BUSINESS VENTURES; WORLDWIDE |
| **VENTURE ISSUE** | SCALING BEYOND LEGITIMACY THRESHOLD | VENTURE SURVIVAL IN FIRST THREE YEARS | FUNDING DURING EARLY STAGES | COMPETITIVE ORIENTATION DURING SCALING |
| **DATA** | INTERVIEWS + $2^0$ Data | INCORPORATION + ANNUAL FILINGS | BUSINESS PLANS / FUNDING APPLICATIONS | FIRM NARRATIVES FOR FELLOWSHIP |
| **LEGITIMACY JUDGMENTS BY** | CUSTOMERS + OTHER STAKEHOLDERS | REGULATOR | FUNDERS + COMMUNITY | FOUNDATION + STAKEHOLDERS |

**Figure 4.1 Empirical Papers on Legitimation Strategies of Social Business Ventures**

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## 6.2 EMPIRICAL STUDIES AND ANSWERS TO CONSTITUENT RESEARCH QUESTIONS

### 6.2.1 Moral Legitimacy of Product-based Social Business ventures (Study 1)

What constitutes the moral legitimacy of a social business venture is not a simple question. The reason for this is the multitude of expectations that arise from several important stakeholder groups including customers, funders, partners, government and others (Bacq & Lumpkin, 2014). This prompted the research question, "*How do (product-based) social business ventures attain moral legitimacy threshold?*". We performed multiple case studies on successful ventures that manufacture and sell menstrual products for women in the base-of-the-pyramid markets. Moving beyond just the moral propriety and prosocial conceptions to a normative approach (Palazzo & Scherer, 2006), we explicate the constituent logics of the market and social impact that underpin moral legitimacy of social business ventures. From our findings we identified three sources of legitimacy barriers that arise from a) social contextual characteristics, b) nature of the competitive offering and c) quality-affordability conundrum. The strategies used by the ventures to overcome these barriers were listed in concert with four types of moral legitimacy namely, consequential, procedural, structural and personal. A process model was developed that shows how the market and social impact logics supply moral legitimacy.

When strategic the efforts are synergistic as opposed to self-cancelling between the logics, resultant moral legitimacy raises beyond the threshold for ventures to achieve scaling and growth.


## 6.2.2. Legitimation Strategies of Nascent Community Interest Companies (Study 2)


Social business ventures develop new products and services that aim to solve difficult social issues. In these efforts, sometimes the ventures need to conform to the laws and rules laid out by the government to gain acceptance. Whether it is combating alcoholism or drug use in teens or working with refugee groups, they are required to effect changes in the extant norms and values of the community where they operate. Successful legitimation of their activities would bring about resource endowments that ultimately help the nascent ventures pass the liabilities of newness in the first few years (Stinchcombe, 1965). This lead us to the research question(s), *"What are the legitimation strategies used by nascent social business ventures and what is the effect of legitimation on organizational survival?"*


Following the framework laid out by Zimmerman and Zeitz (2002), we studied the claims on legitimation made by nascent community interest companies (CIC) in the UK. Incorporation documents and annual filings from the first three years revealed the nature of legitimation strategies pursued by these companies. We found how CICs enacted the

conformance, selection, manipulation and creation strategies and tabulated their frequency of the use. The sociopolitical normative legitimacy was used in tandem with the legitimation more than sociopolitical regulatory or cognitive legitimacy (Hunt & Aldrich, 1998). In comparing the difference between high performance and dissolved CICs, a positive relationship was found between the frequency of legitimation and survival in the first three years since inception.

## 6.2.3. Sources of Cognitive Legitimacy and their Impact on Funding (Study 3)

Cognitive legitimacy of new organizational forms in new industries is spread through the increased understanding and knowledge of the activities of the ventures (Aldrich & Fiol, 1996). Unlike the commercial ventures who benefit from legal registration and completing a business plan in their nascent stages (Delmar & Shane, 2004), the sources of legitimacy of social business ventures are not known clearly. Taking the comprehensibility view of cognitive legitimacy, we investigated, "*how do different sources of cognitive legitimation affect funding success of new social business ventures?".* For uncovering the relationship between cognitive legitimacy and funding success we chose a novel setting of social business plan competitions. In addition to theoretically derived hypotheses that connected the sources of cognitive legitimacy to funding success, we also explored the effective discursive legitimation strategies adopted by winners of the business plan competition by analyzing the text of the

entries (Vaara & Tienari, 2008; van Leeuwen & Wodak, 1999). This lead to the related research question, *"Which discursive legitimation strategies are effective in helping cognitive legitimation of social business ventures to attract investments?"* We found evidence for a positive relationship between cognitive legitimation through the sources of social innovation, social impact, scalability and partnerships. Most of the ventures used the discursive strategies of rationalization and authorization to acquire cognitive legitimacy and this had a positive effect on funding outcome.

### 6.2.4. Organizational form choice and competitive orientation (Study 4)

In this study, we analyzed the firm narratives of social ventures in the scaling or the growth stage to examine if they preempt firm stereotyping using the Stereotype Content Model (Cuddy, Fiske & Glick, 2008). Accordingly, our research question was, "*how do social business ventures subscribing to different organizational forms differ in their expression of warmth and competence?* Using the methodological steps laid out by Short et al. (2010), we performed construct validation of the two fundamental dimensions of SCM namely, warmth and competence for use with Computer Aided Text Analysis (CATA). The outcome of this is a wordlist for each dimension that can be used as a dictionary with such software for the purpose of analyzing text. The wordlists were tested on the firm narratives written by around 2434 Ashoka fellows from around the world. 198 social ventures registered as non-profits and hybrids were compared for their expression of warmth and competence using the

dictionaries. Our results show that all the ventures regardless of legal registration invest in showing their competence on the firm narrative.

## 6.3 CONTRIBUTIONS TO RESEARCH LITERATURE
### 6.3.1 New Venture Legitimation

The primary theoretical contribution of this dissertation is to the new venture legitimation examined from the context of social entrepreneurship. The transformative nature of social business ventures, consistently attempting to change current norms and practices, became an ideal vehicle for observing the strategic action view of organizational legitimation (Uberbacher, 2014). As explained before, since we were interested primarily in entrepreneurial action that can legitimize the new ventures, the thrust of observations was on the *substantive* rather than the *symbolic* methods of legitimation (Ashforth & Gibbs, 1990).

In line with previous efforts, our analyses of text spans both the cognitive and evaluative legitimations (Golant & Sillince, 2007). In study three for instance, we observe a spectrum of legitimation strategies ranging from conformance to creation by community interest companies. Conformance in this case would fall under cognitive legitimation since it deals with fitting into the existing institutional structures. Creation or manipulation strategies on the other hand, fall under the evaluative legitimation where organizations are actively changing the institutional elements to their

needs. The conception of cognitive legitimacy from a comprehensibility viewpoint rather than taken-for-granted view is again where the cognitive meets with the evaluative (Chapter 4). We show the breadth of audience members taking part in the legitimacy judgments and explain that plurality of expectations can create conflicts in analyzing the product-based ventures (Chapter 2). The positive relationship between venture survival in the early stages and sociopolitical normative legitimacy is empirically validated (Chapter 3). Through content analysis of text sources, we are able to delve into both the validity and propriety components of legitimacy judgments (Bitektine & Hack, 2015)

*Types of Legitimacy.* Two types of legitimacy were studied namely, cognitive legitimacy and moral or sociopolitical normative legitimacy. In chapter 2, we clarify the normative underpinnings behind market and social impact logics in relation to social business ventures. In addition, we explain how careful actions by ventures enhance four types of moral legitimacy (Suchman, 1995). We further the knowledge on moral legitimacy by studying the legitimation strategies used in tandem during the first three years of a venture. We respond to the need for more research on the sources of legitimacy by investigating the sources of cognitive legitimacy (Tost, 2011; Bitektine, 2011). In each of these studies we have undertaken ways to operationalize legitimacy based on entrepreneurial action. Thus we contribute to the understanding of microstructures of legitimation (Nicholls, 2010).

**6.3.2 Social Entrepreneurship**

Social entrepreneurship is a compound term that has ignited quite a debate in the literature. The contributions of entrepreneurship to society, both positive and negative outcomes, cannot be ignored (Baumol, 1990). Even though there exists a broad-based consensus on what entrepreneurship is, defining what is "social" has not been easy. In this dissertation though, we have deliberately focused on entrepreneurship. The reason for this simple. A cornerstone of entrepreneurship is new venture creation (Gartner, 1985). If we were to gain a better understanding of social entrepreneurship, we have to comprehend new venture building in this context. We use the theoretical lens of organizational legitimacy to study the behavior of social business ventures predominantly in their early stages. Successful legitimation, we find repeatedly, plays a positive role in venture scaling, success in funding and surviving beyond the first three years. We also find that legitimation by competitive orientation precedes legitimation by prosocial orientation.

Our contributions to social entrepreneurship literature are multi-fold. We advance empirical inquiry into a diverse set of problems and contexts. First, we delineated product-based social business ventures that operate in the base-of-the-pyramid and delved into their challenges in scaling (chapter 2). When some of the services introduced by social ventures could be unique, with regard to products they could compete directly with commercial firms more often than not. This dynamic has not been captured

in prior literature. Second, we have introduced research on both existing (non-profit, hybrids chapter 5) and new organizational form of Community Interest Company (chapter 3). Third, with respect to issues of venture building we tackle the issues with scaling (chapter 2) and funding success (chapter 4). Fourth, from a methodological standpoint, we analyze a diverse set of textual material produced by social business ventures. As shown in figure 6.1, these include founder interviews, incorporation documents, annual reports, business plans or funding applications and firm narratives. In chapters 3, 4 and 5, content analysis based mixed method tests were performed. Thus we answer to the need for quantitative approaches to data analysis moving from just case study based methodology (Short, Moss & Lumpkin, 2009). A wide range of stakeholder groups that make legitimacy judgments were covered including, funders, regulators, customers, support organizations etc. (see figure 6.1). In addition to the legitimacy theory which is often used in the organizational studies, we have extended the use of Stereotype Content Model (Fiske, Cuddy, Glick, 2007) which brings input from social psychology to studying stereotypes among social business ventures and their legitimacy.

Creation of future expectations is a risky proposition where organizations run the risk of overpromising and not being able to follow through. Promises made at the initial stages can increase the legitimacy but can have a negative effect when they are not kept. The double-edged sword nature of legitimacy has been highlighted time and again by authors in the past (Ashforth & Gibbs, 1990; Garud, Schildt, Lant, 2014). In particular, the

downside of legitimacy for social business ventures in base-of-the-pyramid markets has been documented (Kistruck, Webb, Sutter & Bailey, 2014). We found that not all CICs who make rosy promises at inception cannot always be successful in the later stages. Whether hyperbolic efforts in legitimation led to their falling short of stakeholder expectations remains to be researched. But we would like to highlight the negative effects of legitimacy besides the much celebrated positive consequences.

Finally, our contributions are topical in the backdrop of evolving research perspectives on social entrepreneurship and hybrid firm. The debate on whether all businesses need to be hybrid has invited mixed responses (Zahra & Wright, 2016; McMullen & Warnick, 2016). By highlight some of the promise and peril involved in new venture creation and early stage venture success, we inform the entrepreneurship literature on the practicalities of socially conscious venture creation coming to fruition.

## 6.4 Limitations and Future Research

Limitations of the empirical studies and fruitful avenues to further research inquiry were suggested at the end of each chapter. Some common themes among them are mentioned here. In all of the studies, performance data on the social ventures were not available. In the business plans this information was kept confidential. In the study on Community Interest Companies, not all of them furnished the numbers and even when reported, the format was not standardized. When the outcome of the ventures is not clear, it becomes difficult for the audience to assess their legitimacy. Research on impact measurement and blended value can offer useful metrics to compare the ventures in the future (Ebrahim, Battilana & Mair, 2014). The texts analyzed were from secondary sources which meant that we did not have access firsthand information through field visits for the latter chapters. This limited us in understanding the inner workings of a social business venture better at a micro-level.

Even though information on the industry sector of operation was available on the ventures there were only a handful of them or less in each sector. As a result, meaningful comparisons were not possible and the ventures had to be treated as one whole. As the entrepreneurial activity in these sectors pick up this shortcoming may be ameliorated. Furthermore, texts presented a static picture of legitimation obtained at a particular instance of time. Better insights into the legitimation process will be possible through longitudinal studies (Johnson, Dowd & Ridgeway, 2006). The

longitudinal data on the Community Interest Companies from the first three years was an exception. Uniformity of business plan format was a limitation that constrained the number of funding competitions that could be analyzed. Social desirability to sound good on paper is another limitation but it yielded interesting results in the comparison between CICs at inception with all the participants scoring high. Careful attention is needed when the geographical and industry context span a wide range. Future studies could collect data from a particular context to account for this diversity.

We observed legitimacy judgments indirectly by examining the outcomes of those judgments such as funding success. The content, formation and change of legitimacy judgments need much more research attention according to Tost (2011). The text sources that we have used in this dissertation are the very basis by which crucial stakeholder make these judgments. But in each case the audience may have access to information from other sources such as the media – print, television, social media etc. These realms offer rich opportunities for further investigation of text content on legitimation in the future. More studies are needed on the negative effects of legitimation since the current body of literature is heavily slanted towards the positive effects. Similarly, attention to repairing legitimacy at the time of a crisis in the context of social business venture on account of perceptions such as mission drift or similar changes will be fruitful.

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# Samenvatting in het Nederlands

**Legitimiteitstrategieën van sociale ondernemingen**

Sociaal ondernemerschap is binnen Europa maar ook daarbuiten een betrekkelijk nieuw fenomeen. Sociaal ondernemerschap verschilt van winst-georiënteerd ondernemerschap omdat bedrijfsmiddelen ingezet worden om sociale problemen zonder winstoogmerk op te lossen. Tijdens de opstartfase hebben sociale ondernemingen ondersteuning nodig van verschillende stakeholders zoals cliënten, investeerders maar ook NGO's (niet-gouvernementele organisaties) om verschillende soorten middelen te verkrijgen zoals geld, kennis maar ook legitimiteit. Met name de theorie over organisatielegitimiteit geeft aan dat ondernemingen die in staat zijn om te bewijzen dat ze "legitiem" zijn in de ogen van stakeholders, het meest succesvol zijn in het verkrijgen van de benodigde middelen. Deze middelen zijn van belang om de eerste fase van het sociale ondernemerschapsproces te overleven maar ook om verdere groei mogelijk te maken.

In dit proefschrift wordt er aan de hand van vier empirische studies onderzoek gedaan naar hoe nieuwe sociale ondernemingen zowel cognitieve als morele legitimiteit verkrijgen tijdens de startup-fase en daarna en welk effect dit heeft op deze ondernemingen zelf.

In de eerste studie is er onderzoek gedaan naar de aard van de barrières waar sociale ondernemers tegen aan lopen om morele legitimiteit

te verkrijgen. Dit onderzoek is gebaseerd op een *multiple case* analyse van productintroducties bij vijf sociale ondernemers in de context van *Menstrual Health Management (MHM).* Uit dit onderzoek is gebleken dat sociale ondernemers worden geconfronteerd met een combinatie van drie afzonderlijk te onderscheiden barrières, namelijk: sociale context, aard van het competitieve product en de verhouding kwaliteit-betaalbaarheid. Vervolgens is er in deze studie gekeken naar hoe de succesvollere sociale ondernemingen deze drie barrières overbrugden en morele legitimiteit verkregen. Om deze te verkrijgen en boven een drempelwaarde te tillen zijn er vier vormen van morele legitimiteit van belang: procedureel, structureel, persoonlijk en een vorm die betrekking heeft op de consequenties van het sociale probleem.

In de tweede studie is er onderzoek gedaan naar de pogingen van sociale ondernemers om legitimiteit te verkrijgen en te overleven. De studie is gebaseerd op een onderzoek van 97 zogeheten *Community Interest Companies (CIC's)* die als losstaande rechtsvorm in het Verenigd Koninkrijk een nieuwe groep sociale ondernemers vormen. Vanwege de rijke documentatie zoals jaarverslagen en interne documenten over deze CIC's, konden de pogingen van deze groep van sociale ondernemingen om legitimiteit te krijgen systematisch en over een periode van drie jaar bestudeerd worden. Op basis van een *content-analysis* is er specifiek gekeken naar de inhoud en hoeveelheid van legitimiteits-claims die bij aanvang en over de tijd door deze CIC's zijn gedaan. Uit de analyse blijkt dat pogingen om legitimiteit te verkrijgen bij alle CIC's nauw samengaan met het overleven maar dat de hoog presterende beter met dit

spanningsveld konden omgaan dan minder presterende en om die reden met de onderneming stopten.

Competities voor ondernemingsplannen worden steeds vaker gezien als een belangrijke bron voor de financiering van sociale ondernemingen. In de derde studie zijn er daarom 124 ondernemingsplannen bestudeerd die deelnamen aan een ondernemingsplancompetitie door middel van een *content-analysis*. Daarbinnen is er gekeken naar cognitieve legitimiteit en gebruik van discursieve legitimatiestrategieën in de vorm van gebruikte argumenten van de sociaal ondernemer in de toelichting van het plan. Uit deze studie blijkt dat cognitieve legitimiteit, mits gerelateerd aan sociale innovatie, schaalbaarheid en samenwerkingsverbanden, een positief effect hebben op het financieringssucces van een sociale onderneming. Verder bleek dat *rationalisatie* en *autorisatie* -als twee sub-vormen van discursieve legitimatiestrategieën- het meeste zijn toegepast door de winnaars van deze plannen.

In de vierde studie zijn aan de hand van een computergestuurde tekstanalyseprogramma en *Stereotype Content Model (SCM)* de organisatienarratieven van 196 sociale ondernemingen geanalyseerd. Het doel van deze studie is om te onderzoeken of sociale ondernemingen die hebben gekozen voor verschillende organisatievormen organisatiestereotypering actief hebben vermeden. Om dit te doen is er eerst een woordenboek ontwikkeld die metingen maakt van de frequentie

van het gebruik van termen die te maken hebben met competitie aan de ene, en warmte aan de andere kant zijnde de twee fundamentele dimensies van SCM. De ene onderstreept het competitieve karakter van ondernemerschap en de andere het pro-sociale karakter van sociaal ondernemerschap. In tegenstelling tot wat er vaak gedacht wordt blijkt uit deze studie dat succesvolle sociale ondernemingen voornamelijk legitimiteit verkrijgen door competitieve oriëntatie in plaats van pro-sociale oriëntatie, ongeacht de keuze voor organisatievorm.

Tot slot worden de theoretische implicaties van de studies besproken en hoe deze bijdragen aan de gebruikte organisatielegitimiteitstheorie en de literatuur over sociaal ondernemerschap. Op basis van de verschillende gebruikte invalshoeken in dit proefschrift, de diepgaande *content-analysis* van zowel tekst als overige databronnen zoals financieringsaanvragen, ondernemingsplannen, jaarverslagen, interne documenten en organisatienarratieven, draagt dit proefschrift tevens methodisch op een grensverleggende wijze bij aan sociaal ondernemerschapsonderzoek. Naast de theoretische bijdragen worden er concrete aanbevelingen gedaan voor sociale ondernemers die zowel in de beginfase als in het realiseren van verdere groei te maken krijgen met vraagstukken rondom het verkrijgen van legitimiteit want deze is, zo is gebleken uit dit proefschrift, een belangrijke voorwaarde voor succes.