

A capabilities approach to social entrepreneurial ecosystems

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Extended abstract

Objective: We propose a novel approach to social entrepreneurial ecosystems as resulting from individuals’ global values and aggregate contextual functionings. Our conceptual model combines Sen’s capabilities theory and the entrepreneurial ecosystem strand of research in order to discern between market-oriented and social entrepreneurial outcomes. We suggest that entrepreneurial outcomes derive from within entrepreneurial ecosystems and reflect the social values that individuals embrace, i.e. self-transcend and open to change values in the case of social entrepreneurial outcomes versus self-enhance and conservation values in the case of market oriented outcomes. We further assume that values and outcomes are subject to context-specific conversion factors, that is, ecosystem specific economic, resource-bases and institutional capabilities. As such, social entrepreneurship is a functioning of an entrepreneurial ecosystem characterized by a high propensity to create social wealth and solve social problems.

Contribution: Social entrepreneurship centers upon a broader, compared to commercial entrepreneurship, agenda that includes financial and social goals (Alegre et al., 2017). Albeit distinct in terms of goals and aspirations, social entrepreneurship is not rare. It can occur in any organizational setting, happens across levels and actors and associates with different social and human principles and institutional and political logics (Defourny and Nyssens, 2010; Teasdale et al., 2023). Contemporary theorizations of the conditions underlying social problems build upon the ecosystems’ approach using for example a firms’ competitive advantage perspective (Porter, 1980) or the external environment success factors approach (Baron, 2003). Empirical evidence suggest that entrepreneurial ecosystems evolve in different nation-ideal types and build economic resilience at the local level (Iacobucci and Perugini, 2021). Nevertheless, there is little knowledge on the heterogeneous structures that evolve into country specific types of entrepreneurial ecosystems’ manifestations and workings (Scheidgen, 2021). Understanding the workings of such complex ecosystems is the focus of a strand of research that analyses the ways in which different types of entrepreneurship (conventional, social, etc.) are promoted (Roundy, 2017; Gaidos et al., 2023).

Our study aims at contributing to this strand of research. The approach proposed here focuses on the system itself as the generator of spaces where social value might be created. We extend entrepreneurial ecosystems research by proposing a capabilities framework for the identification of a social entrepreneurship ecosystem. In particular, we propose that entrepreneurs’ global social values create the space where observed outcomes and success occur given locally generated interactions with external factors and the entrepreneurial environment. The capabilities approach allows us to identify strong social entrepreneurial ecosystems as resulting from that interaction. Applying the capability approach to the

identification of social entrepreneurship brings together individual and collective aspects of the phenomenon usually studied under separate strands of analysis such as the entrepreneurial orientation and the entrepreneurial ecosystems strands of research. As a result a more holistic perspective to the analysis of social entrepreneurship is provided. In particular, the proposed approach aims at enriching the theoretical and empirical tools and methodologies that can be applied to discern the underlying interactions that shape complex and dynamic social entrepreneurial ecosystems (Roundy, 2017).

Background and hypotheses: The capability approach frames two normative claims in favor of a) people's freedom to achieve well-being and, b) understanding well-being in terms of people's capabilities and functionings. Capabilities relate to choices, i.e., opportunity for a person to decide among alternatives in light of achieving self-defined well-being, and, functionings entail the realization of choices, i.e., the state of having a particular capability (Sen, 1979). Under a capability perspective, individual characteristics and contextual level factors interact as conditions that shape alternatives and transform choices to capabilities. Taken together, we propose here that entrepreneurship is the outcome of an ecosystem of choices. The entrepreneurial ecosystem strand of research focuses on the mechanisms resulting in certain outcomes while the capabilities approach relies on conversion factors as the prerequisite for outcomes to occur. Here we use the three core concepts of the capability approach, referring to value, freedom of choice / action, and conversion factors, as the determinants of social entrepreneurship outcomes (Robeyns and Byskov, 2023).

In terms of values we view social entrepreneurship under a normative definition of capabilities, i.e., a positively valued things and beings approach. Such a theorization is in line with output-oriented definitions of social enterprises that assume social innovation, or else social value creation as the distinctive outcome of social entrepreneurship, in contrast to traditional, market – oriented entrepreneurship (Peredo and McLean, 2006). In particular, the social part of social entrepreneurship is about social goals that exceed one's self and become part of a community's wealth (Nicholls, 2006). We formulate this argument as proposition 1 suggesting that 'entrepreneurial outcomes are shaped by entrepreneurs' values'.

The second core concept specifies freedom as real opportunity, i.e., opportunity to generate circumstances that allow for choices to be realized. We view the choice of becoming an entrepreneur as the realization of the freedom principle (Kreft and Sobel, 2005). Entrepreneurship is a lifestyle choice in the sense that motivation is most often than not, a mix of pecuniary (income, wealth, or social value creation) and non-pecuniary rewards (Solomon and Mathias, 2020). Enhanced freedom might be observed as social enterprises act upon addressing economic, social, political, institutional, and environmental challenges with a view to applying innovative ideas and solutions that free persons and communities of needs, shortcomings, disadvantages, etc. (Rawhouser et al., 2019). We summarize this argument as proposition 2 suggesting that 'entrepreneurial outcomes are shaped by personal characteristics'.

The multifaceted nature of freedom environments is associated to the concept of conversion factors, i.e., the factors conducive to functionings (Sen, 1997). Conversion factors typically refer to the personal, social, institutional, and environmental resources that are available to individuals and can thus be assumed to reflect quantitative and qualitative differences in the real choices' spectrum of individuals. An important, albeit neglected aspect of the capabilities approach is that it can be used for interpersonal comparisons of functionings as realized in terms of individual well-being levels that are embedded in different collective capabilities contexts (Robeyns and Byskov, 2023). Social entrepreneurship is linked to both individual and social well-being and, in that sense, it can be seen as functionings observed at both the actor and the community levels. We formulate this argument as proposition 3

suggesting that ‘entrepreneurial outcomes are context-specific realizations of entrepreneurs’ values’.

Given the above our theoretical (structural) model analyses the interrelationships between entrepreneurial orientation (entrepreneurs’ values), context functionings (perceived capabilities) and entrepreneurial outcomes (entrepreneurial success).

Methods and data: We use structural equation modeling techniques (SEM) as a measurement model that allows for the operationalization of our theoretical model. Our data draw from the European Social Survey (ESS) database Round 9, 2021 for Germany. We have a usable sample of 264 entrepreneurs (ESS total sample = 2,358) identified in terms of a) respondents’ employment relation (self-employed and working in own business versus other types of employment, e.g. private / public sector employee) and b) a dummy variable denoting the main source of household’s income.

Given data availability we have selected / computed: (a) Entrepreneurial success as approximated by four items, namely 1) income, 2) income fairness, 3) global life satisfaction, and 4) happiness; (b) Entrepreneurs’ orientation as approximated by four universal values, namely self-transcend, open to change, conservation and self-enhance; and (c) Capabilities as context functionings approximated by regional growth, city size and industry.

Tentative results: Our tentative results provide strong evidence that values and success are interrelated. In particular, strong evidence is provided that market and social values coexist and thus we might argue that entrepreneurs have a productive entrepreneurship profile. This finding is in line with Baumol’s (1990) proposition that the allocation of entrepreneurship matters. In that sense, evidence is provided that innovation is a function of a society’s payoffs to such activities and so the nexus between entrepreneurship, institutions and societal outcomes is more or less generative of Schumpeterian entrepreneurs. Also, support is provided to the hypothesis that the entrepreneurial success and entrepreneurial values relationship is context embedded. Finally, support to the role of capabilities is not provided albeit further research is needed in order to identify the contextual parameters that might shape the success – values interrelationship at the regional level (cultural, social, institutional, industrial environment).

Conclusions: our tentative results provide mediocre support to the analyzed interrelationships between entrepreneurial success, entrepreneurs’ orientation values and perceived context functionings. However, as this is work in progress a number of modifications need to be made to provide improved estimation results of the proposed hypotheses. The study’s advantages relate to the proposed theorization that allows for a) in depth investigation of the individual – aggregate interrelationships underlying entrepreneurial ecosystems and SEE in particular, b) the ability to formulate and test these interrelationships with secondary data for different countries and in a comparison context, and c) the ability to test for the possible effect of different contextual factors, e.g. regional innovation scores, the institutional and cultural environment, etc. A last note relates to the study’s limitations refer to a restricted number of proxies for entrepreneurial orientation (values), a limited number of objective success measures and the lack of data to study entrepreneurial intentions.

Keywords: capabilities approach, Sen, entrepreneurial ecosystems, social entrepreneurship, social values, entrepreneurial success

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