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Abstract

In this paper, we try to understand the way governance mechanisms practically work in Social Entrepreneurial Ventures (SEVs) and to explain the link between governance and SEVs' performance – i.e., social impact. Given their double bottom line, SEVs' social impact is likely to depend on the type of stakeholders, their aims, their influence and the governance mechanisms set up to deal with them. In particular, the board of directors will play a key role in balancing various stakeholders' objectives in line with the SEV's social mission and in helping to develop organizational capabilities that enhance social impact. Therefore, we propose an integrated model of the mediating role of organizational SCALERS capabilities on the relationship between governance mechanisms and social impact.

Keywords: social entrepreneurship; social impact; governance mechanisms; board of directors; organizational capabilities

Social entrepreneurship can be defined as individuals or organizations engaged in entrepreneurial activities – i.e., in the process of new value creation – with a social goal. The efficiency of social entrepreneurship as an innovative means to tackle urgent needs in the social sector (Johnson, 2000; Thompson, Alvy, & Lees, 2000) has been demonstrated by numerous examples and case studies (e.g., Alvord, Brown, & Letts, 2004; Jones, Latham, & Betta, 2008; Mair & Schoen, 2007). The infatuation with this new breed of entrepreneurial activities aiming at social good and, consequently, with an emergent field of research, has led to the proliferation of definitions. Based on Gartner's (1985) model, these can be classified according to three broad categories: the individual, the process and the organization (Bacq & Janssen, forthcoming). This paper focuses on the organizational dimension of social entrepreneurship – that is sometimes referred to as the “Social Entrepreneurial Venture” (SEV) (Dorado, 2006; Townsend & Hart, 2008). We define a SEV according to three criteria. First, a SEV is any for-profit, nonprofit or hybrid organization¹ of which the primary social mission² is central and explicit. Second, it must be financially autonomous³ thanks to a continuous market activity (Robinson, 2006; Stryjan, 2006; Thompson & Doherty, 2006). Third, a SEV must show an entrepreneurial orientation (EO) and be driven by the EO attributes identified by Miller (1983): innovation, pro-activeness and risk-taking.

The act of balancing social value creation to the benefit of the collective interest on the one hand and a financially stable and/or self-sustaining business model on the other hand, induces a double bottom line (e.g., Alter, 2004; Boschee & McClurg, 2003; Dees, 1998; Nicholls & Cho, 2008; Robinson, 2006; Thompson & Doherty, 2006). This dual mission results from multiple

¹ As a result of “sector-bending”, hybrid organizations are “formal organizations, networks or umbrella groups that have both for-profit and nonprofit components” (Dees and Battle Anderson, 2003b).

² “Having a social purpose involves a commitment to creating value for a community or society rather than just wealth for the owners or personal satisfaction for customers.” (Dees and Battle Anderson, 2003a)

³ This criterion is inspired by the European Commission's definition of the “enterprise”.

stakeholders' diverging interests that need to be satisfied. Our assumption is that the balance between social and economic goals partly depends on the type of stakeholders, their aims, their influence and the governance mechanisms set up to deal with them. The importance of governance in social entrepreneurship has been acknowledged by many authors (Austin, 2006; Austin, Stevenson, & Wei-Skillern, 2006; Mair & Martí, 2006). However, to date, the concept of governance itself has received little attention from researchers in social entrepreneurship. This question is all the more important since governance dynamics in social entrepreneurial ventures are likely to be distinct from governance models found in private, public or associative sectors. Low (2006) insists on the fact that the logic that leads to consider social enterprises as an organizational form distinct from "traditional" for-profit/nonprofit enterprises is based on the tensions that exist within these social initiatives. Therefore, SEVs are likely to present a hybrid governance model between, at one end, the for-profit agency model based on a restricted shareholder view and, at the other end, the non-profit democratic model based on an enlarged all-stakeholder perspective. By adopting a social mission in the name of a particular (small or large) group of individuals, social entrepreneurs add a key stakeholder, which they will have to take into account in the construction of the organizational strategy (Emerson, 1999).

The purpose of this paper is to offer a theoretical explanation of the link between the governance mechanisms of the SEV and its social impact. "Social impact" – defined as *value created for beneficiaries, society, and the world [...] that cannot be reduced to economic wealth for owners or consumption benefits for customers*⁴ – is generally used to express the final outcome of any SEV. More precisely, we argue that the effect of governance mechanisms on the social impact is mediated by organizational capabilities that the SEV possesses. Indeed, whereas many scholars (Carney & Gedajlovic, 2003; Lazonick & O'Sullivan, 2002; Williamson, 1985)

⁴ This definition is used at the Center for the Advancement of Social Entrepreneurship at Duke University.

have investigated the influence of governance (often expressed as ownership) on performance, it has also been shown in the literature that governance choices of an organization actually help to develop organizational capabilities that will lead to higher performance (e.g., Hoopes & Miller, 2006; Miller & Le Breton-Miller, 2006). Given such results, and the specificities of SEVs, we expect organizational capabilities in social entrepreneurship to play a mediating role on the relationship between governance and social impact.

In this paper, we review the theoretical background supporting the relations between corporate governance, organizational capabilities and social impact and we generate propositions regarding their application to the field of social entrepreneurship. The rest of the paper proceeds as follows. Section 1 discusses the governance issue in the field of social entrepreneurship. Section 2 argues for the mediating role of organizational capabilities on the relationship between governance mechanisms and social impact in SEVs. Implications for theory and practice are finally briefly discussed.

1. CORPORATE GOVERNANCE IN SOCIAL ENTREPRENEURIAL VENTURES

Corporate governance has been used in a wide array of academic literature and has been the subject of numerous definitions⁵ (Charreaux, 1997; Gomez, 1996; OECD, 1999; Shleifer & Vishny, 1997), depending on the period or school of thought. First, economists, from Adam Smith (1776) to Berle and Means (1932), got interested in the separation between ownership and control, which gives birth to agency problems due to diverging interests between the agent and the principal (Fama & Jensen, 1983; Jensen & Meckling, 1976). Therefore, in the literature, one can find some narrow definitions of governance, restricted to the sole role played by the board of

⁵ van Kersbergen and van Waarden (2004) found at least nine divergent definitions.

directors (Rock, Otero, & Saltzman, 1998) as a mechanism to defend shareholders' interests. Today, a larger variety of stakeholders (employees, clients, suppliers, financiers, the State...) is taken into account when considering corporate governance and the impact of managerial decisions. From the "stakeholder" perspective, corporate governance endorses the larger mission of taking care of stakeholders' mutual satisfaction, in addition to the achievement of the organizational objective (Labie, 2005).

The literature on governance deals with two main categories of governance mechanisms: mechanisms coming from the environment of the enterprise and internal mechanisms (Weir, Laing, & McKnight, 2002). Both external and internal mechanisms can be intentional or spontaneous (Charreaux, 1997). Among the former mechanisms, one can find the market of which competitive forces may discipline managers to take decisions aimed at maximizing the organization's sustainability (Burke, 2002) or the legal system that protects investors against expropriation attempts and that may have a disciplinary role on managers' behavior by limiting their opportunistic actions. Internal governance mechanisms refer to mechanisms that are specific to an organization, such as its legal form, remuneration policy or any board's characteristic, as well as beliefs and values of the organization, such as trust or organizational culture (Steier, 2001). The existence or the role of each mechanism depends on the size of the organization, its legal status and its nationality (Charreaux, 1997).

Even if most corporate governance mechanisms were studied in a for-profit context, they might prove useful when considering nonprofit or hybrid organizations. However, there are a number of challenges that appear to be specific to social entrepreneurship organizations and that need to be taken into account given their influence on governance. These challenges are presented in the next section.

1.1. The Challenges Inherent in Social Entrepreneurship

In the hybrid context of social entrepreneurship, the biggest challenge probably lies in the practical implementation of a promising “social” idea into operational terms in a plausible business model (Guclu, Dees, & Battle Anderson, 2002). Be it for-profit entities explicitly designed to serve a social purpose – “For-Profit Social Ventures” (Dees and Battle Anderson, 2003a) – or nonprofits using a commercial strategy to fund their social mission, SEVs face a **double bottom line**. On the one hand, SEVs look for the highest social impact possible; on the other hand, they must be financially self-sufficient (which implies making profit). Given the mix of social and financial goals, boards may be faced with difficult trade-offs between different types of stakeholders’ interests and with the serious threat of the drift of the social mission. In the nonprofit sector, given the inexistence of some mechanisms⁶ that are naturally present in for-profits (Oster, 1995), the board of directors is all the more important as it plays the role of a rubber stamp between managers of the organization and external interests (Labie, 2005). This role will also be of first importance in SEVs since a large variety of stakeholders may have a legitimate stake in the organization. We will come back to the importance of the board’s role in SEVs later in Section 1.4.

Even if all SEVs face some common issues, they are not a homogeneous group of organizations. They have different legal forms and different sizes and are found in different activity sectors. The co-existence of **various legal forms** makes the study of governance even more relevant in the field of social entrepreneurship. Although the legal form does not define a specific kind of governance (Rouyat, 2000), for each type of form, there exist factors that may reinforce or weaken the board’s capacity to carry out its role and responsibilities. Indeed, each

⁶ Oster (1995) mentions the difference between clients and beneficiaries (the first being more likely to influence the organization through their buying behavior) or the rarity of mergers/acquisitions operations.

legal form possesses different kind of owners or fund providers, who exert a governance role adapted to their often varied expectations and perspectives (Campion & Frankiewicz, 1999).

A large number of SEVs actually operate as nonprofit organizations⁷. In this type of organizations, the board is accountable, not to people holding the capital, but to the organizational social mission – hence the necessity to define and to communicate it clearly. The rarefaction of subsidies that generally fund these organizations has led to their adoption of commercial practices aiming at the sector's durability. As a consequence, more and more SEVs adopt practices anchored in the market and some SEVs operate under a commercial legal form. In this case, the board has to reflect the interests of the private equity providers. However, one could hypothesize that fund providers investing in that kind of enterprise have other interests than the sole return on investment.

Given the double bottom line inherent in the field of social entrepreneurship and the high heterogeneity among SEVs, governance mechanisms are important issues in the field of social entrepreneurship.

1.2. Governance Mechanisms in Social Entrepreneurship

The fact that SEVs are a heterogeneous group leads us to the assumption that they cover a large spectrum of governance models. At one end of the spectrum, three generic forms of governance prevail in capitalist economies: Managerial, Alliance and Entrepreneurial/Familial (La Porta, Lopez-de-Silanes, & Shleifer, 1999). The *Managerial Governance* is characterized by the separation between ownership and control, reducing risk-taking of management (Fama & Jensen, 1983). This type of governance reduces information asymmetry, at the root of a potential

⁷ In Bloom and Smith's (2008) exploratory empirical study of the drivers of social entrepreneurial impact, of the 601 social enterprises completing the 25 item-questionnaire, 591 reported that they worked under the nonprofit legal form.

opportunistic behavior. The *Entrepreneurial or Familial Governance* model, present in the great majority of small businesses, shows three main characteristics (Carney, 2005). The first one, parsimony, results from the fact that financial resources belong to the owner-manager. This reduces the risk of opportunism. Second, the personification of the organization by the owner-manager reduces, or even suppresses, some internal and external constraints. Third, idiosyncrasy, or particularism, results from this personification of the firm. Indeed, the fact that the organization is considered as a prolongation of the owner-manager's personality makes him/her have a different utility-function from the one of a manager, which offers larger latitude in the exercise of his/her authority, as well as in the choice and the structuration of his/her contractual relationships (Cerrada & Janssen, 2006). Moreover, several authors consider these characteristics as the source of important competitive advantage that can lead to a higher performance (Carney, 2005; McConaughy, Walker, Henderson, & Mishra, 1998; Mishra, Randoy, & Jensen, 2001). In the *Alliance Governance*⁸ model, even though ownership and control are still separated, managers are not submitted to the same control than on the stock exchange, since funds come from financial or industrial partners. Therefore, relationships between the organization and its partners reduce the pressure of profit maximization, are oriented towards the long run and based on reciprocity and trust.

At the other end of the spectrum, in the nonprofit sector, no analytical framework has imposed itself globally. This contradicts with the for-profit sector, where the issue of governance has been the subject of intense and important formalizations (Tirole, 2001). Labie (2005) explains this by the sector's heterogeneity in terms of ownership structure and diversity of the social mission. These explanations certainly also apply to the field of social entrepreneurship, given the double bottom line mentioned earlier.

⁸ The Alliance governance can be compared to the Resource-Dependency Theory.

It has been frequently argued that nonprofits, depending on a large number of fund providers, beneficiaries, volunteers, etc. are likely to have a “stakeholder” approach of governance, although the literature offers counter-examples (Labie, 2005). The Stakeholder Theory acknowledges that stakeholders have different but legitimate interests in the organization. Therefore, the board’s role is to represent stakeholders’ interests rather than to focus solely on the main shareholders’ interests⁹, especially when ownership concentration is strong. The underlying idea of this approach is that, otherwise, the organization will not be able to develop in the long run and that, in turn, will have a negative impact for shareholders.

But many other complementary governance approaches offer different analytical perspectives (Labie, 2005). At least four others might be considered in the nonprofit sector (Cornforth, 2001). First, the psychosocial Stewardship Theory (Davis, Schoorman, & Donaldson, 1997) argues that owners and managers may be seen as partners since they share the same interests in an objective of performance improvements, which eliminates agency problems. This cooperative form of governance applies well to nonprofits in which the principal and the agent are above all motivated by the organization’s social mission. The Resource-Dependency Theory postulates that members of an organization owe their position to their capacity to attract a wide range of resources. This approach provides valuable insights on the board’s composition in SEVs. According to the democratic approach, any decision made in the organization follows the principle “one member, one vote”. Each member of the organization is therefore directly represented. This approach has been mainly applied to the mutual or cooperative forms of social enterprises. For the Managerial Hegemony Theory, even if the principal and the agent have

⁹ Even if, in the nonprofit world, it is not unusual that fund providers are more interested in the realization of the social mission than in the return on investment (Labie, 2005).

diverging interests, the first leaves a total autonomy to the latter. This theory allows to explain the passivity of some nonprofits' voluntary boards (Labie, 2005).

Given the wide diversity of governance approaches, from the traditional shareholder view on the for-profit side to the various perspectives that attempt to explain the governance of nonprofits, we make the following proposition:

Proposition 1: Given the hybrid character of SEVs, different types of governance models exist and cover a large spectrum from the classical for-profits' governance principles to the nonprofits' governance models.

The next section investigates the influence of governance on the SEV's performance, i.e., social impact.

1.3. Governance and Social Impact

Social impact can be seen as a form of performance. According to Vesper (1990), the concept of organizational performance can be understood differently by the variety of economic actors interested, closely or not, in the firm. Depending on whether it is the founder, the manager, an investor, a client, an employee or the State, performance will be formalized and interpreted differently. Performance has been measured in many different ways¹⁰, based on as many different variables as survival, efficiency, ROI, debt ratio, profit, stock indicators, cash flow, turnover, growth or even subjective measures based on the entrepreneur's appreciation. There is no consensus about the definition of performance (Murphy, Trailer, & Hill, 1996). According to some authors, performance is an eminently relative concept that can only be measured in link

¹⁰ Brush and Vanderwerf (1992) identify 35 different measures of entrepreneurial performance among 34 scientific articles published between 1987 and 1988.

with the objectives of the organization (Etzioni, 1964)¹¹. However, these can be numerous and vary over the years. Others prefer concepts related to the organization's financial health. According to Walker, Loughton, and Brown (1999), this type of measure does not necessarily correspond to the definition that the manager would give to success, especially in micro-enterprises. Therefore, it has been suggested to enlarge the measure of performance to qualitative criteria (Jennings & Beaver, 1997) or even to reject the term itself, given the heterogeneity of measures (Murphy et al., 1996). In this article, a SEV's performance is, at least partially, its social impact.

Measuring social impact is probably one of the most difficult challenges facing scholars in the field of social entrepreneurship, since it is characterized by search for double value creation, both economic and social (Emerson & Twersky, 1996). The complexity of such as measure has not made it possible for scholars to develop a theoretical framework applicable to all SEVs. Clark, Rosenzweig, Long, and Olsen (2004) have reported no less than nine different methods to measure social impact¹². According to their analysis, these methods follow different purposes that fall into three categories. *Process methods*, the majority of them, measure effectiveness of outputs, variables or indicators that track ongoing operational processes. Second, *impact methods* attempt to prove incremental outcomes relative to the next best alternative. A third type of method – *monetization methods* – consists in assigning a dollar value to social impact.

Hence, the adopted measures of performance are presented in a distinct manner according to the main objectives – financial or social – of the organization, themselves depending on its

¹¹ That would induce measures of performance specific to the field of social entrepreneurship given the SEVs' double bottom line.

¹² These are: Theories of change, Balanced scorecard, Acumen scorecard, Social return assessment, AtKisson compass assessment for investors, Ongoing assessment of social impacts, Social return on investment, Benefit-cost analysis, Poverty and social impact analysis (Clark et al., 2004).

stakeholders. This brings us back to the necessity to measure performance on basis of the organizational goals as suggested by Etzioni (1964). Bloom and Smith (2008), for instance, when they measured “Scaling Social Impact”, used perceptual measures of performance. This method consists of asking the social entrepreneur to compare the achievements of his/her organization to other ones working to solve similar social problems. However, this can generate a bias and therefore asks for more objective measures of social impact.

The issue of the relationship between governance and performance is far from being new and has been investigated by numerous researchers in the field of traditional for-profit management. These examine the impact on performance of ownership (Berle & Means, 1932; Gedajlovic & Shapiro, 2002), of CEO/Chairman duality (Daily & Dalton, 1992, 1993), of board’s composition, of board’s size or of owner’s diversity (Daily & Dalton, 2003).

In social entrepreneurship, Rock et al. (1998) insist on the fact that the importance of efforts made towards each pole (social vs. commercial) of the double bottom line will highly depend on the board’s composition and its priorities. As a consequence, we believe that the board of directors of a SEV will have a direct impact on its double bottom line, and hence on its social impact. In the next section, we detail the importance of the board of directors regarding the balancing issue in social entrepreneurship.

1.4. The Board’s Key Role

The board of directors is the most studied governance mechanism and the board’s composition and role represent the major aspects of governance (Bozec, 2005). The board of directors mainly has two roles (Charreaux, 1997; Oster, 1995): supervision and construction of the firm strategy on the one hand, choice and control of the management team on the other hand. Whereas these two roles are generally found in all types of firms and sectors (Rock et al., 1998),

the board's composition may vary substantially (Brouard & Di Vito, 2008). When considering the board's composition, several variables might intervene, such as the size of the board (i.e., the number of directors), its meetings' frequency, the proportion of internal vs. external directors, their independence, their expertise, experience (Arthurs, Busenitz, Hoskisson, & Johnson, 2009), values, ethics or leadership (Brouard & Di Vito, 2008), CEO experience, as well as CEO/Chairman duality.

The literatures on social entrepreneurship and on governance in nonprofit organizations presented so far tell us that, given the large number of stakeholders, the board's main role in SEVs is to balance their various objectives and expectations (Labie, 2005; Rock et al., 1998). The balance between social and economic goals will continuously be weighted depending on the stakeholders' influence. Therefore, we argue that the SEV's type of governance mechanisms – its board of directors, in this case – will have an influence on the importance of the social impact compared to the economic goal. We formulate the following proposition:

Proposition 2-a: The board of directors will play a key role in social entrepreneurial ventures in balancing various stakeholders' objectives in line with the social mission.

Since the late 1980's, there has been a growing number of empirical studies on nonprofit board's performance and its relationship with organizational effectiveness (Cornforth, 2001). We remember from the literature on governance mechanisms and, in particular, from Dulewicz, MacMillan, and Herbert's (1995) and Bradshaw, Murray, and Wolpin's (1992) studies, that boards can be conceptualized as a chain of inputs, structures, processes and outputs. Two main *inputs* of the board are its members' skills and experience, and the time they are able to devote to their role. Further, board *structures* are conceptualized as “processes that have become formalized and codified, and that subsequently constrain board processes and behavior”, such as

its size of the frequency of its meetings. Board *processes* include the sharing of a common vision, the clarity of roles and responsibilities, the frequency of review, the quality of communication between the board and the management, the ability to manage conflict, and the board's meeting practices (Cornforth, 2001). Therefore, our second proposition concerning the board can be expressed as:

Proposition 2-b: The inputs, the structures and the processes of a SEV's board of directors will have an influence on its social impact.

The next section offers a theoretical explanation of the link between the SEV's governance mechanisms and, in particular, the characteristics of the SEV's board of directors, and its social impact. More precisely, we propose a mediational research model in which organizational capabilities play a mediating role on the relationship between governance mechanisms and social impact. Introducing moderators into bivariate relationships helps to reduce the potential for misleading inferences and permits a more precise and specific understanding of contingency relationships¹³ (Rosenberg, 1968).

2. TOWARDS A MEDIATIONAL RESEARCH MODEL

In this article, we argue that the relationship between governance mechanisms and social impact is mediated by organizational capabilities¹⁴ of the SEV. The next section elaborates on the relationship between governance, social impact and organizational capabilities. Further, we

¹³ According to contingency theory, the relationship between two variables depends on the level of a third variable.

¹⁴ Organizational capabilities are distinctive competencies that would be difficult for rivals to imitate within practical time and budget constraints, and that lead to superior returns due to their capacity to increase prices or reduce costs (Teece, Pisano, & Shuen, 1997). Capabilities are expected to be valuable, rare, inimitable and non-substitutable (Barney, 1991); they include hard assets, talents and advantages of corporate culture and organization (Barney & Hansen, 1994).

describe a model of organizational capabilities that was developed in the context of social entrepreneurship. We finally end up with our own research model that depicts the mediated relationship between governance mechanisms and social impact.

2.1. The Mediating Effect of Organizational Capabilities

Many scholars have investigated the link between governance, capabilities and performance. For instance, Williamson (1985) found that governance impacts the way in which firms contract with external entities such as financiers, capital markets, and other business partners such as suppliers and customers. Lazonick and O'Sullivan (2002) highlighted that governance influences the way managers develop internal routines, processes, and systems. Carney and Gedajlovic (2003) demonstrated that organizational value-creating/destroying attributes are embedded in the firm's system of corporate governance. Hoopes and Miller (2006) showed that ownership concentration and owner preferences give rise to resources and capabilities that increase performance. More precisely, they examined the influence of governance and agency on capability development. According to their model, higher ownership concentration reduces monitoring costs, which leads to resource surplus and a preference towards long-term investment; these, in the end, create unique competitive opportunities. Miller and Le Breton-Miller (2006) found that family governance choices¹⁵ feed distinctive capabilities that in turn produce superior performance. Their study explains the drivers of performance of family-controlled businesses using precepts from agency and stewardship theory. According to the latter, many managers act as stewards who are motivated by higher-level needs at their jobs, and often act with altruism for the collective good of the organization, its mission, its longevity, and its

¹⁵ Miller and Le Breton-Miller (2006) studied four fundamental governance choices: the level and mode of family ownership and control, the family leadership, broader involvement of multiple family members and planned vs. actual participation of later generations.

stakeholders (Davis et al., 1997). These attitudes, prevalent among family-controlled businesses in which leaders are either family members or emotionally linked to the family (Miller & Le Breton-Miller, 2006), engender far-sighted contributions that feed distinctive capabilities and produce superior financial performance.

In the field of social entrepreneurship more precisely, this mediating role of capabilities in the governance-performance relationship is supported by Bloom and Smith's (2008) finding of a significant positive relationship between the board's attitude and the organizational capabilities enhancing social impact in their exploratory empirical study surveying 601 social enterprises. Indeed, as they conclude, "these results generally support the idea that the attitude of the board is an important antecedent to the SCALERS" (Bloom & Smith, 2008: 16) – being themselves antecedents to social impact.

Therefore, we believe that organizational capabilities play a mediating role between the board of directors and the social performance of a SEV. The issue of organizational capabilities of SEVs has recently been investigated by Bloom and Chatterji (2009). They listed seven organizational capabilities that matter most for driving successful scaling social entrepreneurial impact under the acronym "SCALERS". First, *Staffing* refers to the success of the venture at filling its vacant jobs with competent people, whether they are employees or volunteers. Second, *Communicating* refers to the effectiveness with which the SEV is able to convince potential beneficiaries, volunteers and employees, consumers, donors and fund providers that its strategy of change is worth adopting and/or supporting in order to, in the end, create favorable general opinion towards its social mission. Third, *Alliance-building* is the organization's efficacy in building partnerships, coalitions, joint-ventures and other relationships that help to reach its social mission. Fourth, *Lobbying* means "the effectiveness with which the organization is able to advocate for government actions that may work in its favor" (Bloom & Chatterji, 2009: 11). As

an example, Bloom and Chatterji (2009) mention the success of a SEV in getting the courts, administrative agencies, legislators, and government leaders to help its cause. Fifth, *Earnings-generation* reflects the organization's success in generating revenues that exceed its expenses. Sixth, *Replicating* refers to the organization's ability to reproduce programs and initiatives without a loss in quality. Finally, the seventh organizational capability identified by Bloom and Chatterji (2009), *Stimulating market forces*, induces the creation of incentives that encourage others to serve the public good. Bloom and Smith (2008) have shown that these seven organizational capabilities are all important predictors of scaling of social impact. The next section presents our research model.

2.2. Proposed Research Model

By incorporating the specific role that SCALERS capabilities have on the relationship between governance and social impact, we believe that it would be easier to understand the process by which governance mechanisms – especially the board of directors – help to develop organizational capabilities that enhance social impact. Therefore, we suggest that:

Proposition 3: The relationship between a social entrepreneurial venture's board of directors and its social impact is mediated by its organizational SCALERS capabilities.

This can be graphically represented by a research model (depicted in Figure 1), in which the organizational SCALERS capabilities mediate the relationship between the board of directors' inputs, structures and processes, and social impact¹⁶. The type of governance mechanisms adopted by the SEV and characteristics of the board can lead to the development of

¹⁶ The model we propose can be compared with the "Impact Value Chain" (Clark et al., 2004). This can be represented under a chain of causality of how social value is created, from resources/inputs, through activities, outputs, outcomes to, finally, impact.

particular capabilities that ultimately strengthen its social impact on the people and communities they serve.

Insert Figure 1 about here

As suggested by Bloom and Chatterji (2009: 6), the board of directors needs to be capable of “identifying, recruiting, guiding, and retaining top management talent to lead the organization”. Therefore, one could for instance assume that the effect of the board’s skills and experience on social impact is mediated by the Staffing organizational capability. Another assumption could be that the impact of the board’s previous business experience on social impact is mediated by the Earnings-Generation organizational capability. For Bloom and Chatterji (2009), the capability of earnings-generation can be enhanced by adopting a business-like approach and making revenue generation a high priority for the organization. Such an approach will likely be brought to the organization by the board’s previous experience in the business sector.

CONCLUSIONS

As very recently argued by Cornforth, Spear, and Aiken (2008), while there is a growing body of research on the governance of voluntary and community organizations (Cornforth, 2003), research on the governance of other forms of SEVs has been relatively neglected. Moreover, it has also been argued that this poor but growing literature tends to be overly prescriptive

(Cornforth, 2004). Therefore, there is an urgent need for a greater understanding of the way boards practically work in the field of social entrepreneurship.

In this paper, after having reviewed the literature on governance approaches in the for-profit and nonprofit sectors, discussed their applicability to social entrepreneurship given its inherent challenges, and recognized the key role played by the board of directors in social entrepreneurial ventures, we made three propositions. First, we propose that, given the hybrid character of SEVs, different types of governance models exist and cover a large spectrum from the classical for-profits' governance principles to the nonprofits' governance models. Second, given the double bottom line defining any social entrepreneurial venture, we suggest that its board of directors will play a key role in balancing various stakeholders' objectives in line with the social mission. More precisely, we specify that the boards' inputs, structures and processes will have an influence on the SEV's social impact. Third, having acknowledged the board's role in developing key capabilities, and described seven organizational capabilities that enhance social impact, we finally propose that the relationship between a social entrepreneurial venture's board of directors and its social impact is mediated by its organizational SCALERS capabilities. By incorporating the specific role that SCALERS capabilities have on the relationship between governance and social impact, the model eases the understanding of the process by which governance mechanisms – especially the board of directors – help in the development of organizational capabilities that enhance social impact.

This paper is primarily theoretical. Our main contribution consists in the development of a model proposing a mediating role of organizational capabilities on the relationship between governance mechanisms and social impact. Within the context of existing theory, the paper contributes to both the literature on entrepreneurial governance and the social entrepreneurship literature. It formulates original propositions regarding governance mechanisms in SEVs given

the challenges inherent to the field of social entrepreneurship (i.e., double bottom line, heterogeneity of the organizational forms).

In addition, the paper has some practical implications that might be used to provide useful information to social entrepreneurs. The link between SEVs' governance mechanisms and their social impact would imply that more attention should be paid to governance by entrepreneurial ventures in the social sector. Indeed, SEVs "may neglect organizational infrastructure, possibly resulting in underinvestment in measurement and governance" (Light, 2009: 22).

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Figure 1

Proposed Research Model:

**The Mediating Role of Organizational Capabilities on the Relationship
between Governance Mechanisms/Board of Directors
and Social Impact in SEVs**