



Inter-Agency Task Force on
Social and Solidarity Economy

This is a draft of the entry for *Encyclopedia of the Social and Solidarity Economy* (forthcoming 2023) published by Edward Elgar Publishing Limited in partnership with United Nations Inter-Agency Task Force on Social and Solidarity Economy (UNTFSSSE). This work has been funded by the Government of the Grand Duchy of Luxembourg.

Management of Social and Solidarity Economy Organizations and Enterprises

Sang-Youn Lee
Sungkonghoe University, South Korea

Bibliographic information

Sang-Youn Lee. Forthcoming 2023. Management of Social and Solidarity Economy Organizations and Enterprises. Edited by Ilcheong Yi, Peter Utting, Jean-Louis Laville, Barbara Sak, Caroline Hossein, Sifa Chiyoge, Cecilia Navarra, Denison Jayasooria, Fernanda Wanderley, Jacques Defourny, and Rocío Nogales-Muriel. *Encyclopedia of the Social and Solidarity Economy*. Cheltenham and Northampton, MA. Edward Elgar Publishing Limited in partnership with United Nations Inter-Agency Task Force on Social and Solidarity Economy (UNTFSSSE).

Or

Sang-Youn Lee. Forthcoming 2023. Management of Social and Solidarity Economy Organizations and Enterprises. Edited by Ilcheong Yi et al. *Encyclopedia of the Social and Solidarity Economy*. Cheltenham and Northampton, MA. Edward Elgar Publishing Limited in partnership with United Nations Inter-Agency Task Force on Social and Solidarity Economy (UNTFSSSE).

June 2022

UNTFSSSE Knowledge Hub Draft Paper Series

For more details, please visit the Edward Elgar's Companion Website (<https://www.edelgar.com/textbooks/yi/>) and Main book page (<https://www.edelgar.com/shop/gbp/encyclopedia-of-the-social-and-solidarity-economy-9781803920917.html>)



The responsibility for opinions expressed in this document rests solely with their author(s), and availability on the SSE Knowledge Hub for the SDGs (unsse.org) does not constitute endorsement by the United Nations Inter-Agency Task Force on Social and Solidarity Economy (UNTFSSSE), or its institutional members, partners or observers, of the opinions expressed in it. No publication or distribution of this document is permitted without the prior authorization of the author(s), except for personal use. This document is made available on the SSE Knowledge Hub for the SDGs in the form and language in which it was received.

Abstract

Newly created social and solidarity economy organizations and enterprises (SSEOs) with limited track records often face a challenge in obtaining key resources from key resource holders such as governments, job applicants, impact investors, or social finance institutes. This entry explains knowledge and skills for SSEOs to acquire relevant resources. It first explains the institutional characteristics and complexity involved in the management of SSEOs and then introduces knowledge and economic and legal skills required to manage SSEOs. Finally, the entry introduces various signaling mechanisms for SSEOs to acquire relevant resources and explore the signaling effects of social and economic elements of SSEOs, in particular social enterprises.

Keywords

social enterprises; management; resource; hybrid organization; SMEs; resource acquisition

Introduction

Over the last decades, the global societies have noticed an interesting sector emerging where member organizations are required to be good at two contradictory missions. Borzaga and Defourny (2004) defines the organizations as social enterprises in both social and economic dimensions. These firms have an inborn requirement of ambidexterity with both social and economic achievements.

For a CEO or the top management team of a new social enterprise, however, pursuing social and economic goals at the same time is challenging. There are tensions in pursuing both of the social and economic goals. The costs incurred in pursuing social and economic value at the same time puts young social enterprises in a relatively disadvantageous situation compared to conventional young start-ups seeking for growth. Therefore, it is very likely that social enterprises send out different signals to resource providers than for-profit enterprises, in order to gain legitimacy when acquiring resources. This entry introduces signaling knowledge required to acquire important resources. It first introduces various mechanisms to provide consultant and management support for SSE organizations and enterprises (SSEOs).

1. Understanding Institutional environments

Young start-ups are generally small and they often lack internal resources. Since they are new to the market and have limited track records, they are more less likely to secure external investors, suppliers, and buyers. Delmar and Shane (2004) argue that in order for a startup to survive, it must first of all gain legitimacy. In other words, it is necessary to secure the legitimacy to be seen as a reliable entity even if there is a lack of information about the start-up, so that it can access the necessary resources and lower the transaction cost, thereby increasing the survival and success of the company. On the other hand, Aldrich and Fiol (1994) define 'the legitimacy of a startup' as the degree to which people perceive that it adheres to generally accepted principles, rules, norms, standards, and ways of working. Examples of legitimacy-creating activities for start-ups include establishing a corporate personality and writing a business plan, and there is also a way to establish an alliance network (Baum, Calarese, and Silverman 2000). Of course, there are various ways to secure legitimacy depending on the institutional and cultural environment surrounding the new company.

A social enterprise is an organization that pursues both social and economic values, and may benefit from or be limited by various rules and regulations (see the entry “Social enterprises”). The growth of social enterprises requires positive interactions between social entrepreneurs, organizations, and institutions. These interactions enable social enterprises to make value-based decisions and extend their social mission (Davies, Haugh and Chambers 2019). In order for entrepreneurship to be expressed in a society or a country, an appropriate system is essential.

In the case of Seoul, for instance, the consultative body based on public-private partnerships became a catalyst in generating political momentum in favour of SSE. The Public-Private Policy-making Partnership for the Social Economy in Seoul (PPPPSES) was established in 2012 to discuss and develop basic plans and measures for social economy policy. The PPPPSES has continued to hold regular meetings to share updates on the initiatives of the Seoul Metropolitan Government and non-governmental actors, who jointly decide and monitor policy measures and budgets on the social economy in Seoul. With a strong record of effective SSE governance, the Seoul Metropolitan Government inspired the creation of the Social Economy Forum in the National Assembly. Social economy committees within the political parties prompted election

candidates to announce manifestos on the social economy during their campaigns for general and local elections. They also helped create a political environment favourable to the social economy nationwide by giving rise to the Council of Local Governments on the Social and Solidarity Economy. It contributed to creating positive political momentum for SSE in other municipalities and nationally (Yoon and Lee 2020). The Seoul case can be viewed as an excellent example of strong SSE “policy entrepreneurship” (Jenkins, Yi, Brülisauer, Chaddha 2021).

In addition, the importance of the active intervention of public funds can be confirmed through the results of Paunov's (2012) study of companies in eight Latin American countries from 2008 to 2009 on how the innovativeness of these organizations was affected by the long-term global economic crisis. He mentioned that many innovative projects were stopped during this period due to lack of funds and other reasons, while showing that companies receiving public funding from the government were less likely to give up on innovative projects. Such experiences have provided the evidence for expanding the scope of public support for small and medium-sized enterprises and start-ups in the face of new global crises such as COVID-19.

Overall, institutions play an important role when social entrepreneurs enter new businesses with new ideas. The institutions for SSEOs increase their impacts especially in situations of high uncertainty, such as COVID-19. The direct support budget and rapid increase in programs from public institutions related to the COVID-19 pandemic are the cases in point. For example, the COVID-19 support budget in South Korea and Canada has played a significant role in sustaining SSEOs together with other types of SMEs. In particular the SME subsidy budget whose size has been rapidly increasing helped to strengthen entrepreneurs' sustainability (Deschryvere, Mikkola and Conn 2020). More comprehensive and effective institutions such as legal frameworks are also needed to promote SSEOs (see the entry “Legal frameworks and laws for SSE”). For instance, in South Korea where the SSE sector grows rapidly, the bill for the Framework Act on Social Economy (FASE), a legislative draft to support SSE is under review before the National Assembly and aspiring to provide a comprehensive legislative basis for the entire social economy. Since 2016, the political parties in Korea have motioned various bills for the FASE with a comprehensive scope. Their aim was to introduce legal and policy grounds for integrating and streamlining policy support, now provided by disparate agencies, into a single channel to foster the ecosystem for the nationwide social economy more efficiently.

2. Signaling for Resource Acquisition

Signaling theory is based on the need to resolve information asymmetry in decision making. Spence (1974) formulated his signaling theory utilizing a job market to model the signaling function of education. The basic premise of signaling theory is that an organization cannot usually obtain all of the necessary information to predict an individual's future performance. Therefore, decision makers need to rely on other information to evaluate whether the individual has potential to be a productive employee of their organization. Applied to organizations, signaling theory has been adopted by a range of research areas of management including strategic management, entrepreneurship and human resource management (Connelly et al. 2011). According to these studies, organizations send signals with partially formed information that is meant to be disclosed to outsiders to obtain important resources and capabilities (Zimmerman 2008).

Signaling theory has been studied heavily in the context of new firms because it captures information asymmetry and uncertainties surrounding enterprises (Connelly et al. 2011). SSEOEs, and in particular social enterprises, signal potential investors to demonstrate that they are socially and economically rational investments and that they will perform well in the future. Social enterprises showing that they are socially and economically rational investments can gain legitimacy which provides firms with access to resources they need to survive and grow. Many entrepreneurship studies reported that specific firm characteristics can be used as signals, including firm activities, alliance reputation, firm size, venture capital, top management teams and CEOs (Connelly et al. 2011). According to these studies, for early stage firms a founder-CEO's abilities and the specificity of business plans can be very important signals to reduce information asymmetry.

Both SSEOEs and the government promoting SSE can institutionalize this signaling process. For instance, The Seoul Metropolitan Government formed a social investment fund in 2012 and delegated the lending business to a non-governmental social financial organization. The social financial organization considers both aspects of social value creation and repayment capabilities in making loans to applicants. In South Korea, the range of social enterprises includes social ventures, commercial activities of non-profit organizations, co-operatives with clear social missions and community enterprises (Lim, Lee, and Seo 2019).

The environment in which signals are communicated between SSEOEs and resource holders also affects the overall process of signal creating, sending and receiving. Regardless of intra-organization or inter-organization, a signaling environment affects the degree of reducing information asymmetry (Lechner et al. 2006). SSEOES, in particular social enterprises, should consider a specific signaling context where various social enterprises send out signals conveying information about their social and economic qualities to acquire necessary resources, such as loans with favorable terms and conditions from a single social finance institute (Lim et al. 2019). The following are some of the key information the receiver of the signal would like to obtain.

1) Ambidexterity of Social Enterprises: One of the most representative qualities that resource holders such as social finance institutes want to confirm for CEOs would be their social entrepreneurship. Social entrepreneurs engage in entrepreneurial activities with the goal of addressing neglected social problems (Pache and Chowdhury 2012). It would be difficult to believe that social missions of social enterprises can be achieved and maintained without a socially motivated CEO. Resource holders will carefully look at the social motivation of the CEO and verify it through collecting and interpreting various signals transporting relevant information. In addition, many literatures in the field of strategic management have studied top management and their abilities and firm performance. To successfully sustain their operations, social enterprises typically also rely on a web of commercial stakeholders including clients, industrial supporters, and suppliers of goods services (Pache and Chowdhury 2012). A CEO's such management capabilities and experiences are central to the process (Lim et al. 2019).

2) Corporate Pursuit of Social Value: While CEO-side signals related to pursuing social value are social entrepreneurship of CEOs, firm-level signals related to pursuing social value can be perceived through its proclaimed social missions and track records of the missions executed. The pursuit of social value by social enterprises should be distinguished from conventional corporate social

responsibilities (CSR) because CSR activities may not be directly related to corporate business while the social missions of social enterprises tend to accompany its economic missions. In other words, while social enterprises' social value creation is internalized in their business objectives, investor-owned companies' CSR is externalized as an additional part. However, in a broader meaning of the pursuit of social value, CSR has a thread of connection with social enterprises' social missions. The proclaimed social missions and track records of a social enterprise, that is, the pursuit of social value, can be regarded as a social dimension of the ambidextrous social enterprise and can be expected to have a positive influence on acquiring loans from social finance because they play as important signals to confer social legitimacy to social enterprises (Lim et al. 2019).

3) Validity of Business Plan: Resource holders make it crucial to verify the intention and purpose of social enterprises applying for resources in order to avoid any moral hazard, such as use of public subsidies for personal gain. For example, one of the most effective ways to catch the intention and purpose of loan seekers is to analyze the feasibility of their business plans. Lim et al. (2019) made an empirical analysis of the relationship between the loan approval and the level of disclosure for details about utilizing plans of the social loan. The result shows that the more detailed the business plan to use the loan, the higher chance to achieve the loan. This implies that a more detailed purpose of raising capital can reduce information asymmetry between SSEOs and resource holders. In other words, providing more details about a business plan can increase the validity of the proposed plan requiring financial resources by alleviating information asymmetry. The validity of business plans can be regarded as an important signal for social enterprises to acquire relevant resources.

4) Partnership: Both corporate networks and an entrepreneur's social networks influence organizational performance. New firms can benefit from strategic partnership because diverse information flows, and complementary resources provided by partners can be instrumental in the earliest stage of SEEOs. For instance, Eisenhardt and Schoonhoven (1996) argue that alliance formation was affected by a social calculus related to the skills, status, and reputation and that new entrepreneurial firms can leverage relevant resources by having an alliance partnership. In particular, the network structure, relationship in the network, and governance are closely related to performance (Hoang and Antoncic 2003). Network diversity also affects corporate performance and partnership with networks for marketing information had a positive impact on business performance. However, network management is costly, as maintaining dominance in existing industrial networks is perceived as a signal that an organization is spending a lot of money. However, networks with well-known funders have a positive effect on the formation of future strategic alliances, as the funder's reputation also affects start-ups. In other words, it is important for startups or SSEOs in their early stage to form strategic alliances or networks that are diverse but not overlapping or complex. This gives them an opportunity to learn and it reduces the risk of unnecessary competition with companies in alliances and networks.

3. Towards Sustainability

External and internal environmental conditions in the early stages of establishment are one of the important factors that determine the survival and growth of new SSEOs. The capabilities and networks of SSEOs developed at an early stage have a positive effect on future performance, and institutional intervention such as legal frameworks or policy systems and measures for support for SSEOs at this time can play a significant role in enhancing performance. In addition, the entrepreneur team's composition is crucial to emit important ambidextrous signals to external resource holders. Resource acquisition is influenced by the characteristics of the entrepreneurial team such as functional background, age, and gender diversity, and so on. Furthermore, various factors, such as team resources, structure, and leadership on work, influence the long term performance of entrepreneurial teams (Pearce and Sims 2002, Mitchell and Boyle 2015).

Bibliography

Aldrich, Howard E., and C. Marlene Fiol. 1994. "Fools Rush In? The Institutional Context of Industry Creation." *The Academy of Management Review* 19 (4): 645. <https://doi.org/10.2307/258740>.

Baum, Joel A. C., Tony Calabrese, and Brian S. Silverman. 2000. "Don't Go It Alone: Alliance Network Composition and Startups' Performance in Canadian Biotechnology." *Strategic Management Journal* 21 (3): 267–94. [https://doi.org/10.1002/\(sici\)1097-0266\(200003\)21:3<267::aid-smj89>3.0.co;2-8](https://doi.org/10.1002/(sici)1097-0266(200003)21:3<267::aid-smj89>3.0.co;2-8).

Borzaga, Carlo, and Jacques Defourny. 2004. *The Emergence of Social Enterprise*. London: Routledge.

Connelly, Brian L., S. Trevis Certo, R. Duane Ireland, and Christopher R. Reutzell. 2011. "Signaling Theory: A Review and Assessment." *Journal of Management* 37 (1): 39–67. <https://doi.org/10.1177/0149206310388419>.

Davies, Iain Andrew, Helen Haugh, and Liudmila Chambers. 2018. "Barriers to Social Enterprise Growth." *Journal of Small Business Management* 57 (4). <https://doi.org/10.1111/jsbm.12429>.

Delmar, Frédéric, and Scott Shane. 2004. "Legitimizing First: Organizing Activities and the Survival of New Ventures." *Journal of Business Venturing* 19 (3): 385–410. [https://doi.org/10.1016/s0883-9026\(03\)00037-5](https://doi.org/10.1016/s0883-9026(03)00037-5).

Deschryvere, Matthias, Markku Mikkola, and Steffen Conn. 2020. "On the Structural Barriers to Public Innovation Support for SMEs and the Opportunity COVID-19 Can Offer to Overcome These Barriers." *Journal of Innovation Management* 8 (2): 16–25. https://doi.org/10.24840/2183-0606_008.002_0003.

Eisenhardt, Kathleen M., and Claudia Bird Schoonhoven. 1996. "Resource-Based View of Strategic Alliance Formation: Strategic and Social Effects in Entrepreneurial Firms." *Organization Science* 7 (2): 136–50. <https://doi.org/10.1287/orsc.7.2.136>.

Hoang, Ha, and Bostjan Antoncic. 2003. "Network-Based Research in Entrepreneurship." *Journal of Business Venturing* 18 (2): 165–87. [https://doi.org/10.1016/s0883-9026\(02\)00081-2](https://doi.org/10.1016/s0883-9026(02)00081-2).

Jenkins, Hamish, Ilcheong Yi, Samuel Bruelisauer and Kameni Chaddha. 2021. "Guidelines for Local Governments on Policies for Social and Solidarity Economy." UNRISD. Geneva: UNRISD. 2021. [https://www.unrisd.org/unrisd/website/document.nsf/\(httpPublications\)/EC42DDF4C2DDA1208025866B00481C54?OpenDocument](https://www.unrisd.org/unrisd/website/document.nsf/(httpPublications)/EC42DDF4C2DDA1208025866B00481C54?OpenDocument)

Lim, Chang Gue, Sang-Youn Lee, and Jinseon Seo. 2020. "The Signaling Effect of Ambidexterity of Social Enterprises on Acquiring Financial Resources in South Korea." *Annals of Public and Cooperative Economics* 91 (4): 633–47. <https://doi.org/10.1111/apce.12272>.

Mitchell, Rebecca, and Brendan Boyle. 2015. "Professional Diversity, Identity Salience and Team Innovation: The Moderating Role of Openmindedness Norms." *Journal of Organizational Behavior* 36 (6): 873–94. <https://doi.org/10.1002/job.2009>.

Pache, Anne-Claire, and Imran Chowdhury. 2012. "Social Entrepreneurs as Institutionally Embedded Entrepreneurs: Toward a New Model of Social Entrepreneurship Education." *Academy of Management Learning & Education* 11 (3): 494–510. <https://doi.org/10.5465/amle.2011.0019>.

Paunov, Caroline. 2012. "The Global Crisis and Firms' Investments in Innovation." *Research Policy* 41 (1): 24–35. <https://doi.org/10.1016/j.respol.2011.07.007>.

Pearce, Craig L., and Henry P. Sims. 2002. "Vertical versus Shared Leadership as Predictors of the Effectiveness of Change Management Teams: An Examination of Aversive, Directive, Transactional, Transformational, and Empowering Leader Behaviors." *Group Dynamics: Theory, Research, and Practice* 6 (2): 172–97. <https://doi.org/10.1037/1089-2699.6.2.172>.

Yoon, Kil-Soon and Sang-Youn Lee. 2020. "Policy Systems and Measures for the Social Economy in Seoul: Working Paper No. 2020-6." UNRISD. Geneva: UNRISD. 2020. <https://www.unrisd.org/80256B3C005BCCF9/search/969A3AAE861EBAF802585A8004C25AF?OpenDocument>