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Understanding Value Creation in Social Entrepreneurship: The Importance of Aligning Mission, Strategy and Impact Measurement

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ABSTRACT *This paper explores and clarifies the significance of aligning mission, objectives and strategy with impact measurement in social entrepreneurship. We present a framework for understanding the value created by social entrepreneurs, presenting theoretical and practical insights into impact measurement. Drawing on case studies in Latin America, we suggest the presence of a 'mission measurement paradox' that affects social entrepreneurs in their attempts to measure social impact and understand value creation. The paradox suggests that social entrepreneurs are failing to evaluate their social impact with sufficient regard to their social mission. Preconceptions resulting from the use of traditional management approaches in social enterprises are presented, with guidance on how these can be avoided by both researchers and practitioners.*

KEY WORDS: Social impact, social entrepreneurship, value creation, impact measurement, Latin America

Introduction

Through the generation of new, disruptive models for organising business activity, social entrepreneurs are emerging as increasingly common actors solving social and economic problems (Townsend and Hart 2008, Auerswald 2009). Social entrepreneurs are filling a void previously (partly) met by governments and non-profit organisations by implementing entrepreneurial

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initiatives that integrate a focus on the efficient use of economic resources with an emphasis on social value creation (Austin *et al.* 2006b).

However, despite growing empirical contributions to academic inquiry into social entrepreneurship, literature has avoided tackling understanding and measuring social impact (Austin *et al.* 2006b). This mirrors related fields of research that recognise value creation as a central concept and yet develop 'little consensus on what value creation is or on how it can be achieved' (Lepak *et al.* 2007, p. 180). This paper seeks to address this by providing an insight into the broader issues of measuring social impact and understanding value creation in the context of social entrepreneurship. This social context presents a challenge to researchers as 'value' is inherently subjective and 'social value' is additionally complex (Young 2006). The critical questions are therefore 'what value do social entrepreneurs create?' and 'how do social entrepreneurs understand this value?'

To answer these questions, it could be considered obvious to argue that the purposes motivating social entrepreneurs will affect the value created by social entrepreneurs. For example, one could seek to 'change the world' by impacting a number of different contexts, from drug treatment in India to job creation in the United States, from environmental protection in China to indigenous education in Australia (Mulgan 2006). What is less clear, perhaps, is whether the various methods or tools (for example, social return on investment (SROI), blended value, the triple bottom line and the balanced scorecard for not-for-profits) or *approaches* (for example by focusing on outputs rather than processes and cycles) to measuring social impact may affect the value created by social entrepreneurs. As noted by Young (2006), there are dangers in relying too heavily on particular methods and approaches as they become descriptions of, rather than proxies for, the realities we seek to understand.

Understanding value invites holism rather than particularisation, as value creation can simultaneously refer to content and process (Lepak *et al.* 2007), and thus requires understanding of the evaluation of value as well as the processes involved in creating it. In this paper, we argue that this 'measuring' requires a broad and encompassing framework to guide academics and practitioners alike.

The paper is organised as follows. First, we introduce various conflicting understandings of social entrepreneurship and propose a working definition of the social entrepreneur. Second, we review the current literature on the value created by social entrepreneurs and we coalesce theories of value creation from entrepreneurship and strategic management literatures to frame our understanding of value creation. We highlight issues in the literature that impact the understanding of value creation, proposing an organising framework as a solution. This framework then guides exploratory research into value creation in three social enterprises in Latin America. The qualitative case studies, methodology and data analysis are then presented. Our findings are presented and discussed, followed by a conclusion of their implications for researchers and practitioners, the limitations of the study and avenues for further research.

What Value do Social Entrepreneurs Create?

Before addressing the question, we turn quickly to clarify terminology, and note that a universal definition of 'social entrepreneur' has not yet been realised. This may be because of the term emerging from multiple fields of academia (Short *et al.* 2009), but probably also because of the term's constituent elements. First, with regards the 'social', the relative positioning of the social and the economic imperative continues to cause debate in defining social entrepreneurship (Perrini 2006). For example, some scholars posit the social mission is the sole driver of the social venture, while others perceive the social mission as additional and secondary to commercial drivers (Mair and Marti 2006). In this paper, we consider that the 'social' in social entrepreneurship addresses social issues and catalyses social change (Mair and Marti 2006), but recognise the complementary roles of the 'economic' and the 'social' in value creation. Second, with regards to the 'entrepreneur', although the literature has a rich tradition (see for example Say 1803/1971, Schumpeter 1949, von Mises 1949/1996, Kirzner 1973), the debates cannot be resolved in this paper. We utilise the OECD-Eurostat Entrepreneurship Indicators Programme definition of entrepreneurs as 'those persons (business owners) who seek to generate value, through the creation or expansion of economic activity, by identifying and exploiting new products, processes or markets' (Ahmad and Seymour 2008, p. 14). Our working definition of social entrepreneur recognises these two constituent perspectives of social and entrepreneur: 'Social Entrepreneurs are those persons (key stakeholders) who seek to generate change (creating social, cultural or natural value), through the creation or expansion of economic activity, by identifying and exploiting new products, processes or markets' (Seymour, forthcoming).

Using this working definition, we return to our question 'What value do social entrepreneurs create?' and review extant literature organised by two key sub-questions: (a) what value is sought by social entrepreneurs? And (b) what activities are involved in the creation of social value?

What Value is Sought by Social Entrepreneurs?

Our working definition suggests that social entrepreneurs are seeking to prioritise the creation of social (plus cultural and/or natural) value as opposed to the commercial entrepreneur who seeks to prioritise commercial (economic) value. Note, however, that value is linked with exchanges and perceptions of worth.

The focus in management and entrepreneurship literature overwhelmingly centres on commercial economic value and, given the diversity of the literature, multiple levels of analysis (individual, firm, society), hence we must consider multiple perceptions of, or the importance given to, commercial value creation¹ (Nicholls 2006, Lepak *et al.* 2007). Financial profit is the most common proxy for economic value at a firm level as well as for national wealth at a societal level (Nicholls 2006, Young 2006). These views recognise

early economic conceptualisations of value that consider it a multifaceted concept: for example, Adam Smith's (1776/1976) 'invisible hand' recognises that the private value created by a baker (for example) also creates value for society by efficiently providing goods for others, and generating employment and economic growth (Auerswald 2009). Entrepreneurship literature has largely adopted the economists' stance such that value is expressed through exchange and market transaction (Bruyat and Julien 2001). Kirzner (1973) for example, refers to the arbitrary judgement of value by a consumer to distinguish production costs from selling costs. Similarly, von Mises (1949/1996) notes the subjectivity surrounding value and the role of preferences and trade-offs in its determination.

Other 'forms' of value do, however, exist. These values include: (1) social value – the value related to personal relationships, which may be acquisitive values that have the expectation of reciprocation, or expressive value, which is not concerned with what can be gained from the other but with what can be conveyed to others (Emerson 1987, Miczo 2002); (2) natural value – considered typically by economists as the value of natural ecosystems that can yield a future flow of valuable ecosystem goods or services, but also considered to reflect business activity that repairs or protects ecosystem repairs; (3) cultural value – Bourdieu (1986, 1993) identified individuals as possessing cultural capital if they had acquired competencies in 'high' culture, and economists have included the term in economic analysis, although Throsby (1999) concludes that theoretical work is needed in the area of cultural value and measurement issues; and (4) creative value – based on Godelier's (1999) view of sacred objects, creative value is embodied in objects that: (i) have no practical use; (ii) abstract social relations and thought systems from everyday life; (iii) are beautiful, in the sense of valorising, enhancing and glorifying the objects' owner and/or in the beauty of the object; and (iv) are unique and have their value increase over time. Note, however, that we should not get distracted attempting to measure the unmeasurable (Shackle 1903/1992).

The social entrepreneurship literature typically is not distracted by such differentiated measures, but rather concentrates rather on 'social value' as that which 'benefits people whose urgent and reasonable needs are not being met by other means' (Young 2006, p. 56).

Whilst the activities of commercial entrepreneurs have an indirect social impact through their effect on economic growth, job creation and poverty reduction (Ahmad and Hoffmann 2008), this impact is typically a by-product of their pursuit of economic value. Social entrepreneurs, in contrast, directly pursue social value. Consensus has recognised the social value creating objectives of social entrepreneurs to include poverty alleviation, providing access to education or health care and providing employment to the disabled among other socially motivated themes (Nicholls 2006). The mission to create economic value cannot be the dominant mission of social entrepreneurs (Dees 1998, Peredo and McLean 2006, Perrini 2006). From this perspective, any economic value generated by social entrepreneurs can be considered a means-to-a-social-end and is sought to ensure sustainability. Thus, there is a clear,

although occasionally overstated, contrast between the dominant mission of social entrepreneurs and commercial entrepreneurs (Austin *et al.* 2006b). Social entrepreneurs prioritise direct social impact as opposed to commercial entrepreneurs' mission prioritising the creation of economic profit and market share.

Having briefly introduced economic and social value and their creation we now turn to the second question of 'What activities are involved in value creation in social entrepreneurship?' and consider the processes of value creation in social entrepreneurship.

What Activities are Involved in the Creation of Social Value?

Our working definition suggests that this value arises from the creation or expansion of economic activity, by social entrepreneurs identifying and exploiting new products, processes or markets. To understand the activities involved in this economic activity, we turn to extant literature in the fields of entrepreneurship and strategic management, which promise rich insights for social entrepreneurship research (Short *et al.* 2009). These fields focus our attention on the three important activities involved in value creation: (1) the relationship between innovation and the external environment; (2) internal resources and capabilities; and (3) the role of networks.

First, entrepreneurship literature celebrates 'Schumpeterian creative destruction' as a basis of value creation and economic growth (Kelm *et al.* 1995, Amit and Zott 2001). It expands our understanding of what activities the identification and exploitation of new products, processes or markets will involve. This theory posits that economic expansion, and thus new value creation, occurs through the process of innovation and technological advancement, with the economy as a whole benefitting from new firms supplanting older, less innovative, firms (Schumpeter 1934, 1942). This conceptualisation emphasises the importance of innovation and change, and highlights the activities undertaken by these entrepreneurial activities:

In capitalist reality ... it is ... competition from the new commodity, the new technology, the new source of supply, the new type of organization (the largest-scale unit of control, for instance) – competition which commands a decisive cost or quality advantage and which strikes not at the margins or profits and the outputs of the existing firms but at their very foundations and their very lives. (Schumpeter 1942, pp. 84–85)

Through the process of innovating, the 'grand vision' of the entrepreneur is to shift the economy away from 'equilibrium' and in return gain 'Schumpeterian rents', i.e. profits that remain until the innovation becomes the norm (Schumpeter 1942). At the firm level, the concept of innovation recognises that strategies can be seen to have lifecycles in the same way that products do. Hamel (2000) refers to this process as meta-innovation, in that it challenges the very basis of competition within an industry. Day (1990) and Slywotzky (1996) develop insight into the nature of strategic innovation. In

the context of social entrepreneurship, social entrepreneurs are tasked with developing innovative strategies that will creatively destroy whole sectors (whether the market failures are resulting from government agencies, commercial enterprise or the third sector).

We recognise that the concept of Schumpeterian creative destruction may best be considered illustratively, as it is a concept originally associated with innovation and its economy-wide consequences of destruction and renewal (Schumpeter 1942). Indeed, there is ongoing debate whether the concept is relevant for today's economy; for example, whether large firms are responsible for these innovations (see for example Cohen and Levin 1989). The term has, however, become widely attributed to the entrepreneurial 'upstarts' that challenge incumbents. For example, start-ups have been shown to account for the majority of new employment in the US (Kane 2010). At the firm-level, the term 'creative renewal' might be more appropriate, as not all firms compete on the same basis nor are they equally reliant on technology or technological shifts to create value.

Second, strategic management literature gives further insights into the activities involved in the creation of value (Amit and Zott 2001). The resource-based view of strategy highlights how supernormal profits can be created from firms leveraging a unique bundle of resources and capabilities (Barney 1991, Bowman and Ambrosini 2000, Amit and Zott 2001). Profits result if the level of 'value' realised on a sale are greater than the sum of the inputted costs (including wage costs) (Bowman and Ambrosini 2000). Note that this literature highlights that networks are also important 'activities' creating value, for example a firm's network structure and cooperative relationships (Jarillo 1988, Amit and Zott 2001) as well as access to information, markets, technologies, knowledge and learning (Gulati *et al.* 2000).

The significance of resources in value creation is based on the seminal works by Hamel and Prahalad (1994), Markides (1999), Penrose (1959/1980), and Barney (1991). This stream recognises that superior firm performance is a result of valuable resources and capabilities. Resources can be physical (such as property), financial, or intangible (such as brands and intellectual property). They can be traded (e.g. patents) and are converted into final products or services by using a wide range of other assets. In the context of social entrepreneurship, it is people that are the resource of note. Research has highlighted the importance of a venture's ability to attract, develop and retain people (Imperatori and Ruta 2006). For social entrepreneurs there are the additional issues of employee compensation (typically below market rates requiring increased emphasis on non-pecuniary components – Austin *et al.* 2006b) and the challenges of attracting and retaining skilled and passionate volunteers.

The significance of networks is anchored in the seminal texts of Simmel (1922/1955), Granovetter (1973) and Burt (1992) who explore the impacts of informational and personal networks. Strategic networks and partnerships are of paramount importance for social entrepreneurs, as they do not operate in isolation and can expedite the value creation process by expanding through network mobilisation. Partnerships with donors, volunteers, government,

suppliers and even competitors are all included in social entrepreneurs' networks and are of significance in value creation (Brooks 2009). Mobilising networks is relatively easy for social entrepreneurs and they often achieve their impact by mobilising networks more effectively than public and for-profit organisations (Mulgan 2006). The less competitive objectives of social entrepreneurs and their ability to unite different organisations facilitate this relative ease (Mulgan 2006).

Despite contextualising these traditional entrepreneurship and management perspectives within social entrepreneurship we require a broader approach that simultaneously appreciates the role of intentions, activities and outputs on value creation.

A Framework for Understanding

The above overview of the multiple perspectives of value and the complex activities and networks associated with value creation highlight the challenges facing social entrepreneurship researchers. To avoid a mire of complexity and interaction, we utilise the following organising framework (see Figure 1). The framework will allow a more holistic and deeper understanding of value in the context of social entrepreneurship.

The framework is based on Hambrick and Frederickson's (2001) work, which recognises that value creation will require an integrated strategy (aligning mission, elements of strategy, resources and the external environment). It also echoes the above literature, which recognises that the multiple 'types' of value can be measured or understood (as opposed to being invisible or misunderstood) and will change over time. In representing value creation as a cyclical process, the framework highlights the significance of an entrepreneur recalibrating the mission, objectives and strategy through entrepreneurial adjustment.

Our organising framework is not exclusive to social entrepreneurship and applies to value creation more generally. The following discussion contextualises the framework within social entrepreneurship by considering how each aspect of this process could be considered to differ for social entrepreneurs compared with commercial entrepreneurs and what the existing literature would expect from social entrepreneurs in this process.

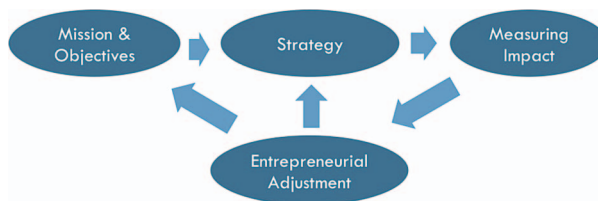


Figure 1. Organising framework for understanding value creation

Mission and Objectives

Mission is the starting point that underpins the holistic process of value creation (Schumpeter 1939, Mintzberg 1987, Hambrick and Fredrickson 2001). The mission informs the objectives of the enterprise, which are the specific targets the entrepreneur hopes to achieve. The importance of a coherent, communicated and aligned mission has been explored in the management literature and has been found to have a strong correlation with financial performance (Bart *et al.* 2001). For commercial entrepreneurs the communication of mission is generally perceived to be to employees and shareholders, outlining the fundamental purpose and values of the organisation, with little emphasis given to the importance of communicating to other stakeholders (Hambrick and Fredrickson 2001).

A dramatic shift transpires as the predominantly shareholder-centred view of business and profit maximisation is replaced by a stakeholder-management approach for social entrepreneurs (Perrini 2006). Social entrepreneurs present themselves as social actors with a focus on innovation, financially sound business strategy and the desire to benefit society (Peredo and McLean 2006, Perrini and Vurro 2006). This shift requires greater focus than that required for the mission and objectives of commercial entrepreneurs. To emphasise this shift, Brooks (2009) prescribes five key questions that will guide a coherent, communicated and aligned social mission: (1) what the entrepreneur will do? (2) What is the unique innovation? (3) What value means? (4) How value will be measured? (5) What constitutes success? These criteria highlight the multifaceted process of mission formulation in social entrepreneurship.

Strategy

Although it may be mission that serves as the 'guiding star' for social entrepreneurs, it is the operationalisation of that mission in strategy that realises value (Quarter and Richmond 2001, Dees *et al.* 2002). The earlier literature review highlighted the significance of innovation, resources and networks. These can be conceptualised in the five elements of strategy highlighted by Hambrick and Fredrickson (2001): *arenas* – where the enterprise will be active; *vehicles* – how the enterprise will get there; *differentiators* – how they will succeed in the market; *staging* – the speed and sequence of moves; and *economic logic* – how returns will be obtained. Innovation can be understood as a proxy for 'arenas', illustrating the areas where the entrepreneur is being 'destructive' within the economy. Resources relate to 'vehicles' and the organisation of these resources plays a key role in value creation. Networks form an important dimension of 'differentiators' as it is through mobilising networks that entrepreneurs can gain an advantage in the market.

Two elements of strategy overlooked by the above-reviewed theories of value creation are 'staging' and 'economic logic'. Social entrepreneurs face a similar dilemma to commercial entrepreneurs with respect to the staging, as

they must choose the speed and sequence of their move into different markets in order to optimise their impact (Hambrick and Fredrickson 2001). The economic logic for social entrepreneurs on the other hand is drastically different from that of the commercial entrepreneur. In commercial entrepreneurship, the key question is typically 'How will we obtain our returns?' (Hambrick & Fredrickson 2001). This can be contrasted with the question for social entrepreneurs, which is typically 'How do we generate a social impact?'. The economic logic of social enterprises is beyond the scope of this paper, for a review of the concept see Alter (2006).

For social entrepreneurs, achieving a strong alignment of mission, objectives and strategy is paramount (Austin *et al.* 2006a).

Measuring Impact

The measurement of impact is logically included as a final step in the value creation process. Commercial business activity has broadly utilised measures of impact (performance measurement) including: accounting profit, cash flow, earnings per share, dividend yield (Young 2006) and economic value add (EVA) (Kaplan 1982).

To the extent that social entrepreneurs may create a substantial level of economic value, they can use these measures. But what of the other (and prioritised) value they seek? And what if the matters that change may take time to manifest, can be difficult to attribute, or can be the result of multiple inputs (not just those of social entrepreneurs) (Austin *et al.* 2006a)?

Numerous qualitative and quantitative 'social metrics' have been developed within academia in recent years to measure social impact (Nicholls 2005, Austin *et al.* 2006a). Whilst some ventures are using them, social entrepreneurs have only taken them up to a limited extent (Brooks 2009, Quarter and Richmond 2001). Qualitative social metrics include the triple bottom line (Elkington 2004), the balanced scorecard for not-for-profits (Kaplan 2002), the family of measures (Sawhill and Williamson 2001), and social reporting (Zadek 1998). The value of qualitative social metrics has been recognised in achieving mission alignment, yet such metrics are argued to be of limited use in attracting donor funding or establishing comparability and benchmarks (Nicholls 2006). In response to this criticism, quantitative social metrics have been developed, including social return on investment (SROI) (Emerson 2000), and blended value (Emerson 2003). These quantitative social metrics have been criticised for imposing an 'inappropriate consistency onto what is inevitably a complex picture made up of data of very uneven reliability' (Mulgan 2006, p. 87).

Despite the limited uptake of sophisticated qualitative and quantitative social metrics, it has been posited that individual measures would be utilised in practice as informal 'mission-based measures' for social value creation (Nicholls 2006). Aligning mission with impact measurement is key to developing 'useful and meaningful measures that capture the impact of social entrepreneurship and reflect the objectives pursued' (Mair and Marti 2006, p. 42).

Entrepreneurial Adjustment

Entrepreneurial adjustment (the review of, and reflection upon, mission, objectives and strategy) is a concept underemphasised in value creation literature. Entrepreneurial adjustment explores the extent to which entrepreneurs utilise new information about their venture's performance, with the 'key signal' to which commercial entrepreneurs respond being profitability (Parker 2006). Understanding entrepreneurial adjustment has important implications for value creation. For example, if entrepreneurs ignore or respond sluggishly to new information, venture performance can be negatively affected (Parker 2006), seriously affecting commercial practice (Lybaert 1998). The corollary is also explored, with entrepreneurs seen to be necessarily swift to commit resources to an innovative idea (i.e. executing mission through strategy) yet retain flexibility and the ability to respond to new information (Austin *et al.* 2006b).

Adjustment has been explored in other fields including: entrepreneurial learning (Nicholls-Nixon *et al.* 2000, Minniti and Bygrave 2001), 'design thinking' (Martin 2009, Leavy 2010) and leadership (see for example Useem 2010).

The concept of entrepreneurial adjustment has not been explored in the context of social entrepreneurship. This is surprising given the issues facing social entrepreneurs, such as the considerable noise surrounding non-market signals, the difficulties in measuring social impact, and the hurdles hindering responses to non-profit signals.

Interactions

Whilst these four elements of the framework are composites, the true essence of value creation lies in their interdependencies and the contribution of the model as a whole. Organisations and markets can be seen as resembling complex adaptive systems studied by chaos and complexity theory (Gleik 1987, Kaufman 1995). As such, understanding the interactions and interrelationships between the components of the framework becomes critical. For example, entrepreneurs could adjust to measures that do not accurately portray social impact, or fail to understand how a strategy could impact the measures sought.

Drawing on the above literature, and our extension of the Hambrick and Fredrickson (2001) framework, we now turn our attention to social entrepreneurship praxis in Latin America.

Methodology

Given the complex nature of social entrepreneurship, its recent rise in academia, the dynamic Latin American environment and the exploratory nature of the research, we adopted a case study research strategy to allow for a flexible and iterative approach. This allowed for a detailed approach to each case, accessing multiple perspectives within each case, and afforded the

ability to challenge and develop theory (Verschuren 2003, Lewis 2004, Vennesson 2008, Piekkari *et al.* 2009). The rationale for studying multiple cases, rather than a single one, was to allow for cross-comparisons amongst cases to improve the robustness of the findings (Eisenhardt 1989, Yin 2003). Each case was purposefully selected with the intention of achieving a rich, textured understanding of the phenomena of social value creation. The cases were selected that exhibited particular features, such as a dominant focus on social value creation. This enabled detailed exploration of the phenomenon, and cases were sufficiently heterogeneous in their missions and economic models to allow for common central themes to be identified (Patton 1990, Lewis 2004).

We examined three innovative social enterprises operating in Latin America through in-depth interviews and document analysis with multiple stakeholders: (i) *Language Venture*, led by two young social entrepreneurs to recuperate the Kichwa language and traditions throughout the Andean region in Ecuador by developing language class podcasts. The venture was in its second year and had nine employees; (ii) *Youth Venture*, a Chilean social enterprise facilitating access to healthcare, education and employment for marginalised youth in greater Santiago. The venture began operation in 1996 and at the time of the interviews employed 60 individuals; (iii) *Finance Venture*, an American-based multinational social enterprise aiming to alleviate poverty through the delivery of microfinance to developing regions in Mexico and Argentina. This venture was in its ninth year and employed 120 individuals. Whilst the three cases are extremely diverse, they exemplify what it means to be innovative in developing countries.

Obtaining multiple perspectives from inside and outside of the venture allowed for an in-depth understanding of the value social entrepreneurs create through gaining perspectives from alternative viewpoints. In-depth interviews were the main method for data collection as they are arguably the most suitable method when the researcher wants to comprehend the behaviour of decision-makers in different cultures, as understanding can be confirmed through asking clarifying questions (Ghauri 2004). In total, 12 interviews were conducted by the lead author, ranging in duration from 30 minutes to 2 hours. In *Language Venture*, the two entrepreneurs were interviewed as well as an employee, a beneficiary, an NGO representative working with the venture and a minister from the Ecuadorian Department of Education. In *Youth Venture* and *Finance Venture*, an entrepreneur, an employee and an NGO representative were interviewed. Interpreters were used in four interviews where the interviewees were not fluent in English.

In addition to the interviews, relevant documents and archival data about the ventures were collected before, after and at the time of interview to provide triangulation of reference material. These ranged from public, procedural and personal documents, including business publications, newspaper articles, internet sources, corporate materials, internal reports, letters and emails. Further, to complement the interpretivist research approach, researchers kept a reflective journal.

In line with an interpretivist approach, our research has focused on rigour in the application of method (Maxwell 2002) and rigour in interpretation (McCracken 1988). Our reference above to 'triangulation' of data is to improve reliability of perspectives and understandings (for example, most interviews accessed explanations reliant on retrospective perspectives, thus documentary analysis helped to support these retrospective accounts).

The data were analysed through compiling information within each of the three cases and conducting cross-comparisons through the lens of the organising framework. Both theoretically derived codes, which were constructed from existing knowledge underpinning the organising framework, and *in vivo* codes, based on the indigenous terms used by informants, were used to ensure that pragmatic illustrations of theory were acknowledged and meaning was not overly imposed on the participants by the researcher (Patton 1990). The coding process was recursive and involved constant iterations as new codes were developed to determine whether earlier material should be re-coded (Osmond and O'Connor 2006).

Findings

We arrange the presentation of our findings based on the organising framework for understanding value creation. We begin by briefly presenting our findings on mission and strategy, finding entrepreneurial practice reflects theory. We then present three major findings that surprise the theory and framework: first, we identify a 'mission measurement paradox' that appears to affect how social entrepreneurs understand the value created from their ventures; second, we find an apparent 'adjustment whirlpool' evidenced by possibly inappropriate processes of entrepreneurial adjustment; and third, we identify a case of 'toxic shock' that potentially impacts the sustainability of social ventures.

Directing the Social Mission through Strategy

The three cases examined within this study provided strong support to indicate that social entrepreneurs have a solid understanding of how mission, objectives and strategy affect social value. Their understanding is similar to that expected from the literature review and framework, and focuses on aligning mission with strategy. The social entrepreneurs studied presented themselves as social actors with a focus on innovation and a desire to benefit society. They articulated to all stakeholders a dominant social mission. We use Brooks' (2009) aforementioned criteria to highlight the mission formulation of the social entrepreneurs. The first three rows in Table 1 illustrate the innovative social value creating missions of the social entrepreneurs. This communicated social mission informed the social value creating strategy for all the social entrepreneurs and provided the basis for its delivery.

While each of the entrepreneurs had first developed a 'social' mission, then developed an associated strategy, none of the entrepreneurs were able to articulate a social mission that *explicitly* aligned the social mission with

Table 1. A complete and aligned social mission

Criteria for a complete and aligned social mission (Brooks 2009)	Language Venture	Youth Venture	Finance Venture
What the entrepreneur will do?	Create a network of free, interactive educational materials and classes (Website)	... create programs that focus on drug prevention and countering outcast lifestyles (Public document)	... scale up highly leveraged, market-based approaches to microfinance (Website)
What is the unique innovation?	... taking this podcasting technology, putting it in a new context (Entrepreneur)	... the way we look towards the youth and the way they are addressed... We treat them as equals (Entrepreneur)	... we focus on innovative capital sources and structures, and financial infrastructure for emerging economies (Website)
What value means? (referring specifically to the social value creation objectives)	... keep your culture and you can understand the value of what you already have but you can also live globalized lives (NGO representative)	... to overcome the tremendous inequality that results from extreme wealth and extreme poverty (Website)	... transform the future for millions by fighting poverty (Website)
How value will be measured?	Not articulated	Not articulated	Not articulated
What constitutes success?	Not articulated	Not articulated	Not articulated

measurement of social impact (as represented the last two rows of Table 1). This suggests no clear indication of how value would be measured, or what would constitute success.

Measuring Impact and the Mission Measurement Paradox

Our data suggests (refer to Table 2) that at the stage of measuring impact, social entrepreneurs are failing to evaluate with sufficient regard to their social mission. None of the three ventures aligned impact measurement with social impact or the fulfilment of their mission. The social entrepreneurs appear to be utilising measures that relate to the growth of the venture (for example the number of beneficiaries) rather than the achievement of the formal social mission. We refer to this disconnect between mission, objectives, and impact measurement as the ‘mission measurement paradox’.

Given the diverse social missions of the three ventures we expected that there would be an equivalent diversity in both the simple and complex

Table 2. Measuring impact – theory versus pragmatism

	Finance Venture	Language Venture	Youth Venture
Mission-based measures (Theory – Nicholls 2005, 2006)	Access to shelter, health, education Three meals a day	Fluent Kichwa speakers Political representation	Access to health, education Increase in youth employment Reduction in drug use
Growth-based measures – measures which focus on growth/scale of the organisation (Cases)	No. of people reached No. of loans made	No. of people reached No. of products distributed	No. of people reached No. of organisations in network
Exemplar quote – in response to ‘How successful has your venture been?’ and ‘How do you evaluate the performance of your venture?’	One simple metric, perhaps misguided metric, was number of clients reached. (NGO representative, Finance Venture)	... it has all gone really well ... we’re publishing 64,000 books to disseminate to the whole Andes region and Ecuador ... it hasn’t been a hard sell, and we have seen fantastic results. (Entrepreneur, Language Venture)	... we have reached more than 10,000 young adults and worked with over 200 organisations within Santiago, plus another 50 organisations in other regions in the country. (Entrepreneur, Youth Venture)

measures used in evaluating the mission to reflect the different domains of intended social value creation. For example, a range of measures related to the social value created would be expected: the Finance Venture would utilise ‘access to shelter’, ‘access to education’ or ‘ability to feed family’; the Language Venture would utilise ‘increases in Kichwa fluency’ or ‘numbers of speakers’; the Youth Venture would utilise ‘reduction in drug use’ or ‘access to health care and education’. The data showed each venture utilised measures that were unrelated to their social mission, and related to ‘growth-based’ activity.

As can be seen from Table 2, the measures used by the social entrepreneurs are indicative of organisational size, and not the social impact. None of the measures are supported by qualitative or quantitative measures of how the lives or situations of beneficiaries have changed. The social entrepreneurs appear to be assuming that their social-value creating mission has been achieved through simply expanding a mission-directed strategy and reaching more beneficiaries rather than measuring what impact they have had on those beneficiaries.

An excerpt from the researcher’s reflective journal that was made after the second interview of the research process shows an early indication of this eventual finding:

I was surprised when speaking with [the Language Venture beneficiary] how enthusiastic and proud he was of the project, and the high regard in which he held [the Language Venture entrepreneurs], yet when I asked directly what changes he had noticed within the community he said that there had been none. (9 June 2009, *Reflective Journal*, p. 4)

Whilst there was strong evidence across all three cases for the mission measurement paradox, perhaps the use of these convenient numerical measures is unsurprising and is simply a response to the time constraints elemental to the running of a venture. We return to the possible explanations of the paradox in the discussion that follows the findings.

Entrepreneurial Adjustment and the Effects of the Paradox

An examination of the processes that social entrepreneurs undertake to refine and adjust their mission and activities allows us to consider the implications of the mission measurement paradox for the entrepreneurial adjustment process (the final aspect of the organising framework). The framework suggests the mission measurement paradox will have implications for entrepreneurial adjustment.

The data suggest the entrepreneurs either responded to, or ignored, multiple signals. The signals identified related to aspects of growth and scale, in particular to that of the product or service. Financial metrics were not utilised by the social entrepreneurs and their organisations due to their perceived inappropriateness in this context, nor were the anticipated social metrics or mission-based measures.

Whilst responses were made to these growth-based signals, adjustments were through minor alterations and tweaks to the strategy (which focused on further expansion). These adjustments had the effect of growing the scale of the ventures, but did not allow for any recalibrations of the social mission. The following two examples illustrate minor tweaks and alterations to the strategy based on growth-based measures:

... we could see that the we were reaching more and more youth so we continued to build our network of partners. (Internal document, Youth Venture)

And the way we did that [choose partners to work with to alleviate poverty] was ... we would only partner with institutions which we thought could increase in size tenfold, over a small number of years. (NGO Representative, Finance Venture)

Entrepreneurial adjustments do not appear to be aligned with the social value-creating mission. Rather, they appear focused on expanding organisational reach without consideration of social impact. This appears to be a direct consequence of the mission measurement paradox: the social entrepreneurs were responding to their growth-based measures, and therefore not focusing on adjustments that responded to mission-based measures.

Returning to the organising framework, this suggests that the social entrepreneurs are encircling through a different flow, not the one that the literature would suggest. Instead of altering the mission or objectives to better achieve social value, the strategy (which is assumed to be social-value creating) is adjusted so as it achieves higher growth. We refer to this different flow as an ‘adjustment whirlpool’, resulting in a continuous flow between strategy, measuring impact and entrepreneurial adjustment. Social entrepreneurs caught in the adjustment whirlpool appear unable to recalibrate their mission (see Appendix 1 for further discussion of this theorisation).

The dominance of growth-based measures as signals and the respective strategic adjustments may mirror that found in other contexts. In Parker’s (2006) study of corporate entrepreneurial adjustment, he found that much greater weight is given to prior beliefs when forming expectations. This could explain why growth-based measures are used: as social entrepreneurs give extra weight to the prior beliefs that informed their strategy, they perceive the continuation and expansion of their delivery as a valid signal, and thus do not search for other social metrics or mission-based measures.

The Possibility of a Toxic Shock

The social entrepreneurs may become trapped in this adjustment whirlpool. As an illustrative example: in the case of Finance Venture, a recent incident was revealed in which the process of entrepreneurial adjustment was triggered by a mission-based measure. It was only through this signal that the Finance Venture encountered the repercussions of being caught in the adjustment whirlpool with a sustained reliance on signals that are not aligned with the mission. Elaboration on this incident, which is referred to as ‘toxic shock’ owing to its near fatal effect, reveals the severity of the possible implications of the mission measurement paradox (see Appendix 1 for further discussion of this theorisation).

The Finance Venture had been relying on growth-based measures, such as ‘number of people reached’ and ‘number of loans made’, to measure their impact. After 8 years of operation, a new senior manager organised a meeting with all the key stakeholders:

... there was a gathering with all of the partners and there was a survey ... they were asked ‘do you think that [Finance Venture] has had an impact in your success’. The answer in many respects was ‘well, no, there hasn’t been much of an impact’. The issue was that most of the partners needed deeper, more specialised services than the Finance Venture was providing. (NGO representative, Finance Venture)

The Finance Venture realised that their successful growth had not translated to their mission. The following quote describes the entrepreneurial adjustment process in response to this mission-based measure:

... we have now decided that we only want to work with institutions that are in regions of the world that are dramatically underserved by microfinance. We want to have a lot more presence in the market so that we could be more responsive to the needs of our clients. Commercial funding is still not reaching some parts of the world, hence we have selected Africa. (Entrepreneur, Finance Venture)

The example of the Finance Venture, complemented by the smaller strategic adjustments that were discussed above, suggest that both the processes of adjustment and the timeliness of adjustment are hampered by the type of signals that are being received through the mission measurement paradox. Instead of the ventures having current social metrics or mission-based measures with which to respond, the processes of adjustment are delayed until problems are flagged through other events. It is only a near catastrophe that alerts the social entrepreneurs of the need to change.

In the Finance Venture, the adjustment was significant enough to allow the venture to escape the adjustment whirlpool and recalibrate their social mission. Whilst maintaining their mission to an extent, their method of executing this mission changed dramatically as they gained greater insight into their delivery mode and the limited success their previous strategy had in creating social value. The execution of the mission changed to such an extent that the Finance Venture has decided to leave the Latin American market entirely to enter the African market. Furthermore, they are modifying their approach from oversight to grassroots activity.

Discussion

There are a number of potential explanations of why practice appears to diverge from academic discourse in social entrepreneurship. We introduce these with reference to the cases and extant literature.

Explanation 1 – The ‘Too Difficult Now’ Response

In examining the perspectives of the social entrepreneurs it was clear in all three cases that there was an awareness of available social metrics; however, they were perceived as being problematic to implement. The space that these social metrics occupied in the minds of the social entrepreneurs was future oriented, as one participant explained:

In this new project I think they will really look at more in-depth social metrics to be able to ascertain whether impact has been created. (NGO representative, Finance Venture)

Through contrasting social metrics with financial metrics, the Finance Venture entrepreneur explained why social metrics were not currently used:

There is also an issue with social metrics ... In late 2007, there was an agreement about the social metrics that can be utilised. Most institutions are still at the implementation phase of starting to measure those in a problematic way ... There are still a lot of pilots. There isn't the same program that in the same way that you measure financial metrics every month no matter what, will be able to tell you how your institution is doing. (Entrepreneur, Finance Venture)

These quotations demonstrate that the possible contributions of social metrics are valued in the abstract, yet the social entrepreneurs feel that they are not yet equipped to effectuate them. This possibly suggests that these measures are impractical, difficult to implement, and lack a level of comparability that is achieved by financial metrics. If this is the case, a redesign of these tools may be necessary. However, the limitations of social metrics are well understood, with many critiques offered (notably; Young 2006). What is of greater interest is that this explanation fails to explain why the measures that underpin these social metrics are ignored, in preference to economic measures. Maybe this explanation simply becomes the 'too difficult' response if the dominance of numerical economic measures continues to be preferred.

Even if we assume that the formal social metrics are inadequately developed, we need to look at why mission-based measures are not being used. Departing from the management and entrepreneurship literature offers various other explanations, as does revisiting some findings from earlier aspects of the organising framework.

Explanation 2 – The Imperialism of Economics

Economic imperialism (Lazear, 2000) is a second potential explanation. The influence of economics is not isolated to business literature, it has even been asserted that academia can be characterised as an 'intellectual scene in which economics imperialism is rampaging across other disciplines' (Fine 2002, p. 2057). This is related to the 'mathematical reduction' in which anything that cannot be easily formalised as numerical is excluded from analysis (or incorporated into, or ignored through, an assumption) (Dennis 2002). This desire to assess human nature in numerical terms has a spill-over to the tangible information used by social entrepreneurs and their reliance on traditional economic concepts for measuring impact. In many respects, this reduction is justifiable as the cognitive load of humans requires complex problems to be simplified in order to be managed (Jolls *et al.* 1998). The issue is that the assumptions need to be corrected to ensure that the numerical reductions have a focus on social mission fulfilment. If a sophisticated understanding of these assumptions is not developed and economic imperialism continues then the mission measurement paradox of social entrepreneurship will be maintained by dominant discourse and continue to obfuscate the social value these ventures aim to create.

Explanation 3 – Psychological Biases

Academic psychological discourse offers some other explanations. Furthermore, some fecund avenues for future research are presented. One explanation of the mission measurement paradox can be viewed as how social entrepreneurs are framing their success and thus what information they are using to evaluate their ventures. The ‘framing effect’ in psychology offers an explanation of the mission measurement paradox as it looks at how people objectively evaluate processes, based on the information they receive (Kahneman and Tversky 1979). The information that social entrepreneurs are receiving are the growth-based measures, and as they are not searching for mission-based measures, they frame their success on the former. This is related to the notion of ‘information salience’, where extra weight is given to this easier-to-understand available information (Hamilton and Fallot 1974). Another psychological explanation forwarded is the ‘endowment effect’. This is where the subjective value of a good increases when people feel possession over it, resulting in people overvaluing what is ‘theirs’ relative to its objective value (Kahneman and Tversky 1979). With respect to the mission measurement paradox, the innovative strategy is part of the social entrepreneurs’ endowment, and thus the ability of the strategy in creating social value becomes overvalued by the social entrepreneurs. This overvaluation potentially flows through to the possibly misguided processes of entrepreneurial adjustment.

Explanation 4 – Incomplete Mission Formulation

The data suggested that the social entrepreneurs have formulated incomplete missions or objectives, as they did not specifically address how social value would be measured, or what would constitute success. As mentioned above, the literature suggests (Brooks 2009) that these two elements should be combined with an understanding of innovation, the meaning of value and a generic strategy to ensure that the organisation has a coherent and aligned mission. The absence of these two elements in the organisations we studied may suggest that the social mission may have remained an abstract thought and therefore the desire to reduce the real world into numerical representations was compounded due to the inherently abstract nature of the social mission. The use of quantitative growth-based measures is then possibly explained by the inability of the social entrepreneurs to express their social mission in concrete terms. If the social mission remains abstract, the social entrepreneurs may continue to resort to evaluating their activities with the tangible, easily measurable, growth-based measures, therefore self-perpetuating the strategy itself.

Explanation 5 – Interference by Stakeholders (Networks)

Analysis of the role of strategic networks reveals that the expectations of donors and the mobilisation of networks focus strongly on expansion and

scale. Donors' philanthropic intentions are appeased if they feel that their contributions are reaching an increasing number of people. One of the entrepreneurs from the Language Venture exemplified this hands-off approach as follows:

'Well, hey, look, you guys just keep doing what you're doing. We trust you.'
(Entrepreneur quoting donor, Language Venture)

In a similar vein, the NGO representative in the Finance Venture summed up the 'easy to please' perspective of donors as:

We used the number of clients reached and outreach as part of our marketing to donors to say, 'Hey, we are very good at selecting [microfinance institutions] that will scale up rapidly, therefore keep on giving us money so we can continue to grow our mission.' (Employee, Finance Venture)

These examples may indicate that donors are not subjecting social entrepreneurs to rigorous reporting standards and are therefore compounding the mission measurement paradox.

It is likely that there are elements of truth in each of these five explanations. Regardless of how the paradox arises, it is something that should be considered by both practitioners and academics alike.

Conclusions and Implications for Theory and Practice

The findings challenge existing understandings of value creation, and suggest that entrepreneurial rather than managerial understandings of value may yield more appropriate insights for academics and practitioners alike. The research suggests that management theories of value creation should be applied with caution in the context of social entrepreneurship. In contrast, a deeper understanding of what is truly 'Schumpeterian' is required.

From this perspective, social entrepreneurs who are 'creatively destroying' appear to be creating social value, avoiding the mission measurement paradox and the adjustment whirlpool, as they align vision with measurement and adjustment. Looking through a lens of Schumpeterian creative destruction, if social entrepreneurs appear lost in the adjustment whirlpool it is unlikely that they will be 'entrepreneurial change makers', but rather efficient operators of a social venture. This parallels the difference between an entrepreneurial venture and a 'normal' business. A 'normal' business is one that is not dominant in its field and does not engage in innovative practices, whereas an entrepreneurial venture focuses on profitability, growth and innovative strategic practices (Carland *et al.* 1984, 1988). In the social context, this equates to the difference between a socially entrepreneurial venture and a social venture with good intentions. The research highlights the need for academics and practitioners to gain a better understanding of this difference: a social venture is not necessarily a socially entrepreneurial one.

Limitations, Future Research and Contributions

The following limitation to the research is acknowledged. The three theoretically heterogeneous cases allowed for rich comparison through assessing the common threads between them, but they are all situated in Latin America, and were interviewed over the same period. Quantitative research could explore the incidence of the mission measurement paradox, as well as its antecedents (whether organisational or psychological), its impacts and consequences (including framing and endowment effects).

Whilst the geographic focus on Latin America might be perceived as a possible limitation of this research, narrowing the spotlight to this region allowed for an extension of empirical findings in social entrepreneurship and four different national contexts to be explored. Further, despite all three ventures operating in Latin America, the four social entrepreneurs who participated in the research represented an international cross-section (Australia, Europe, North America and Latin America), and as they were the central focus of the inquiry this diversity presented a global representation. Future research should, however, be focused on gaining similar insights in other regions of the world, as well as other countries in Latin America. This research has been anchored in developing nations and therefore exploring the main findings in developed regions of the world would be useful.

This paper makes several contributions to theory and practice. For academia, a cohesive organising framework for understanding value creation has been developed through extending theories of value creation from management and entrepreneurship into the field of social entrepreneurship. The insights from the three tales of disruptive social innovation indicate that social entrepreneurs may not know how to manage and understand the value creation process. An interesting avenue for future research is to ascertain if this understanding significantly affects the value created by the venture, as was posited in the Finance Venture, or does the venture create social value regardless? Researchers should therefore look into the relationship between the entrepreneurs understanding of value creation and more sophisticated social metrics. For practitioners, this paper has delivered a pragmatic perspective on how social value is evaluated and understood, and has highlighted the potential pitfalls and negative biases to which social entrepreneurs may succumb.

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Note

1. Within the commercial context there is distinction between 'value creation' and 'value capture'. In this paper we believe it is more appropriate to concentrate on the notion of value creation as it refers to the value generated by the venture that is subjectively assessed based on its perceived worthiness (Bowman and Ambrosini 2000, Lepak *et al.* 2007), as opposed to value capture, which looks at the value realised through market exchange, objectively evaluated in monetary values (Bowman and Ambrosini 2000, Lepak *et al.* 2007). The concept of value creation is most relevant to our research focus as it considers the subjectively assessed value created by social entrepreneurs rather than focusing on the relationship between value and market exchange, which does not entirely reflect the social missions that extend beyond the market.

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Appendix 1. Theoretical constructs

Term	Adjustment whirlpool	Toxic shock
Definition	A continuous flow of entrepreneurial adjustment between strategy, measurement and adjustment based on only using growth-based measures as signals of social impact.	Refers to the events which take place when a mission-based measures reveals that social entrepreneurs have been stuck in an adjustment whirlpool and that the social impact of the venture has been misunderstood.
Significance of terminology	The term 'whirlpool' is selected to represent the continuous nature of the possibly misguided adjustment.	The term 'toxic shock' refers to its near fatal effects that are possible if the 'adjustment whirlpool' continues and the severity of the possible implications of the mission measurement paradox.
Relationship with organizing framework exemplary quotes	This whirlpool is viewed as a negative outcome as the social mission is no longer included in the adjustment process. ... we could see that the we were reaching more and more youth so we continued to build our network of partners. (Internal document, Youth Venture) And the way we did that [choose partners to work with to alleviate poverty] was ... we would only partner with institutions which we thought could increase in size tenfold, over a small number of years. (NGO Representative, Finance Venture) [we] focused initially on looking just at the growth of the industry ... I think they've realised that that could come under intense criticism in terms of, well you can grow but actually what impact are you actually having. (Employee, Finance Venture) [this quote provides an illustration of the link between the adjustment whirlpool and toxic shock]	The incidence of toxic shock sees social entrepreneurs leave the 'adjustment whirlpool' and return to the cyclical process that the framework suggest, thus correcting the paradox. in Latin America we had very limited success. (NGO representative, Finance Venture) We had very limited impact in that institution [in Mexico]. (NGO representative, Finance Venture) the issue was, 'you want to help us. You need to have a lot of presence, you need to open a Mexico office.' (NGO representative, Finance Venture) there 2 MFIs were saying, 'you know what, we don't want you to help us with capacity building because you are so far away it doesn't really work. You come in, you make an assessment and then you go' (NGO representative, Finance Venture) ... we have now decided that we only want to work in institutions that are in regions of the world that are dramatically underserved by microfinance. We want to have a lot more presence in the market so that we could be more responsive to the needs of our clients. Commercial funding is still not reaching some parts of the world, hence we have selected Africa. (Entrepreneur, Finance Venture) So we are not about helping large MFI anymore, we are about helping very small MFI in hard to reach geographies. (NGO Representative, Finance Venture) ... there was a gathering with all of the partners and there was a survey ... they were asked 'do you think that [Finance Venture] has had an impact in your success'. The answer in many respects was 'well, no, there hasn't been much of an impact'. The issue was that most of the partners needed deeper, more specialised services than the Finance Venture was providing. (NGO representative, Finance Venture)