Local Preferences and Social Commitment: The Effect of Ecosystem Factors on Enterprises' Location Choice and Social Performance

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Introduction

In recent years, the business landscape has witnessed a transformative shift toward greater social and environmental responsibility (Delmas & Toffel, 2008; Shepherd & Patzelt, 2011), thereby putting social innovation at the forefront. Social enterprises emerge as a potential catalyst for social innovation that effectively tackles grand challenges, fostering interactions among cross-sector actors such as social movements, non-profit organizations, governments, businesses, investors, and commercial entrepreneurs (Montgomery et al., 2012). In doing so, social enterprises do not grow in isolation but address societal challenges through collective action with other actors (Ferraro et al., 2015), suggesting that social enterprises evolve through the embeddedness of the venture within their region (Bacq et al., 2022; Dufays & Huybrechts, 2014; Montgomery et al., 2012; Spanuth & Urbano). Due to the increased interweaving in the net of regional actors and stakeholders, social enterprises face increased pressure to achieve high social performance (Molecke & Pinkse, 2017).

However, it remains unclear why some regions have a higher rate of social enterprises than others and further why some areas also have more successful social enterprises. Identifying the relevant regional influences can help social enterprises make their location choices strategically favorable by enabling them to make conscious and better decisions about which factors affect their venture's growth and success. Additionally, policymakers can craft effective regulations and policies that support and incentivize social enterprises, fostering a conducive ecosystem for their growth. Following Tracey and Stott (2016) call to delve into the role of place and to examine regional factors that influence social innovation, this paper investigates regional attributes that influence social enterprises' location choices and social performance. Specifically, we ask: *To what extent do structural, cultural, and relational ecosystem attributes influence social enterprises' location choice and social performance?*

To understand why some regions have a higher rate of (successful) social enterprises than others, we use the entrepreneurial ecosystem framework, as it helps to understand the connections between entrepreneurial activity and their surrounding environment (Thompson et al., 2018). This is particularly relevant to identifying and unpacking the diverse array of stakeholders critical to social endeavors, with a specific emphasis on acknowledging the pivotal role played by resources (Bacq & Janssen, 2011; Mair & Marti, 2006; Zahra et al., 2009) and networks (Fernandes & Ferreira, 2021; Lux et al., 2020; Prokop & Thompson, 2023; Scott et al., 2022). Networks actively shape the institutional dynamics (Stam, 2015) within ecosystems,

either fostering or impeding entrepreneurial activity. Spigel (2017) identifies attributes that critically affect the ecosystem. The attributes include access to finance, support services, and actors (Spigel, 2017). We assume that all, but especially the last attribute, have a strong influence on the location choices and the social performance of social enterprises, as previous studies on social enterprises show that these ventures address societal challenges through collective action. In doing so, social enterprises evolve through the embeddedness of the enterprise (Bacq et al., 2022; Dufays & Huybrechts, 2014; Montgomery et al., 2012) in the respective ecosystem. However, the role of ecosystem factors in shaping location choice and, thus, social performance remains underexplored in the literature (Roundy, 2017; Roundy et al., 2017; Thompson et al., 2018).

This paper seeks to bridge this gap by using data collected initially by B Lab, a nonprofit organization granting B-Corporation certification to enterprises that meet specific social and environmental performance standards, transparency requirements, and legal accountability (B Lab, 2024). Specifically, we test our hypothesis using a sample of 2527 U.S.-based social enterprises. We supplemented the data from B Lab with the American Census Bureau data. To examine how ecosystem attributes interact with local preferences and social commitment to influence social enterprises' location choices and social performance, we run a conditional logit regression and a linear regression analysis.

Our findings show which ecosystem attributes influence the decision of a social enterprise to locate and stay in an ecosystem. Overall, we find evidence that some entrepreneurial ecosystem actors influence the decision of social entrepreneurs to locate and remain in an ecosystem, while others do not. We further see a mismatch between the regional influences affecting location choices and those impacting social performance positively.

Theoretical Background

Social enterprises have gained widespread recognition as a vehicle for tackling societal and environmental challenges by providing social innovation (Dacin et al., 2011; Mair & Marti, 2006; Short et al., 2009; Tracey & Stott, 2016). Despite the absence of a universally accepted definition, there is a prevailing consensus that social enterprise involves the harmonious integration of both social welfare and commercial objectives at the core of an organization (Battilana & Lee, 2014; Hockerts, 2006; Tracey & Stott, 2016). Through the combined pursuit of social and financial objectives, social enterprises stand apart from conventional commercial

organizations, where social concerns are seen as instrumental processes to achieve financial aims, and from non-profit organizations, which are solely based on donations to pursue their social welfare goals (Battilana & Dorado, 2010; DiVito & Ingen-Housz, 2021; McMullen & Bergman, 2017).

Prior research has posited that social enterprises' establishment and growth rates are subject to various regional influences. These influences encompass the presence of societal issues (e.g., Zahra et al., 2008), the scale of the welfare state (e.g., Bozhikin et al., 2019), legal and tax frameworks (e.g., Killian & O'Regan, 2018; Santos, 2012), a cultural milieu that fosters (social) entrepreneurship (e.g., Spigel, 2017) and the level of socio-economic development (e.g., Cheah et al., 2019; Felício et al., 2013). However, exploration within this domain remains fragmented, with papers focusing solely on individual regional influences without shedding light on the bigger picture.

Similarly, the broader discourse within the system literature (e.g., on innovation systems, business systems, and entrepreneurial ecosystems) posits that economic actors do not operate in isolation. Instead, their actions are intertwined with the institutional context in which they engage in entrepreneurial and economic activities (Bergek et al., 2008; DiVito & Ingen-Housz, 2021; Whitley, 2000). As pointed out by previous studies, the literature on entrepreneurial ecosystems provides one attempt to understand the interconnectivity between enterprises and their regional surroundings more holistically. Thereby, the term *ecosystem* refers to an understanding of the actors and their connections to a central figure as well as the concurring interrelationships that drive ecosystem dynamism (Adner, 2017). Spigel (2017) defines entrepreneurial ecosystems as “the union of localized cultural outlooks, social networks, investment capital, universities, and active economic policies that create environments supportive of innovation-based ventures” (p. 49). Building on this definition, Mason and Brown (2017) highlight the importance of interdependent relationships among different actors as key ingredients for the success of the entrepreneurial ecosystem, whereas the (social) context can be both restricting and fostering (Stam, 2015). To gain a more holistic understanding of entrepreneurial ecosystems for social enterprises, an analysis of the structural, cultural, and relational attributes is essential (Spigel, 2017; Theodoraki et al., 2018). This is why we investigate (i) the influence of government involvement, the number of universities and the number of support services as structural attributes, (ii) the influence of cultural attributes and (iii) the influence of different actors, e.g., the number of charities and the number of financial

institutes, as relational attributes. Since social enterprises play a pivotal role in tackling societal challenges stemming from institutional failure, we further analyze the influence of social challenges, e.g., crime rate, poverty, and unemployment rate, on social enterprises' location choice and social performance. By taking these ecosystem attributes into account, we unpack the regional influences on social enterprises' location choice and social performance.

Method

To develop an understanding of social enterprises' location choices, we follow best practices by using publicly available data from B Lab to assess whether enterprises are social or not (e.g., Conger et al., 2017; Grimes et al., 2018; Sharma et al., 2018; Siqueira et al., 2018). B Lab is a nonprofit organization that grants B-Corporation certification to enterprises evaluated in a voluntary audit (Grimes et al., 2018). In doing so, B-Corporations (hereafter: B-Corps) demonstrate their commitment to treating their social and environmental impact with the same rigor as their financial returns (B Lab, 2023). To obtain certified B-Corp status, an enterprise needs to undergo a B Impact Assessment. To comprehensively address our research question, we first run a conditional logit regression to examine the effect of the ecosystem attributes on the location. We then investigate the effect of the ecosystem attributes on the social enterprises' social performance through a linear regression model.

Our study is based on a sample of 2527 B-Corps in the 2011-2023 period. In this paper, we only included B-Corps located in the United States of America as this area served as a prominent and influential exemplar in the field of entrepreneurial ecosystems and social entrepreneurship (e.g., Meyskens et al., 2010; Sunny & Shu, 2019; Thompson et al., 2018). Among others, our independent variables include the presence of various actors (e.g., charities, financial institutes, universities, research institutes, lawyers, and other social enterprises) as well as the unemployment rate, poverty rate, and crime rate. Most of our independent variables are measured through the North American Industry Classification System (NAICS) codes as they classify enterprises by their primary activities.

For the conditional logit regression, our dependent variable measures in which ecosystems social enterprises locate and stay. Following prior studies (DeCarolis & Deeds, 1999; Folta et al., 2006; Gilbert et al., 2008; McCann & Folta, 2011; Vedula & Fitza, 2019), we look at the Metropolitan Statical Area (MSA) level as unit of analysis. MSA refers to regions having at least one urban area of 50,000 or more inhabitants (United States Census Bureau, 2024). We

chose MSAs as this level of spatial segmentation is small enough to consider regional variety (Carree et al., 2015). In doing so, we establish a more explicit link between social enterprises and the regional dynamics of their respective ecosystem and consider scenarios where multiple ecosystems may coexist within a single state (Folta et al., 2006).

In the linear regression analysis, we measure the dependent variable *social performance* through the overall B Impact Score of a B Corp. This score is frequently self-reported and adjusted based on company size, sector, and nationality (B Lab, 2023). The highest score is 120 points, with a minimum threshold of 80 points required for an enterprise to qualify for the B Corp certification.

Findings

Our findings show which ecosystem attributes influence the decision of a social enterprise to locate and stay in an ecosystem. Overall, we find evidence that some entrepreneurial ecosystem actors influence the decision of social entrepreneurs to locate and remain in an ecosystem, while others do not. Preliminary findings of regressions indicate that social enterprises prefer some ecosystems over others. We find evidence that social enterprises prefer ecosystems with a high number of financial institutes, a high number of lawyers and patent offices, a low number of coworking spaces, a high number of research institutes, a low number of universities, and a low unemployment rate. Our analysis further showed that the number of lawyers and patent offices negatively influences the social performance of social enterprises. However, we see a positive link between the number of universities and the number of research institutes on the overall performance.

Contributions

We aim to make three contributions to the literature on social entrepreneurship and entrepreneurial ecosystems. First, we aim to gain a better understanding of why social entrepreneurs choose specific regions for their ventures. Second, by examining various ecosystem attributes and their influence on social entrepreneurs' location decisions, we will generate a more comprehensive understanding of the complex dynamics of entrepreneurial ecosystems in the context of social entrepreneurship. Third, by considering the macro (state) and micro (city) levels, we will enrich the understanding of how different levels of governance and local characteristics affect the location choices of social entrepreneurs. This approach

provides a nuanced view of the factors influencing social entrepreneurship and contributes to the literature on multi-level analysis in entrepreneurship studies.

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