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# 1. INTRODUCTION

In recent years, academic interest in social entrepreneurship and the organizations that engage in this practice has increased (Dorado & Ventresca, 2013; McMullen & Bergman, 2017; Meyskens, Robb-Post, Stamp, Carsrud, & Reynolds, 2010; Miller, Grimes, McMullen, & Vogus, 2012; Miller & Wesley II, 2010; Nicholls, 2010; Zahra, Gedajlovic, Neubaum, & Shulman, 2009; Zahra, Rawhouser, Hawe, Neubaum, & Hayton, 2008). Although the exact nature of social entrepreneurship has been widely discussed over the past decade, we still lack quantitative instruments that allow researchers to measure it (Short, Moss, & Lumpkin, 2009). This is partially because the term is used quite loosely to describe phenomena at three different levels of analysis. Firstly, at the personal level, the term is sometimes used to describe individuals who change institutional settings. For example, Bill Drayton (2002), the founder of Ashoka, highlights Florence Nightingale, an English social reformer and the founder of modern nursing, and William Lloyd Garrison, an American abolitionist and proponent of women's suffrage, when he discusses historical examples of social entrepreneurs. Secondly, at the societal level, the term is used to describe social change such as that caused by social movements (Alvord, 2004; Rao, 2004) in order to fill institutional voids (Mair & Marti, 2009; Mair, Martí, & Ventresca, 2012; Tobias, Mair, & Barbosa-Leiker, 2013). Thirdly, at the organizational level, the term is used to describe the activities of charitable, social purpose organizations that use innovative market-based approaches to create social impact following the principals of cooperative rather than shareholder governance (Dees, 2012; Defourny & Nyssenes, 2012).

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Following Mair and Marti (2006), this article conceives of social entrepreneurship as a process. Moreover, it focuses on the organizational level only. We propose the term *organizational social entrepreneurship (OSE)* to delimit our construct from other interpretations of social entrepreneurship. This paper defines OSE as the actions of organizations aimed primarily at creating social impact for beneficiaries by engaging in commercial activity while employing cooperative governance mechanisms that uphold the primacy of the beneficiary.

At a theoretical level, this paper identifies the ontological nature of OSE, while exploring its most important dimensions (i.e., social change intention, commercial activity, and inclusive governance) and sub dimensions (i.e., social mission adhesion, changemaking intent, earned income generation, salaried employees, democratic decision making, and stakeholder participation). Methodologically, our research advances a validated set of measures that make it possible to conceive OSE as a third-order formative measure. We expect this measurement instrument to be useful for future research into both the antecedents and outcomes of the OSE dimensions and sub dimensions. Since such a fine-grained instrument did not exist before, research into OSE had to rely on more generalized measures, which did not reflect the full breadth of the construct. Finally, at an empirical level, we contribute evidence that the measurement instrument advanced here matches the self-evaluation of both nascent and mature social entrepreneurs.

Why do we need a measure for organizational social entrepreneurship? Such a measure will allow more accurate studies on the effect of activities promoting OSE, for example public policies (Rawhouser, Cummings, & Crane, 2015), educational initiatives (Miller, Wesley, &

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Williams, 2012) as well as the effect of impact investors (Geobey, Westley, & Weber, 2012; Ruttman, 2012). A clear measurement model will help study the usefulness and cost effectiveness of such promotional activities. It will also allow the comparison of incidences of OSE in different countries or in different organizational forms.

We purposefully avoid the term *social enterprise*<sup>1</sup> for two reasons. Firstly, the expression tends to refer to organizational forms rather than organizational processes. What is considered as a social enterprise thus varies widely between countries depending on the legal frameworks. In Finland, for example, since 2004, any firm that has at least 30% disabled or long-term unemployed people on the payroll can be registered as a social enterprise with the Finnish Ministry of Labour (Pättiniemi, 2006). In the UK, on the other hand, the social enterprise mark requires organizations to have an asset lock in place and to guarantee reinvestment of at least 50% of its profits in line with its social mission (Ridley-Duff & Southcombe, 2012). In the U.S., the legal definition of a social enterprise even differs from state to state (Rawhouser et al., 2015; Reiser & Dean, 2015).

Secondly, by trying to define which organizational form counts as a social enterprise, one implicitly excludes a large number of organizations. Such a limitation of the term ignores the fact that OSE is a process that can take place in *any type* of organization. We would argue that OSE describes a set of activities that although particularly prevalent in certain organizational

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<sup>1</sup> Please note that in our usage, the term enterprise refers to it being an organization. We acknowledge that the term enterprise can have different meanings and could also be used in the sense of “readiness to engage in daring or difficult action” (Merriam-Webster, 2018). To avoid confusion, this paper uses the term exclusively to refer to the first definition. However, by doing this, we do not deny the fact that other authors might legitimately use it differently.

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forms, might in fact be found in some traditional charities as well as in profit-seeking businesses that would not, at the first glance, be considered as social enterprises. In fact, we conceive of OSE as a continuum on which organizations can be placed. Over time, as their behavior changes, the positioning of these organizations on that continuum also changes. This viewpoint even allows the question of whether some organizations labeled as social enterprises actually engage in OSE activities, even though their organizational form is considered a social enterprise. In return, we can ask whether OSE practices might not also be found in traditional businesses or charities as well.<sup>2</sup>

One possible approach to measuring OSE could be to develop a unidimensional construct such as organizational hybridity. Thus, the more an organization combines the activities of both charities and for-profit organizations, the more it could be considered to engage in social entrepreneurship. On the other hand, the more its behavior aligns with only one of these two types, the less this would be the case. Academic efforts have been undertaken to develop a unidimensional construct to measure social entrepreneurship (Carragher, Welsh, & Svilokos, 2016). However, such an approach would ignore the conceptual richness of the construct (Brinckerhoff, 2000; Choi & Majumdar, 2014; Mair & Martí, 2006; Mort, Weerawardena, & Carnegie, 2003; Peredo & McLean, 2006; Young & Lecy, 2014), which is too complex to be operationalized as unidimensional (Weerawardena & Mort, 2006).

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<sup>2</sup> For the purpose of this paper, we conceive of traditional charities as organizations that can receive tax-deductible donations, and of profit-seeking businesses as all organizations that are run for the purpose of creating shareholder value.

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Far from being homogeneous, social enterprises come in a bewildering array of configurations. To date, quantitative studies in the field of social entrepreneurship (Battilana, Sengul, Pache, & Model, 2015; Liu, Eng, & Takeda, 2015; Mair, Mayer, & Lutz, 2015; Meyskens et al., 2010; Stevens, Moray, & Bruneel, 2015) have utilized mainly homogenous samples of social enterprises and have not been able to differentiate between various configurations of social enterprises. As a result, this paper proposes a multi-dimensional measure for OSE. We argue that OSE is best represented by three components: social change intention, commercial activity, and inclusive governance.

In refining a multidimensional construct, scholars can take two possible paths. The more often selected approach is to think of the construct as reflective (Coltman, Devinney, Midgley, & Venaik, 2008). In a *reflective* measurement model, we assume that the indicators of a construct are caused by a construct. They can hence be expected to be correlated with each other and they thus should exhibit internal consistency reliability (Jarvis, MacKenzie, & Podsakoff, 2003). A formative measurement model, on the other hand, hypothesizes that the individual indicators influence (or form) the latent construct. While they may be correlated, this is not a requirement. Indeed indicators of a formative measure can be completely uncorrelated (Jarvis et al., 2003). We propose that the extent to which the components of OSE are to be found is contingent on the context, such as the sector, or internal factors, such as the organizational structure. Thus, we assume that the components of OSE may vary independently, depending on the context. This is consistent with Gartner's (1985, p. 697) view that traditional entrepreneurship is also a multidimensional phenomenon forming "complex and unique combinations".

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Our intention in advancing the OSE scale we have designed is not only to allow scholars to study variations in the components of OSE, but we also want to encourage more quantitative work regarding the antecedents of OSE behavior and the issue of how they differ in terms of economic, social, and environmental outcomes. By this, we are responding to the call by Short, Moss and Lumpkin (2009) for more quantitative research in the field of social entrepreneurship.

Hence, our research questions deal with the following two issues: What are the major components that define organizational social entrepreneurship (OSE) ? How can these components be operationalized and measured? As a first step towards answering these questions, this paper develops and validates measures of three second-order components of social entrepreneurship, namely: social change intention, commercial activity, and inclusive governance (see figure 1 for an overview of the underlying formative measurement model for OSE).

## **2. AN APPRECIATIVE READING OF THE SOCIAL ENTREPRENEURSHIP LITERATURE**

A first step towards developing an OSE scale is an appreciative reading of prior literature on social entrepreneurship as it relates to organizational behavior. From an extensive review of possible sources, articles were selected according to the following procedure.

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In selecting the literature to be considered in this analysis we had several options. One approach would have been to select the most cited articles and/or to cover only contributions published in journals that had a minimum journal rank. We were worried that such an approach would reduce the diversity of ideas and concepts. Moreover, such publications, although undoubtedly influential, are not always the original source. In fact, they often repackage ideas developed earlier and expounded in book chapters or in working papers. Our goal was to achieve conceptual exhaustiveness and to attribute new concepts to the authors who first advanced them.

To achieve this, we began our process starting with one of the earliest texts (Dees, 1998) that, although not published in an academic journal, has nonetheless proven to be most influential. Dees (1998) specified that social entrepreneurs are “change agents in the social sector [...] adopting a mission to create social value (not just private value) [who] operate in markets [and often] charge fees [while exhibiting] a heightened sense of accountability to the constituencies served and for the outcomes created”. Next, we also considered a later text by Dees in which he further develops his notions of social entrepreneurship, clarifying and extending the 1998 piece (Dees & Anderson, 2006). From these two foundational definition papers, we derived the three main components underpinning our model (social change intention, commercial activities, and inclusive governance). In a next step, we analyzed papers that, although building on this foundational contribution, advanced it either through more nuanced definitions or added substantial new concepts. Following the tenets of theoretical saturation, we have not included texts that simply rephrased definitions that were essentially covered in earlier contributions.

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This led to retaining the following papers. Firstly, we considered Austin et al. (2006) because they build on Dees (1998) by clearly stating that “social entrepreneurship [...] can occur within or across the nonprofit, business, or government sectors”(Austin et al., 2006). This opens up social entrepreneurship to one of the central tenets of this paper, namely that OSE can be found in many organizations and is not exclusive to only one type of legal organizational form.

Following these two initial readings, we then followed up on the three themes deduced from the original Dees text. Firstly, this led us to consider several papers that further refine the social change intention component of social entrepreneurship.

The two early contributions lacked an aspect that is critical to entrepreneurship research, namely the idea that once opportunities have been recognized, they tend to change institutional systems. The first to make this construct part of their social entrepreneurship definition was Mair and Marti (2006), who explicitly specify the process of “explor[ing] and exploit[ing] opportunities to create social value [...] alters existing social structures”. This notion is further detailed by Hockerts (2007), who draws on a Schumpetrian perception of entrepreneurship when he elaborates that the “discovery [...] of opportunities to create public goods [...] is usually done through the generation of disequilibria in market and non-market environments”. He later expounds on this idea by proposing that it is the conversion of antagonistic assets into complementarities that is at the heart of the social entrepreneurship process (Hockerts, 2015).

Finally, Santos (2012) places the debate about social change intention in the center of strategy and economics research when he asserts that social entrepreneurship is not about value capture but about the creation of value by the generation of positive externalities, stressing that

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intentionality is as important as outcome: “[S]ocial entrepreneurs are driven by a motivation to create value for society. [Whether they] capture value or not [...] is less relevant than [their] motivations for economic action”.

The commercial activities component of the Dees definition (namely the need for earned income) has been further clarified by Nicholls (Nicholls, 2010), who contends that one central notion underlying social entrepreneurship is that of a business model ideal type based on businesses trading for a social purpose. Borzaga et al. (2008) add a second aspect to the commercial activities component, namely the amount of paid work. They also extend on Dees’ original inclusive governance component by specifying that social enterprises favor a “high degree of stakeholder participation [...]. Customer and stakeholder interests are accounted for in decisions, and the management style is democratic” (Borzaga et al., 2008). Zahra et al. (2009) argue for this component by pointing out the potential for unethical actions when there is a lack of oversight.

Defourny and Nyssens (2010) draw the conclusion from these definitions that “decision-making power [should be] not based on capital ownership [and should instead be] participatory”. Miller et al. (2012) argue that social enterprises require a double-bottom-line accounting approach. The above-mentioned papers were added following a logic of theoretical sampling. They were chosen to increase the diversity of the definitions brought forward. Papers were added only until all additional articles kept surfacing with already previously established concepts, a point at which we considered theoretical saturation to have been reached. Table 1 represents the twelve articles that we retained eventually for developing the OSE scale items. We

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include not just the original contributions of each text but also cover elements of the social entrepreneurship definition that echo earlier contributions. We believe that, jointly, these texts exhaustively cover the domain, with each paper providing at least one original nuance or contribution to the definition of social entrepreneurship.

Through the process described above, we aimed to cover all major definitional streams. Our goal was to achieve variance in terms of geographical areas (covering the predominant Anglo-Saxon contributions as well as varied Continental European voices). We also aimed to include contributions that were centered around the individual (the social entrepreneur), the organization (the social enterprise), and societal change (social innovation). We are aware that the results of our review are eclectic, but we maintain that they are collectively exhaustive and serve to pinpoint emerging ideas from the authors who first advanced them.

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**Insert Table 1 here**

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The following discussion of the three components indicates why they should be contemplated as the most salient aspects of social entrepreneurship. Previous studies in social entrepreneurship have focused mainly on two components of social entrepreneurship, namely social change intention and commercial activity. This is demonstrated by the work of Dees and Anderson (2006), who in their seminal paper on the theoretical roots of social entrepreneurship identify two schools of thought: the social enterprise school and the social innovation school. The first-mentioned school focuses mainly on what we will call the *commercial activity*

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*component*, while the second focuses on what we term the *social change intention component*. Both schools are also proponents of the Emergence of Social Enterprise in Europe (EMES) definition of social enterprise advanced by Defourny and Nyssens (2010). However, the scholars in the EMES school have added a third element, which we term the *democratic governance component*. Drawing inspiration from the cooperative movement, Defourny and Nyssens (2010) argue that democratic organizational governance is more likely to achieve an equitable distribution of profits and assets than would be achieved through capital ownership governance. Accordingly, we propose that inclusive governance should also be a component of OSE.

## **2.1 Social Change Intentions Component**

The social change intentions component plays a central role in both Dees and Anderson (2006) and Defourny and Nyssens (2010). Also often referred to as social innovation or changemaking (Bornstein, 2007; Drayton, 2002), this component draws strongly on the Schumpeterian view of entrepreneurship as the discovery and profitable exploitation of business opportunities by generating market disequilibria (Drucker, 1985; Shane & Venkataraman, 2000), which in turn allow the generation of entrepreneurial rents (Alvarez & Barney, 2007). However, as Schumpeter (1934) points out, entrepreneurial profits are only transient. Competitors are likely to emulate the innovation strategy of a successful entrepreneurial venture, competing away the entrepreneurial profit. At this point, most entrepreneurial enterprises become merely

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“optimizing firms” (Schumpeter, 1934:133) unless they can identify a new entrepreneurial opportunity and exploit it.

Following Hockerts (2007, 2010), this paper accordingly posits that the social innovation component of OSE entails the creation of market and non-market disequilibria through the discovery of opportunities for generating social impact and the identification of a mechanism to do so in a financially sustainable<sup>3</sup> way. Just as with traditional for-profit innovators, however, the disequilibria created are not permanent. As their activities are observed by market and non-market players, the successful ideas of social enterprises will be emulated. This can have two transformative consequences. On the one hand, non-market players (e.g., charities, NGOs, governments) are likely to mimic the behavior of the social venture aiming to improve their social impact. On the other hand, for-profit firms will attempt to capture part of the economic rent created by the social venture. In adopting certain practices of the social venture, both market and non-market players propagate the innovation and increase the social impact generated (Hockerts, 2010).

OSE with a predominant social change intention component aims to transform methods of social value creation by shifting resources to previously neglected areas, ultimately leading to a higher yield for society (Dees & Anderson, 2006; Leadbeater, 1997). Organizations engaging in such activities aim to create lasting systemic change through the introduction of new ideas, methodologies, and changes in attitude (Kramer, 2005). The emphasis is more on outcomes

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<sup>3</sup> We conceive of financial sustainability as follows: Any situation in which an organization acting upon the discovered opportunity can create enough income to cover their operating costs without having to diminish their capital stock.

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produced at the societal level than on the performance of a single organization. Based on this discussion, we advance the first component of social entrepreneurship to be social change intention, defined as the creation of market and non-market disequilibria through the discovery of opportunities to generate social impact and the promotion of these practices among an organization's peers and the sector in general.

The question can be raised whether we are conflating social impact and social innovation. We would argue we are not. Our line of reasoning follows Schumpeter (1934) who differentiates between the entrepreneur (who creates market disequilibria) and the optimizing manager (who creates performance without being innovative). Schumpeter considers optimizing managers to be legitimate market participants. However, he does not consider them to be acting entrepreneurially. Transferred to our field of interest, this means that a completely non-innovative social sector organization with a high social impact would not exhibit social entrepreneurship behavior. Within the Schumpeter definition (and compatible with our view), such an organization might well be considered a social economy organization; it would just not be behaving entrepreneurially and, hence, would not be exhibiting the social change intentions we stipulate as part of the OSE scale.

## **2.2 Commercial Activity Component**

Rather than relying on charity or government grants to solve social challenges, OSE has been described as using strategies to create revenue from market operations to achieve a social

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mission to create impact for a defined group of beneficiaries (Robinson & Klein, 2002). Dees and Anderson (2006) and Defourny and Nyssens (2010) refer to this as *earned income*. As traditional routes of funding from donors and public social welfare projects have dried up, many non-profits are adopting a new strategy to develop a revenue stream to sustain the organization (Frumkin, 2009; Skloot, 1983). Earned income generation may also be preferable to the time-consuming processes of application and reporting required to attract and retain grants and donations (Frumkin, 2009; Skloot, 1983).

The aim of the earned income component is to provide a solution to imperfect matches between private resources and public needs (Frumkin, 2009). This component can include accepting government contracts for delivering social services, charging corporations for doing work, requiring end customers of the organization to pay for services that used to be free (Dees, 1998), or sale of products and services to supporters for revenue generation (Kerlin, 2006). The commercial activities could be closely related or unrelated to the social mission of the organization. Drawing on the literature discussed above, we thus propose commercial activity as the second component of OSE. We define this component as the degree to which an organization engages in commercial operations to meet its social mission by generating revenues through the selling of goods and services on private and public markets.

### **2.3 Inclusive Governance Component**

The first two components of OSE tend to be present in most previous conceptualizations in the existing literature to a greater or lesser degree. However, the third element advanced here

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is less explicit in many definitions. Actually, the degree to which stakeholders (Freeman, 1994), and in particular beneficiaries, are part of an organization's decision-making processes has been primarily described by European social entrepreneurship scholars such as Defourny and Nyssens (2010). Rather than basing decision power exclusively on capital ownership or an all-powerful charity board, Defourny and Nyssens argue that democratic decision making (Low, 2006) is a third formative component of social entrepreneurship. They base their argument primarily on literature tracing the origins of modern social entrepreneurship to the cooperative movement: "[A] democratic control and/or a participatory involvement of stakeholders reflects the quest for more economic democracy in the tradition of cooperatives" (Defourny & Nyssens, 2010).

Why is this third element needed? Does it not suffice that an organization aims to create positive social change using a variation of an earned income strategy? Actually, in the absence of the inclusive governance element, it is difficult to differentiate social entrepreneurship from corporate social responsibility (CSR), which tends to be conceptualized as the actions of firms to contribute towards societal welfare (Cornelius, Todres, Janjuha-Jivraj, Woods, & Wallace, 2008). What sets social entrepreneurship apart from CSR is intentionality. In CSR, shareholder value creation remains the primary motivation. Social issues are considered either as antecedents of profit creation or as limitations to profit seeking resulting from ethical norms and standards. In social entrepreneurship, creation of social value for beneficiaries tends to be the primary motivator, with shareholder value creation being either a minor motivation or not present at all.

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The degree to which stakeholders, and in particular beneficiaries, are involved in organizational governance is a proxy for the issue of intentionality.<sup>4</sup>

Inclusive governance has been identified as an important aspect of social entrepreneurship, helping organizations deal with conflicting social and financial objectives (Ebrahim, Battilana, & Mair, 2014; Reay & Hinings, 2005). Research in Europe (Borzaga & Defourny, 2001; Mair et al., 2015; Pestoff & Hulgård, 2015) and in the U.S. (Young & Lecy, 2014) has found democratic governance to be a key component of OSE. The component is particularly strong among cooperative societies and organizations comprising the social economy in Europe (Defourny & Nyssens, 2008; Evers & Laville, 2004). OSE thus extends traditional stakeholder theory (Freeman, 1984, 1994) into the realm of collective social purpose organizations (Huybrechts, Mertens, & Rijpens, 2014) by advocating the involvement of multiple stakeholders, and in particular the local community (Low, 2006) as well as the intended beneficiaries (Yunus, Moingeon, & Lehmann-Ortega, 2010).

Inclusive governance in OSE can include beneficiaries utilizing the services of the social enterprise, employees, shareholders, foundations, customers, donors, and governments (Low, 2006). In particular, stakeholder participation in social entrepreneurship has been proposed as helping avoid mission drift (Cornforth, 2014; Ebrahim et al., 2014; Ramus & Vaccaro, 2014). Democratic governance is characterized by an independent and participatory

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<sup>4</sup> We use the term stakeholder in the sense that it refers to “any group or individual who can affect or is affected by the achievement of the organization’s objectives” (Freeman, 1984). By beneficiary, we refer to those types of people that the OSE behavior intentionally aims to aid and support as part of the organization’s social mission. This means that beneficiaries are one type of stakeholder among many. Other possible stakeholders include supporters and employees of the organization, investors, the government, or social organizations that work on behalf of the beneficiaries.

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nature in the daily operations and decision making of the organization (Low, 2006). Enhancing the representation of beneficiaries and all stakeholders in the decision making of the social entrepreneurship is also important for maintaining accountability (Ebrahim et al., 2014).

Consequently, we posit that the third component of OSE is inclusive governance, which we define as the degree to which stakeholders and specifically beneficiaries are included in decision making, particularly pertaining to decisions about the social mission and use of profits generated.

### **3. FORMATIVE VERSUS REFLECTIVE CONCEPTUALIZATION OF ORGANIZATIONAL SOCIAL ENTREPRENEURSHIP**

In their study of measurement models presented in marketing journals, Jarvis et al. (2003) found that up to a third of reflective measurement models should have been specified as formative. This indicates that traditionally a rather large amount of misspecification has tended to exist. It is a central contention of this paper that OSE should be modeled as a formative construct. In coming to this conclusion, we have followed a purposeful evaluation process as set out by previous literature (Coltman et al., 2008; Jarvis et al., 2003), that identifies four distinct steps: directionality, interchangeability, covariance, and the nomological net.

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A first step to decide on whether a construct should be specified as formative or reflective has to do with directionality. In other words, are the indicators defining characteristics or manifestations of the construct? For a construct to be reflective, any change in the construct would be considered to *cause* change in all its indicators. On the other hand, in a formative model, one would expect the indicators to cause change in the latent construct. Using formative measures implies that the causal relationship goes from the lower-order latent variables to the formative construct. Thus, not every increase in the higher-order formative construct implies a commensurate increase in all its components. In other words, the indicators form the latent construct, and the changes to the indicators cause changes in the latent construct. Practically, the components sum algebraically to give the higher-order construct (Diamantopoulos, 2008; Diamantopoulos & Winklhofer, 2001; Jarvis et al., 2003).

A second step is to decide on whether to model a construct as reflective or formative, which requires addressing the question as to whether indicators have the same or similar content and thus are interchangeable. Formative constructs have several dimensions, each embodying a significant aspect of the construct. As a result, one cannot drop or interchange variables from a formative construct without reducing content validity (Bollen & Lennox, 1991).

Covariance of the indicators is a third pointer. A reflective measure would imply that change in one of the indicators would be associated with commensurate changes in the other indicators. A lack of covariance, on the other hand, would hint at a formative measure. The fourth and final criterion, suggested by Jarvis et al. (2003), concerns the nomological net of the

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construct indicators. In a reflective measure, all indicators would be expected to have the same antecedents and consequences.

A closer look at the directionality of the OSE construct reveals that its components (social change intentions, commercial activities, and inclusive governance) are the source of the OSE construct rather than its result. For example, earned income is not the *result* of OSE. Instead, it is an earned income strategy that causes an organization to be perceived as engaging in OSE.

Let us look at directionality in some more detail. Proponents of the view that OSE is a reflective measure might argue that the decision to start a social enterprise goes along with the selection of a social enterprise legal organizational form. In other words, the choice of legal form causes a set of behaviors. This would point towards a reflective nature. We see two problems with this argumentation. Firstly, the empirically observed organizational forms identified as social enterprises vary widely. Finnish law on social enterprises specifies that the workforce of any such firm must comprise at least 30% disabled or long-term unemployed workers (Pättiniemi, 2006). If we adopt a reflective interpretation of OSE, this would mean that having disabled employees is reflective of being a social enterprise and that any reduction in this one indicator would go along with commensurate reductions in other indicators (e.g., earned income). This does not sound convincing, particularly once we realize that in the UK a community interest company (CIC) is specified completely differently and does not require the employment of disabled people. Which view then is the right one?

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It is our suggestion that the selection of organizational form is not a good starting point for identifying OSE behavior. In fact, we would argue that quite a number of organizations that have selected an organizational legal form that is supposedly a social enterprise do not exhibit all types of behavior that we would argue should be identified with OSE.

We would submit that OSE behavior might very well be found in many organizations that have not selected that legal form. For example, we are convinced that even in traditional for-profit companies, we may find some (limited) type of OSE behavior in one of their business units. On the other hand, when studying the list of CICs in the UK, we find that many flagship social enterprises have decided against adopting a CIC form. At the same time, many organizations that are perhaps part of the social economy have adopted CIC forms, but they do not exhibit all the characteristics that the literature above suggests should be found in social entrepreneurship.

A key advantage of considering OSE a formative behavior is that it allows us to look at organizations with a social enterprise form and to follow, over time, the degree to which their OSE behavior varies. This would allow for the possibility that the social change intention or the inclusive governance component of a social enterprise falls as social enterprises mature.

Summing up, we maintain that it is not just possible, but necessary, to conceive of the directionality for OSE behavior as proceeding from the items to the construct. This clearly establishes OSE behavior as a formative measure. We do realize, however, that a different measure is conceivable in which the elements of the legal form are taken as the starting point and

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conceived of as reflective. However, such a measure would, in our view, not be presentative of organizational behavior and thus not be useful for this paper.

In an additional step, we evaluated the interchangeability of the components of OSE. It is obvious that dropping one of the components of OSE would significantly affect its content validity. This again points at a formative measure. A quick study of the empirical reality shows wide variations in how OSE is practiced. On the one hand, there are organizations engaging in social entrepreneurship, such as Childline India Foundation, that tend to prioritize social change, viewing commercial activities and inclusive governance as afterthoughts. Social economy organizations, on the other hand, tend to favor earned income and community-driven governance (Haugh, 2007). This indicates that covariance between the components of social entrepreneurship is limited, again speaking in favor of a formative construct.

## **4. MEASUREMENT MODEL**

### **4.1 Social Mission and Changemaking as Components of Social Change Intentions**

In all the literature concerning social enterprises, *social mission* is considered an essential factor. It can be conceived of as a declaration of an organization's core purpose and focus, which unambiguously states the organization's *social value creation intention and the beneficiaries that are expected to accrue that value*. Hence, the first component that we propose

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here is the social mission. As social organizations adopt earned income strategies (and possibly even engage in dividend seeking), they are at risk of losing sight of their social mission. This kind of “mission drift” (Christen & Cook, 2001) should be avoided. Hence, an organization strong in socially entrepreneurial behaviour will have the expectation that it will help safeguard the organization’s social mission.

A possible criticism of this approach is that we are not actually measuring the content of the social mission with these items. The reason for this lies in our conviction that, whether or not an organization has a social mission, is largely socially constructed. Thus, some might consider an abortion clinic aiming to provide services to marginalized women to have a social mission. Abortion critics would disagree with that view and consider the organization socially irresponsible. For this reason, we do not try to capture the actual content of the mission but instead use the strength of commitment to that mission as our proxy.

The second component of social change intentions is the degree to which a social enterprise wants to create change in the existing system. In other words, to what degree do social enterprises want market and non-market competitors to adopt their innovative ideas? Prior literature suggests that organizations engaging in social innovation will tend to aim at putting themselves out of business (Tafel, 2011; Thorpe, 2015) by transforming the market and non-market environments they operate in until their innovation has become the quasi-standard (Hockerts, 2010).

Given the goal of changing practices among peers and in the sector, social change intention is more likely to be associated with organizational behaviour that is significantly

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different from the status quo (Gundry, Kickul, Griffiths, & Bacq, 2011). In particular, it requires that social entrepreneurship leads to the identification of previously unidentified opportunities (Corner & Ho, 2010) to help beneficiaries and to create social impact.

## **4.2 Earned Income and Salaried Employees as Components of Commercial Activities**

Financial sustainability is considered as a differentiating factor between social enterprises and charities. By generating income from market sources, they are less, or not at all, subject to charity legislation and the constraints of grant givers. Earned income in a social enterprise is usually generated by selling products and services (Defourny & Nyssens, 2010) . Hence, we argue that earned income generation is one component of commercial activities.

The second component derived from extant literature, which suggests that the presence of commercial activities in an organization with a social mission is the result of an increased use of salaried employees (Defourny & Nyssens, 2010). Whereas many traditional non-profits rely largely on volunteer work (Defourny & Nyssens, 2010), the presence of commercial activities requires the presence of a professional workforce. By offering competitive salaries to their employees, social organizations are more likely to attract employees who will engage in commercial activities (Frumkin, 2009).

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### **4.3 Democratic Decision Making and Stakeholder Participation as Components of Inclusive Governance**

For inclusive governance, there are two possible components that could be considered part of it. Drawing on user-driven innovation (Baldwin, Hienerth, & von Hippel, 2006; Urban & von Hippel, 1988; von Hippel, 2001) and open innovation (Chesbrough & Chesbrough, 2006) literature, we can expect that a participatory decision-making approach is likely to favour unexpected outcomes and more radical innovation. Based on these reflections, we can expect that an organization favoring socially entrepreneurial behavior will have democratic decision making, which we propose as the first possible component. The second possible component is stakeholder participation in the organizational activities. Yunus et al. (2010), for example, stress the importance of stakeholder involvement during the early development process of social entrepreneurship. Stakeholders can include individuals who benefit from the social mission of the organization, employees of the organization, and investors in the organization (Low, 2006). Hence, we argue that an organization strong in socially entrepreneurial behaviour will have more involvement of stakeholders in developing its products, services, and activities. Prior research, for example, highlights the risk that a “focus on profits [could be] to the detriment of the social good” (Battiliana, Lee, Walker, & Dorsey, 2012: 51), exemplified by the case of mission drift in microfinance institutions when they move attention from their social mission to more conventional business priorities as they grow. By including beneficiaries and other stakeholders in the decision-making process, organizations can ensure the primacy of the social mission (Yunus et al., 2010). Figure 1 presents the model that we are testing in our study.

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**Insert Figure 1 here**

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## **5. RESEARCH METHOD**

### **5.1 Development of Scale Items**

We initially generated a pool of 90 potential items to represent each dimension of social entrepreneurship and the outcome variables we planned to measure as part of the nomological validity test. Items were initially based on a review of the previous literature and later refined to identify ambiguous and unclear wording. In particular, items were discussed in detail with five organizations engaging in social entrepreneurship and feedback was used to delete and modify items. Moreover, to assess face validity, this list of scale items was sent to 19 social entrepreneurship researchers, who were asked to assess whether items correctly represented the definition of each dimension of social entrepreneurship.

### **5.2 Scale Purification**

To determine the factor structure of social entrepreneurship and its outcome variables, as well as to purify the measurement instrument, the psychometric properties of the scale were evaluated through a pilot survey based on data collected from 143 Scandinavian social

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enterprises. The initial scale items were modified based on the results of the exploratory factor analysis. An iterative process eliminated and revised items that had factor loadings below .50 and/or cross-loadings above .40 (Hair, Black, Babin, & Anderson, 2009). Each survey item has a five-point Likert scale (Hinkin, 1998), ranging from strongly disagree to strongly agree. This iterative process of qualitative discussions with social entrepreneurship practitioners, researchers, and pilot testing eliminated 56 items, leaving 20 scale items.

### **5.3 Sample 1**

Following the pilot study, the revised questionnaire was sent to a sample of 3145 nascent social entrepreneurs enrolled in a massive open online course (MOOC) to help them develop a business plan for their emerging social enterprise. The survey was sent at the end of the 12-week course and resulted in 182 usable responses from social entrepreneurs in 55 countries. Sample 1 was constructed in a way to guarantee that we would cover an internationally diverse group of social enterprises. The MOOC selected was the first such English language offer on the Coursera website. The advantage of this approach was a highly diverse sample in terms of nationality. In total the sample comprises respondents from 55 countries with the five most represented nationalities being the India (12.6%), the United States (10.4%), the Philippines (5.5%), Mexico (4.9%), and Canada (4.4%). The low response of 5.8% is not surprising since the most MOOC participants tend to drop out during the course, and only a minority actually finishes the 12-week program. A total of 54.9% of the respondents were female, the mean age of the respondents was 31.75 years, and the standard deviation (SD) was

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11.65. Comparing these descriptive statistics with those of the 3145 participants enrolled at the beginning of the course, we do not find any statistically significant difference.

## 5.4 Sample 2

For our second sample of data, we sent the survey questionnaire to the email address of a key person in 1866 social enterprises (645 in the UK, 223 in the Netherlands, 400 in Denmark, 308 in Sweden, 258 in Finland, and 32 in Norway). Sample 2 was constructed in a way to cover organizations in different nations. We decided to include the UK, which is, to large extent, the leading nation in Europe in terms of moving towards formalizing social entrepreneurship. We then added the Netherlands, Denmark, Sweden, Norway and Finland, which are medium-sized countries with a strong welfare state.

In the UK, we approached organizations that were CICs and ones that had received the social enterprise mark. In the Netherlands, we sampled organizations that were members of Social Enterprise NL. In Denmark, we included organizations that were either registered as so called ‘social økonomiske virksomheder’ or had otherwise self-identified as a social enterprise. In Sweden, we included organizations that were members of Reach for Change, Ashoka Scandinavia fellows from Sweden, and Sofisam. In Finland, we included organizations that were given social enterprise status by the Finnish Ministry of Employment and ones that had received the Finnish Social Enterprise Mark from the Association of Finnish Work. In Norway, we included organizations that were funded by social venture capital funds, and Ashoka Scandinavia

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fellows from Norway. The final sample contained 42.6% respondents from the UK, 38% from the Nordic countries, and 19.4% from the Netherlands.

In total, we have obtained 295 responses, translating into a 15.8% response rate. Thirty-two of these responses were discarded due to missing data, resulting in 263 usable responses. The survey respondents included 61 CEOs, 46 founders/owners, 61 directors, 30 senior managers, 7 board members, and 50 other staff in the social enterprises. Out of the 263 respondents, 112 were from the UK, 100 from Scandinavia, and the remaining 51 from the Netherlands. The average number of years in operation for the social enterprises was 14. We tested for non-response bias by comparing latent variable scores for the first quartile of respondents and the fourth quartile. No statistically significant differences were observed (Armstrong & Overton, 1977).

## **6. RESULTS**

### **6.1 Measurement Model Estimation**

For carrying out the structural equation model analysis, we opted for partial least square analysis (Tenenhaus, Vinzi, Chatelin, & Lauro, 2005); in particular, we used SmartPLS 3.2 software (Hair, Ringle, & Sarstedt, 2013; Ringle, Wende, & Becker, 2015) to perform the analysis. This choice is in line with recommendations that exploratory research (and in particular the development of formative measures) lends itself to PLS-SEM modelling rather than

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covariance-based methodologies (Barroso, Cepeda, & Roldan, 2010; Hair, Ringle, & Sarstedt, 2011; Reinartz, Haenlein, & Henseler, 2009).

To verify the factor solution of the exploratory factor analysis in the pilot sample, confirmatory factor analyses were conducted on sample 1 and sample 2. The results presented in Table 2 show that most factor loadings are above 0.7, suggesting that all items fit well with the identified factors.

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**Insert Table 2 here**  
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Table 3 and Table 4 present the composite reliability (CR), average variance extracted (AVE), and the correlation matrix. CR values of well above 0.7 reconfirm the reliability of the latent constructs (Hair et al., 2009). Moreover, AVE values above the cutoff value of 0.5 indicate convergent validity. The square root of the AVEs reported in bold in the diagonal in Tables 3 & 4 is always greater than the bivariate correlations among constructs, indicating discriminant validity (Fornell & Larcker, 1981).

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**Insert Tables 3 & 4 here**  
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Given recent concerns about the ability of the Fornell & Larcker criteria to reliably detect a lack of discriminant validity (Henseler, Ringle, & Sarstedt, 2015), we also checked the

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heterotrait-monotrait ratio of correlations (HTMT). The upper confidence interval limits HTMT values for the latent constructs varied from 0.36 to 0.80 for sample 1 and from 0.25 to 0.53 for sample 2. These values all fall well below the recommended threshold value of 1 (Henseler et al., 2015; Kline, 2011), further confirming the discriminant validity of the latent constructs.

Finally, we also tested for multicollinearity. The values of the Variance Inflation Factor (VIF) vary from 1.100 to 2.0 for sample 1 and from 1.1 to 1.5 for sample 2, which are all well below the recommended cutoff value of 5 (Hair et al., 2009). This indicates that the components of the social entrepreneurship construct do not correlate perfectly. This is crucial as multicollinearity undermines the assessment of a multidimensional construct (Diamantopoulos & Winklhofer, 2001; Hair et al., 2011).

Taken together, the results of the confirmatory factor analysis and further tests suggest that the scale items are good indicators for the first-order reflective components. In particular, the components of the OSE construct have good reliability and validity.

## **6.2 Formative Construct Validation**

For specifying the second-order formative construct of OSE comprising social change intentions, commercial activities, and inclusive governance components, we used the repeated indicator approach mode B (Becker, Klein, & Wetzels, 2012; Lohmöller, 1989). Table 4 and Table 5 represent the loading and weights of the indicator variables on the OSE construct.

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Bootstrapping was conducted on the model to assess the significance, and all the loadings and weights had a significance value of <0.05 (most of them had a significance value of <0.000). The significance and relevance of formative indicators are represented by the outer loading values and outer weight values. The outer loading represents the absolute contribution of the indicator to its formative construct while the outer weights represent the relative contributions of the component when compared to other components (Hair, Hult, Ringle, & Sarstedt, 2014). The coefficients of social change intention, commercial activities, and inclusive governance on the OSE construct are 0.349, 0.297, and 0.532, respectively, for the first sample and 0.443, 0.242, and 0.670 for the second sample, respectively. This indicates that each component is important in forming the OSE construct. Since our model tested well with two quite different samples of social enterprises, we can consider it to be cross-validated (Diamantopoulos & Winklhofer, 2001). Table 5 and Table 6 represent the loadings and weights for each indicator in the scale on the OSE construct for sample 1 and sample 2, respectively.

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**Insert Tables 5 & 6 here**

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### **6.3 Nomological Validity Testing**

In a next step, we tested the nomological validity of our proposed scale. To do this, the proposed scale must be placed in a nomological net based on the established theoretical constructs within which a proposed new scale is embedded. Thus, nomological validity means

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that a new construct is being analyzed in relation to a measure that is known theoretically to be related to the advanced scale in a way by the theory that the construct is derived from.

In our case, we have proposed two such measures. First, we asked respondents to estimate their social impact. This latent variable was measured through three items: 1) Our organization has a large-scale social impact; 2) Our organization has more social impact than other social enterprises in the country; and 3) Our organization has more social impact than other social enterprises globally, each on a five-point Likert scale (from strongly disagree to strongly agree; sample 1: mean =3.57; SD=0.85 and sample 2: mean =3.37; SD=0.63). The underlying theoretical assumption is that increased OSE should go along with increased social performance due to adherence to the social change intention, the commercial activities (which allows for profitable growth), and the inclusive governance (which allows for stakeholder inputs).

Our second variable is a self-evaluation in which we asked respondents to what degree they felt that the term social enterprise was a good descriptor for their organization. Our hypothesis was that organizations with higher OSE would be more likely to agree with the statement. We again measured on a five-point Likert scale (from strongly disagree to strongly agree; sample 2: mean =4.27; SD=.90). The second measure, collected only for the second sample of mature social enterprises, was supposed to account for the fact that, in our sampling, we had purposefully included organizations that had indicated interest in social entrepreneurship but had not necessarily selected the legal form of a social enterprise.

The nomological validity of the scale items was confirmed as we found a positive correlation between the third-order OSE construct and perceived social impact of the

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organization in the nascent social enterprise sample ( $\beta=0.355$ ;  $p=0.000$ ). In addition, for the mature sample, we found a positive correlation between the OSE construct and the perceived social impact ( $\beta =0.314$ ;  $p=0.000$ ), as well as the degree to which the organization identified themselves as social entrepreneurial ( $\beta =0.246$ ;  $p=0.000$ ). Figures 2 and 3 represent the results of the model testing for samples 1 and 2, respectively.

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**Insert Figures 2 & 3 here**  
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## 7. DISCUSSION

It is only in recent years that social entrepreneurship research has been moved from qualitative theory building towards quantitative research. Clearly stated constructs formulated in a style that is comprehensible to social entrepreneurs is a key step in such a process. Extant literature suggests that OSE is a complex concept with potentially conflicting components (Choi & Majumdar, 2014; Young & Lecy, 2014). Therefore, authors such as Short et al. (2009) and Hoogendoorn et. al (2010) have called for more multivariate analysis and hypotheses testing, allowing a more in-depth analysis of the complexity of the social entrepreneurship field. Doing so requires a realization that there are multiple subtypes of social entrepreneurship (Hockerts,

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2017). To date, however, there are no validated scales to measure the components of this multidimensional construct.

We address this shortcoming by developing a multidimensional construct for OSE. In particular, we propose scale items for three central components of social entrepreneurship: social change intentions, commercial activities, and inclusive governance. Our scale thus measures the three formative dimensions identified by Dees and Anderson (2006) and Defourny and Nyssens (2010). All items in our instrument take previous literature as their point of reference.

The scale items were modified and refined after detailed discussions with social entrepreneurs and social entrepreneurship researchers, as well as an initial test using a pilot sample. We performed our current study with two separate samples of data, the first with 182 nascent social enterprises and the second with 263 mature social enterprises.

We demonstrate that OSE can indeed be modelled as a formative construct composed of social change intentions, commercial activities, and inclusive governance. Results show that the three components significantly contribute to the formative construct. To the best of our knowledge, ours is one of the first attempts to capture the components of OSE in a formative manner. Moreover, both samples support the validity of the instruments developed. The scale is reliable and valid when tested on two separate samples. By using two quite dissimilar samples, we also demonstrate the applicability of the scale in varied contexts. The first sample consisted of nascent organizations from 55 countries and the second sample consisted of mature organizations from six countries, highlighting the applicability of the model in an international context. In particular, to prove nomological validity, we tested the correlation between the

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formative construct and the perceived social impact and the degree to which the organization identified themselves as a social enterprise. The result proves that the formative construct behaves in ways consistent with prior literature.

The OSE scale does not intend to judge whether an organizational form is or is not a social enterprise. Instead, we propose a scale measuring organizational behavior. The scale allows different organizational types to engage in this kind of behavior independent of their organizational form. This permits for the hypothetical situation in which an organization that self identifies as a social enterprise may turn out in reality to engage in no or only limited OSE behavior. Moreover, its formative character suggests that an organization might score high on some components of the OSE scale (e.g. inclusive governance and commercial activities) but low on other components (e.g. social change intentions). This quality of the OSE scale is similar to the realization that not every Ashoka social entrepreneur does actually start a social enterprise.

The scale presented here offers an important new venue for social entrepreneurship theorizing. Firstly, it draws attention away from the eternal question of which organizational form should be counted as a social enterprise and where to draw the line. Instead, it allows scholars to take a broad approach towards a diverse field and to study OSE behavior in any empirical field in which it may occur. Secondly, the scales also allow for more focused theorizing. Scholars are encouraged to delve into the antecedents of all three components presented here, as well as to study the different performance effects they have in terms of likelihood to survive, growth rate, or potential to achieve financial sustainability.

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As social welfare in Europe is changing, national governments are in search of alternative models for providing social services. The components of the scale developed in this study could be used by public government officials and impact investors to measure social entrepreneurial behaviour in organizations. Future research on the antecedents of social entrepreneurial behavior could help policymakers develop policies to promote such behaviour.

## **8. LIMITATIONS AND FUTURE RESEARCH**

In this study, we propose that the concept of OSE is multidimensional. This contribution is in line with extant studies that conceptualize other entrepreneurship constructs as formative, for example, effectuation (Chandler, DeTienne, McKelvie, & Mumford, 2011) and entrepreneurial passion (Cardon, Gregoire, Stevens, & Patel, 2013).

The advantage of formative constructs lies in their inherent heterogeneous nature, which makes it possible to represent the multidimensionality and complexity of constructs such as social entrepreneurship. The formative construct of OSE in our study consists of social innovation, earned income, and democratic governance components. By presenting scale items for these three components, we are offering a tool for measuring various subtypes of social entrepreneurship. In addition, by including the democratic governance component (Defourny & Nyssens, 2010), we are extending the discussion in social entrepreneurship beyond social mission and financial revenues.

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We look forward to the use of the measures developed here in cross-sectional and longitudinal studies on the processes and outcomes of social entrepreneurship. This will eventually allow us to compare different manifestations of social entrepreneurs, for example the Ashoka social innovator, the Yunus social business founder, or the 'EMES' social enterprise leader (Hockerts, 2017).

The strength of our study lies in the model validation, with two different samples allowing replication of our initial results. There are, however, also certain limitations to this study, which points to future research opportunities. Firstly, although we have proposed what we feel are the most important components of OSE, one may argue that the list is not exhaustive. There is the theoretical possibility of finding other components that contribute to the construct of OSE. Future researchers could explore whether there are additional components that contribute to the OSE construct.

Secondly, the sample of mature social enterprises in this study is based on six European countries. Future researchers could replicate the study in other countries and sociopolitical contexts, as well as analyze how the components contribute to the OSE construct. For instance, in the context of a developing country, the three components of OSE might have different weights on the construct. Although the value of the coefficients of the components to the OSE construct, in both the mature and the nascent sample, are somewhat similar, the differences that exist could be a future topic of research.

Thirdly, future research could focus on how the presence of the three components in an organization can affect different outcome variables of social entrepreneurship. Future research

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could focus on how these three components affect performance outcomes, such as social impact, ease of fundability, financial performance, survival, and growth of the organization. This study acknowledged the diversity of the organizational forms that are termed as social enterprises. By identifying the salient components of these organizations, we point to their organizational outcomes.

Finally, it is another limitation of our study that we have only considered respondents who, in one way or the other, are already identified as somewhat involved in social entrepreneurship. With this in mind, we call for future researchers to replicate the work done here with a pure for-profit business sample as well as a pure charity sample. Such work would also allow inferences about how widespread OSE behavior is in the general population.

We anticipate that the OSE scale will be used by researchers to study when and why OSE behavior occurs in organizations. This will allow social entrepreneurship research to transcend the current focus on organizational forms. As we have argued earlier that we assume OSE behavior to be found in different organizational contexts. We encourage scholars to study both the incidents of OSE as well as its antecedents and performance outcomes.

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