

# For-profit social enterprise: How organizational design influences value creation process

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CIRCLE: ORGANIZATIONS AT THE CROSSROADS

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*For Maliş.*

## Foreword

I have always been fascinated by people who take their chances with more than what is expected of them. If I had to anthropomorphize a for-profit social enterprise, I would precisely describe it as a person with such a style of personality. Ambitious, but not ambitious in a greedy way. Rather, ambitious in a curious and enthusiastic way. In all of the for-profit social enterprises that I got to meet thanks to this research, I saw a common spark: an impulse to take an extra step towards crossing a previously uncrossed line. That line sometimes laid between making heaps of revenues today, and making leaps of impact. Or in some cases that I was pleasantly shocked by, the line separated employing underprivileged people, versus empowering them to employ their own underprivileged people in the future. Standing against the persistent winds that try hard to blow off its dual nature, the for-profit social enterprise holds on strong to its values: be commercially sustainable, and yet, cross the line, and do it the hard way, put a social mission on it.

Speaking of people who take their chances beyond the line, I have to give myself some credit for trying hard to become one. Trained as an engineer and a finance professional, I never thought that my urge to “see the human side of things” would take me this far. Stepping outside of my comfort zone, I discovered a whole new world in social sciences. Of course, the challenge came with its agony. It became very hard from time to time to wrap my mind around the reasoning that I had to make. Writing this piece of work has been one of the best things that ever happened to my comfort zone: it was razed to the ground. And of course, it expanded irreversibly. From where I stand now, I feel confident that I will make a bigger difference in the world with my new capabilities.

In this rocky road, the very first person I would like to thank from the bottom of my heart is Mehmet, my beloved husband-to-be, and biggest inspiration in life. He gives me day after day the courage to hold on strong to my dreams and values, providing me with his wisdom whenever I find myself in self-doubt. Going through this entire journey with me, he never cut back on his support no matter how steep the path became from time to time.

I would further like to thank my parents for generously equipping me with all the necessary tools to start exploring this world right from day zero of my life. I have traveled every extra mile thanks to their unquestioned faith in every new endeavor I have ever set

my mind on. I would like to thank my sister, an M.D., for encouraging me to explore “the human side,” and always having belief in me. I would also like to thank my mother, father and sister in-law for providing me with their endless support for pursuing this journey.

My deepest appreciation goes to the participants of this study. They have provided me with outright support, pouring their experiences, thoughts, and feelings while I conducted my interviews. I realize the difficulty of participating in a study conducted by a foreign student, shooting questions in a language neither party is native in. Thank you for making this easier on me than I had originally thought.

I would like to thank all my circle colleagues for the feedback and support that they have given me. I am hoping the best for all of you in the progression of your careers. My thanks also go out for all my professors whose knowledge and perspectives I have been radiated by for this past year. Their roles in expanding my comfort zone is indisputable.

I would also like to thank Dr. Shipeng Yan, my second supervisor, for providing me with his feedback. Last, but not least, I would like to thank my supervisor, Dr. Stefan Cloudt, who supported my study with his knowledge and experience whenever I felt stuck. His unique stance between academic and professional life has inspired me in many ways.

As a final word, I would like to thank all the social enterprises in the Netherlands dedicating themselves to achieving not one, but two visions. It is because of their existence that this research became possible. I hope everyone enjoys reading it as much I enjoy looking back to the past and feeling proud.

Basak Demirci, June 2018.

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### Thesis

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Title of Master Thesis Circle	Organizations at the crossroads
Title of Thesis	For-profit social enterprise: How organizational design influences value creation process



## Abstract

For-profit social enterprise stands at the crossroads of social and commercial value creation. With core activities of both business and charity form, for-profit social enterprise is a new breed in the social problem-solving space. This thesis puts forward the following research question: “What is the effect of organizational design on the value creation process of a for-profit social enterprise?” Research has been designed as a qualitative comparative case study of 5 for-profit social enterprises that are backed by impact investors. Findings reveal that organizational design influences value creation process in four ways. Results contribute to organizational theory literature, as well as carrying practical implications addressing executives and investors of for-profit social enterprises.

# 1. Introduction

## 1.1. Research Problem

Traditional distinction between commercial enterprises, public organizations, and private non-profits is becoming blurred, as societies search for innovative ways to solve social problems. New organizational forms emerge as market approaches gain popularity for generating social and environmental impact at scale (Defourny & Nyssens, 2010). For-profit social enterprise, which stands at the crossroads of social and commercial value creation has become the new breed in the social problem-solving space.

But how do these two value creation approaches coexist in an organization? According to Dees (2012), there is a special interplay between the two value systems in a social enterprise. These two value systems can be regarded as two distinct cultures: culture of charity, and culture of problem solving. In this respect, charity is a virtue, whereas problem solving is a skill, and combining the two sets of values is not as easy as it might seem. Therefore, factors influencing the way these two sets of values are artfully combined make up an important exploration area. Exploration of this influence might cast light upon how two conflicting sets of institutional logics might coexist in an organization in a productive way. The mentioned coexistence might be related to how these organizations are designed.

Organizational design is an important feature of an organization because it determines how people and systems are integrated. In the particular case of for-profit social enterprises, organizational design determines how people and systems of separate institutional logics are positioned. Perhaps, the way a for-profit social enterprise is designed influences its value creation process.

It is wise to accept the challenges, or perhaps the impossibility of coming up with a ready-to-wear formula for particular organizational design forms that will enhance value creation. However, it is important to explore whether there are particular organizational design configurations that meaningfully serve the dual nature of a for-profit social enterprises. This thesis explores the relationship between organizational design and value creation process in the setting of for-profit social enterprises.

## **1.2. Relevance**

### **1.2.1. Scientific Relevance**

A social enterprise, which combines business and charity activities in its core represents an ideal case for a hybrid organization (Battilana & Lee, 2014). Hybrid organizations, by definition, are organizations that incorporate elements from different institutional logics (Battilana & Dorado, 2010). Unless a hybrid organization succeeds in simultaneously caring for the dual elements found in its core, it might find itself in mission drift, thus losing its hybridity (Battilana & Lee, 2014). For a social enterprise, these elements stand as social and commercial ambitions.

In order to examine how social enterprises deal with internal and external hybridity tensions, Battilana and Lee (2014, p. 397) developed the concept of hybrid organizing, defined as “the activities, structures, processes, and meanings by which organizations make sense of and combine aspects of multiple organizational forms.” According to their literature review, hybrid organizing appears in five key areas in an organization: core organizational activities, workforce composition, organizational design, inter-organizational relationships, and organizational culture. They conclude that in each of these dimensions, organizational forms being combined can sit on an axis ranging from integrated to differentiated resulting in distinct configurations of hybrid organizing. According to this study, future research needs to explore the implications of these dimensions for organizational outcomes in hybrid organizations.

Responding to the call of Battilana and Lee (2014), this thesis tries to fill the gaps in literature by exploring how one of these five dimensions influences the value creation process of a for-profit social enterprise, namely organizational design.

### **1.2.2. Practical Relevance**

Commercial enterprises are profit driven. Success of social enterprises, on the other hand, is determined by their positive impact on society (Smith, Gonin & Besharov, 2013). Combining a social purpose with a for-profit organizational form is recognized as a challenge. In order to tackle this challenge, for-profit social entrepreneurs pursue dual -social and financial- objectives that guide their managerial decision-making, which leads to value creation. This dual goal approach is often referred to as “blended value” (Emerson & Twersky, 1996).

In this study, social and commercial value creation process is jointly explored. This perspective is made possible by the concept of blended value. According to the notion of blended value, “(1) all organizations create both financial and social value, and (2) the two types of value creation are intrinsically connected rather than being in opposition in a zero-sum equation” (Nicholls, 2009, p. 764). Therefore, an organization does not necessarily need to sacrifice its financial performance in order to generate more social value. Pursuing both goals simultaneously is possible.

After the concept of blended value was proposed by Jed Emerson of Harvard University, the way to an investment movement called “socially responsible investment,” or “impact investing” was opened. Impact investors make use of financial and market principles in order to drive social change by leveraging the power of private capital. (Reisman & Olazabal, 2016). They are equally dedicated to generating social returns as well as to financial profit (Bugg-Levine & Emerson, 2011). See Annex-1 for some examples of impact investors.

This thesis explores for-profit social enterprises that have links within the impact investment space. In practical terms, this thesis tries to discover the process by which for-profit social enterprises that are endorsed for their blended value creation by this particular investment movement tackle social problems. The outcomes of the thesis contribute to the societal knowledge about how social enterprises that came into existence thanks to impact investment create value.

### **1.3. Research Question**

This research explores the effect of internally-oriented organizational design elements on the internal value creation processes of for-profit social enterprises. The research question is: what is the effect of organizational design on the value creation process of a for-profit social enterprise?

## 2. Theoretical Background

A keyword search covering social enterprises and hybrid organizations returns various research papers, the oldest of which were written in the late 90s (Dees, 1998; Dees & Elias, 1998; Wallace 1999). Therefore, this research area is objectively new, and contains a lot of untouched upon topics to explore.

### 2.1. Internal Tensions in For-Profit Social Enterprise

As defined by Dees and Anderson (2003, p. 2), for-profit social enterprises are entrepreneurial organizations including proprietorships, partnerships, corporations, limited liability companies, and cooperatives that are “(1) Legally incorporated as for-profit entities with one or more owners; and (2) explicitly designed to serve a social purpose while making a profit.”

Recent studies confirm challenges that result from combining business and charity forms at the core of a social enterprise (Austin et al, 2006; Nyssens, 2007; Bull, 2008; Shaw & Carter, 2007). Tensions between business and charity forms appear during management of both external and internal relationships. Internal tensions occur when managing organizational identity, resource allocation and decision-making (Battilana & Lee, 2014). Internal tensions deserve special attention, as they might lead to internal conflicts (Fiol et al, 2009; Pratt & Foreman, 2000; Glynn, 2000; Pache & Santos, 2010), or make road towards a mission drift (Battilana & Lee, 2014; Jones, 2007).

Battilana and Lee (2014) argue that hybridity tensions can be observed in five main areas of organizational life. This study explores the effect of one of these five tension-creating areas, namely, organizational design, on the value creation process. For the sake of comparability, effect of *only* internal elements of organizational design is explored in the internal value creation processes.

### 2.2. Organizational Design

The way a for-profit social enterprise is internally organized deserves attention while investigating the process of creating value. Organizational design can be described as the level of differentiation or integration of the operations of units of an organization, in response to external contingencies. Organizational design is among critical building blocks

of organizations (Nadler & Tushman, 1980; Tushman & O'Reilly, 2002), and involves integration activities of people with core business processes, technology, and systems.

The conceptual model by Tushman and Nadler (1978) for organizational design views organizations as sets of subunits that process information, and face uncertainty. Since subunits face different amounts of uncertainty, they must have matching capacities and requirements regarding information processing. This can be made possible through appropriate structural arrangements. Thus, the essence of organizational design according to Tushman and Nadler (1978, p. 622) is: "subunits must choose from a particular set of organizational arrangements to most effectively deal with their information processing requirements." This conceptualization is especially suitable when exploring social enterprises and value creation processes within them. As social enterprises are more prone to a mismatch between subunits aiming distinct goals of business and charity nature, the proper arrangement between these units becomes crucial.

According to the aforementioned study of Battilana and Lee (2014), hybrid organizing features regarding organizational design are organization structure, incentives and control systems, and governance. First feature, organization structure influences whether social and commercial activities are addressed by the same organization members, or allocated to different units (Kraatz & Block, 2008; Pratt & Foreman, 2000). Second, incentives and control systems determine how behaviors or outcomes of social and commercial forms are measured and rewarded (Battilana & Lee, 2014). Finally, governance refers to composition and processes of interaction and decision-making among board of directors in for-profit social enterprises (Battilana & Lee, 2014; Hufty, 2011).

### **2.3. Value Creation Process**

In what ways a for-profit social venture can create social outputs? According to Dees and Anderson (2003) there are five major activities through which a business can pursue its social goals: procurement, employment, designing a product or service, production, and marketing to target customers. A for-profit social enterprise "addresses the challenges of combining the profit motive with [one or more of these] social objectives in a way that still preserves at least some of the benefits that make the for-profit structure attractive" (Dees & Anderson, 2003, p. 7).



*Figure 1: Simplified social value chain (Dees & Anderson, 2003)*

Having previously defined the concept of blended value, it is also important to take a step back, and screen the theoretical background of value creation. According to Bowman and Ambrosini (2000) two types of value exist in the organizational level: “use value” and “exchange value”. Use value refers to the subjective judgements about the quality of a new product or service, as perceived by the customer. Exchange value, on the other hand, refers to the monetary amount paid by the customer when the sale takes place. The traditional process of value creation assumes consumers to be outside of the firm, and that value creation occurs inside the firm through its activities (Porter, 1980). Value exchange, which is performed in the market, is therefore separated from the value creation process (Kotler, 2002). Through the internal value creation process of a company “use value” is produced, which targets the subjective evaluation of the customer.

Dependent variable of this study is the value creation process of a for-profit social enterprise. In order to operationalize this variable, we must first understand the internal process of a company that creates “use value”.

Tangible resources that are purchased as inputs to the production process, such as equipment and machinery, and raw materials, or even intangible ones such as information are inert. These resources need to be activated by people inside the company in order for the company to be able to produce new use values out of them. Therefore, intervention of organizational members is necessary to create new use values out of the inputs (Bowman & Ambrosini, 2000).

As explained earlier, the level of new value creation depends on a target customer’s subjective evaluation. But how does the customer evaluate new value? According to Lepak, Smith and Taylor (2007) value perception is improved by two judgements done by the customer: novelty and appropriateness of the product or service under consideration.

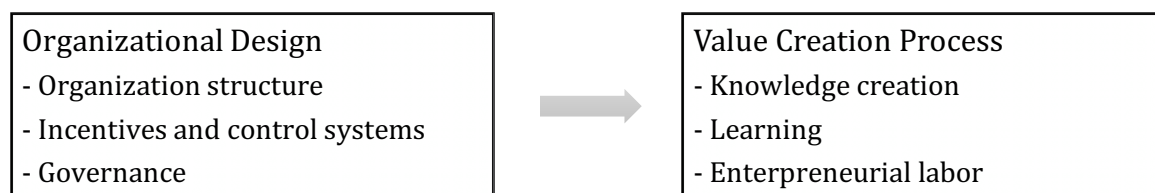
How do people inside of a company produce novel and appropriate benefits? According to Porter (1985), new value is created when firms invent new ways of doing things, thus

innovation and invention activities impact the value creation process. Another body of literature, namely the literature of dynamic capabilities in the field of strategic management suggests that companies create value by creating new advantages. Majority of this literature (Zuolo & Winter, 2002; Winter, 2003; Helfat, 1997, Brown & Eisenhardt, 1997; Rindova & Kotha, 2001; Adner & Helfat, 2003; Tripsas & Gavetti, 2000) focuses on three main internal factors regarding new advantage creation: knowledge creation, learning, and entrepreneurial labor. This reasoning is very appropriate when exploring a for-profit social enterprise, which, by nature, seeks an innovative method to solve a social problem by creating a new advantage both in commercial and social perspective. Thus, in this study we operationalize value creation process of a for-profit social-enterprise across 3 elements that form it: knowledge creation, learning, and entrepreneurial labor.

Knowledge creation capability of a for-profit social enterprise refers to the formation of new ideas through interactions among organizational members. Learning refers to an element of value creation process where organizational members try to learn from past experiences in creating value. Finally, entrepreneurial labor refers to the process by which certain organizational members artfully deploy inputs in unique ways, which enables the firm to realize superior value (see Annex-2) (Lepak et al, 2007).

## 2.4. Conceptual Model

The conceptual model of this study is presented in Figure 2 below:



*Figure 2: Conceptual model*

Organizational design was investigated with three operationalization features, and value creation process was explored by putting a lens on its three sub-processes as shown in Figure 2, and also in the operationalization table in Annex-2. Operationalization features helped frame and capture the organizational design and value creation processes in studied



cases. Prior to the site work, it was expected that the organizational design features would cause similarities and differences in the processes by which value is created by forming patterns across cases. In other words, it was presumed that discovered configurations in organizational design would affect the appearance of value creation sub-processes in a meaningful way, and that these sub-processes would be observed under particular organizational design configurations only.

### **3. Methodological Framework**

#### **3.1. Research Context**

This study was conducted within the context of for-profit social enterprises that generate blended value, and that have been backed by impact investors. The enterprise selection criterion was set as “having been funded by (an) impact investor(s)”, whose mission statement explicitly expressed an equal interest for social and financial return. This way, it was assured that the for-profit social enterprise to be examined is, objectively, either a successful or a prospectively successful player in its area. By being sure that the companies were endorsed by a third party for their blended value creation, the researcher was able to search for patterns that influence the value creation processes across cases. A reflection on the research context can be found in Section 5.2.

#### **3.2. Sample Strategy and Research Design**

The research was designed as a qualitative and comparative case study. A qualitative research design is appropriate for this research context as it allows for exploring phenomenal situations in which the meaning of interaction is answered by “how” and “why” type questions (Baxter & Jack, 2008). A comparative multiple-case study research design fits this research as it allows to explore relations and mechanisms. Geographic focus was set as the North Brabant region of the Netherlands.

As a result of the sampling strategy, a total of 8 social enterprises that had been backed by impact investors, and that are present in the North Brabant were reached out. Out of these 8 enterprises, 5 agreed to participate in the study. Social enterprises forming this set were therefore the units of analysis of this thesis.

### 3.3. Data Collection

In each of the selected social enterprises, 2-5 semi-structured interviews have been conducted with employees from various levels and business departments. A total of 16 interviews have been conducted. The structure of the interviews allowed for asking the interviewee to elaborate or clarify an answer, and give some examples. Throughout these interviews, operationalization features, as well as similarities and differences have been searched within the enterprise sample space.

The interviews lasted from 45 minutes to one hour. All but two interviews were conducted face to face, while the remaining two were conducted over telephone. A topic and a question list formed the skeleton of the interviews (see Annex-3). Based upon this, an interview script was crafted. Derived from this interview script, a small handbook was printed, displaying one question per page for the interviewee to refer to while answering the questions. This helped the interviewee to clear up his/her mind, for instance, midway through answering a question by referring to the handbook. This allowed him/her to provide a more relevant answer in the overall. Question handbook was not provided beforehand, in order not to affect the nature and spontaneity of the interview. In one of the two interviews that were conducted over telephone, the question handbook was shown as a slide show on the interviewee's computer. In the other telephone interview, the question handbook could not be shown, as the interviewee was remote at that time. Some of the interviewees found this handbook explicitly useful, and stated that it helped bring together a more professional and structured interview, which created a sense of being a part of something that is meaningful. While the credibility and relatability of this research was enhanced with the printed interview script (for the researcher) and the question handbook (for the interviewee), occasional divergences from the actual questions was allowed, through mutual elaboration on discovered mechanisms. This enabled an open-ended discussion between the researcher and the interviewee.

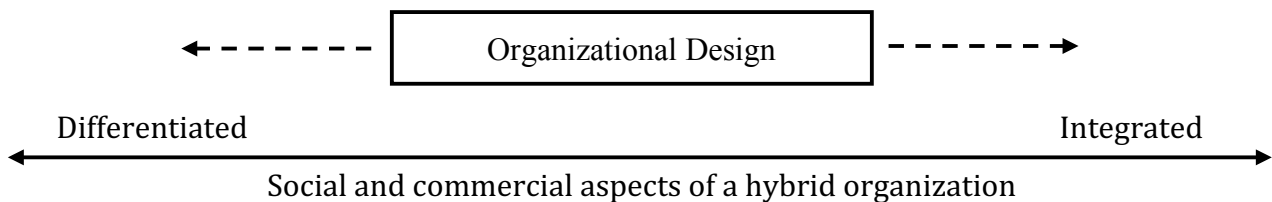
The interview script, which was designed according to Ritchie et al (2013) was made up of four parts: introduction, warm up, research questions, and closing. The introduction phase included a brief introduction of the researcher, the thesis topic, and the reasons why it is relevant. This part also included a confidentiality statement, information about the

approximate duration, and the number of questions to be asked. Following the introduction phase, the warm-up phase started. The warm-up phase was made up of three warm-up questions, which were not directly related to the data that needed to be collected, but established a basis for the actual research questions to make sense. Warm-up questions allowed the interviewee to introduce her/himself, pronounce the social aspect of the organization, and pronounce the commercial aspect of the organization. Having the interviewee explicitly pronounce the social and commercial aspects of the organization was particularly useful because of two reasons. First, it helped the researcher clearly understand the way the organization creates social and commercial value in a much deeper context than what is publicly made available. Second, and most importantly, it helped the interviewee clearly identify the separation between the two facades of the organization. This identification helped establish a basis for the interviewee for the rest of the interview. By acknowledging its hybrid nature, the interviewee anticipated the actual research questions with a more educated look to the organization. After the warm-up phase was completed, research questions were started to be posed. A total of 10 questions were asked and answered. The first 7 questions aimed to understand the organizational design, and the last 3 questions aimed to understand the value creation process with an embedded intention to understand how it is influenced by organization design elements. Although organization design questions were higher in number, the time allocation between the two variables were equal, as answers to value creation process questions had deeper context, as well as the exploration of the relationship itself. After the research questions were completed, closing phase was started. In the closing phase, a sense of fulfillment was aimed. In this part, key important points of the interview were repeated to the interviewee, final remarks of the interviewee were asked, and the interview was finalized. In most interviews, interviewees wanted to be let known about the results of the study, stating that the questions made them think more thoroughly about their organizations. The sample interview script can be found in Annex-3.

### **3.4. Data Measurement**

Operationalization of the variables has been done as shown in Annex-2. Data collected from individual interviewees was aggregated to enterprise level.

Organizational design was investigated for the level of integration between social and commercial aspects of the organization. For each of the three operationalization features of organizational design, interviewees were asked questions about the level of integration between social and commercial aspects of the organization structure. Enough elaboration space was ensured with “why” and “how” type of questions. Since there is no scale to measure this particular level of integration in the current literature, the measure was determined according to Battilana and Lee (2014). According to their study, the extent to which commercial and social activities are addressed by the same employees, or allocated to different teams determines the organization structure. If the activities of social enterprise are perfectly integrated, such a separation may be omitted; however, when these activities are separate, organizations may create coordinating roles in order to cope with conflict. Therefore, the configuration of a given social enterprise is argued to be determined by the dimensions of hybrid organizing that sit on a scale ranging from being differentiated to being integrated. This scale (Figure 3) was used for measuring the three organizational design features.



*Figure 3: Adapted from dimensions of hybrid organizing (Battilana, Lee, 2014)*

Value creation process was investigated by asking how the three operationalization features of value creation process shown in Annex-2 takes place within the organization, and how this process is influenced by the social and commercial aspects of the organization. Findings were analyzed as described in the following subsection.

### **3.5. Data Analysis**

According to Miles and Huberman (1994), qualitative data can be analyzed in three steps: data reduction, data display, and drawing conclusions. The analysis of the data collected in this research happened in these three steps. First, reduction took place by coding the

transcribed data for each interview. Coding was done according to the below codes (Table 1).

	Operationalization features	Code
<i>Organizational design</i>	Organization structure	Team structure
		Conflict
		Coordination mechanisms
	Incentives and control systems	Performance evaluation
		Rewarding
	Governance	Board composition
Decision-making		
<i>Value creation process</i>	Knowledge creation	The way new ideas are generated
	Learning	The way to learn from past experiences
	Entrepreneurial labor	The way entrepreneurial labor is encouraged

*Table 1: Coding*

Second, codified data was labeled, and these labels were aggregated in data tables as shown in Annex-3. Through structurally displaying data, one data table was formed for each case. This is where the individual case analysis took place. Finally, data tables belonging to separate cases were compared with each other, forming the cross-case analysis (Yin, 1981).

### **3.6. Research Quality Indicators**

Different than in a quantitative study, the concept of quality in a qualitative study has the function of enabling understanding (Stenbacka, 2001). A good qualitative study aids in understanding an otherwise confusing situation (Eisner, 2017).

The way to achieve validity and reliability of a qualitative research is to eliminate bias from the qualitative researcher's perspectives and increase the researcher's truthfulness of a proposition (Denzin, 1978). This is made possible by using triangulation. Among different triangulation methods, triangulation of sources, which refers to examining different data sources from within the same (qualitative) method has been used in this study. In this case, data collection has taken place at different points in time, and by comparing people with

different viewpoints (across diverse business units and levels). Moreover, reliability of data has been attained by verifying the steps of the research through data reduction (Campbell, 1997) as explained in the previous section. Quality has been achieved as relatable findings emerged from different cases (Stake, 2005).

## 4. Results

This section covers the findings of this research. Subsection 4.1 contains an overview of the results, 4.2 contains individual case analyses, and subsection 4.3 contains the cross-case analysis.

### 4.1. Overview of Results

The results reveal meaningful relationships between integration or differentiation in organizational design and value creation process. 5 relationships have been discovered. An overview of these relationships can be found below:

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Relationship 1	Differentiated governance leads to identification of best practice by hiring specialized professionals
Relationship 2	Differentiated governance leads to standardization by setting standards of procedure
Relationship 3A	Integrated governance leads to trial and error by iterating and testing hypotheses
Relationship 3B	Integrated governance influences learning process by enabling trial and error; however, when a differentiation becomes present in the governance, learning is done by reflection on past experiences, in addition to trial and error
Relationship 4	Differentiated organization structure leads to discussion and development
Relationship 5	The combination of integrated organization structure, integrated incentives and control systems, and differentiated governance leads to a lack of discovery phase in the entrepreneurial labor sub-process

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*Table 2: Overview of found relationships*

## **4.2. Individual Case Analysis**

This subsection provides a summary of the main findings of the case for the three features of the independent variable (organizational design), the three features of the dependent variable (value creation process), and the relational mechanisms discovered. Same is repeated for each case. In all cases, relational mechanisms are classified for their types: explicit and implicit. Explicit relationships are the ones that were explicitly pronounced during the interviews by the interviewees, whereas implicit relationships were either implied by statements of the interviewees, or driven out by the researcher. More detailed descriptions of the cases can be found in Annex-4.

### **4.2.1. Case 1**

Case 1 is a social enterprise that is engaged in the financing of green energy equipment. Today, the lack of budget is the most important barrier to a clean energy project. Because of this barrier, clean energy equipment suppliers miss out on significant sales. The social enterprise in Case 1 makes financing of clean energy equipment easier by leasing these equipment on behalf of the end customer. By doing so, these equipment suppliers overcome the budget barrier and increase their turnover. End customer obtains the clean energy equipment that is needed to undertake the clean energy project, and starts using it right away. End customer pays the social enterprise a monthly fee in exchange of using the equipment.

#### 4.2.1.1. Description of organizational design in Case 1

Operationalization features	Labels	Differentiated/Integrated
Organization structure	Integrated team	Integrated
	No conflict	
	Internal communication	
Incentives and control systems	Standard operational performance feedback	Integrated
	Encouragement for a common direction	
Governance	Overlapping board member profiles	Integrated
	No compromise on social or commercial goal	

This enterprise functions as an integrated organization where all roles are aligned with each other. The company has a limited number of payroll employees, and uses a lot of freelance workforce, who work in long and medium-term (referred to as employees as well). There is no separation between commercial and social roles. As the business growth is driven by the overarching social goal, daily operations do not become subject to conflicting situations. The dominant coordination mechanism in the enterprise is the internal communication among employees. Taking all these into consideration, the organization structure in Case 1 is an integrated one.

This enterprise provides performance feedback regarding both social and commercial progression of the company. In fact, this dual progression is so deeply embedded in the vision of the company that there is no clear separation between the two. Interviewee 1 said: “Business function is organization driven, not social, not even commercial I would say.” Performance evaluation criteria does not differ for separate employee roles. All employees are subject to the same quarterly feedback procedure. These feedback sessions come in the form of quarterly performance reviews, where goals are discussed against figures, as well as what goes well and what does not. Although the company does not have a tangible reward mechanism, performance review sessions involve encouragement for a common goal. As stated by Interviewee 1, they “try to make sure that they give a good perspective” to every



single employee. All these taken into consideration, as it does not involve a separation between social and commercial performance, incentive and control systems are integrated in Case 1.

The organization does not display a separation between the dominant logics of its board members. Board members have overlapping backgrounds and focus areas. As the board is not separated between commercial and social members, there is no shifting weigh in the domination of social or commercially focused decision making. As stated by Interviewee 1: “[...] given that our purpose is already socially driven, commercial prevails.” To sum up, Case 1 has integration in its governance.

#### 4.2.1.2. Description of value creation process in Case 1

Operationalization features	Labels
Knowledge creation	Knowledge inquiry
	Discussion and development
Learning	Trial and error
Entrepreneurial labor	Discovery

Knowledge creation takes place in two ways in this enterprise: knowledge inquiry, and discussion and development. Knowledge inquiry occurs by inquiring customers. As indicated by the Interviewee 1 and 2, because all customers (installation companies) have different needs and prerequisites, interaction with them brings in a lot of knowledge. Discussion and development occurs through casual team interactions. They interact by using an online platform, where they exchange manuals and new ideas.

Learning in Case 1 is enabled by trial and error. Interviewee 1 said: “When you are a startup, you start with an idea, you build a product and you launch it, and then see what happens.” As further stated by Interviewee 1, the company applies lean startup methodology (Reis, 2011), and habitually makes small iterations, and tests hypotheses. They launch and test new ideas as frequent as every week. “Lean startup methodology is so engrained in startups these days. We follow it.”

Entrepreneurial labor in Case 1 is attained by discoveries. An example given by Interviewee 1 is: “If you are in administration, I would consider you being entrepreneurial,

if you think about admin procedures and how to improve them.” This happens by letting all employees freely propose new solutions for any problem that needs improvement. Management supports full autonomy, and cannot provide a more structure framework to its employees for entrepreneurial labor, due to other current priorities, and time constraints.

#### 4.2.1.3. Relational mechanisms in Case 1

Organizational design	Value creation process	Relational mechanisms	Type
Integrated organization structure	Knowledge inquiry	No separation in team structure causes all members to be customer centric, and inquire customers all the time	Explicit
Integrated incentives and control systems	Discovery	Encouragement for a common direction enables all employees to discover new solutions	Explicit
Integrated governance	Trial and error	Overlapping board member profiles provide an uninterrupted focus for iterating and testing hypotheses	Implicit

Customer inquiries are enabled by the integrated organization structure in this enterprise. As stated by Interviewee 2, because there is no separation in roles between commercial or social, all members are basically customer oriented. Customer centricity enables frequent customer inquiries which bring in a lot of fresh knowledge. Interviewee 2, who is also the commercial director of the company stated that especially in the industry that this enterprise operates in, customers (installation companies) are very in touch with developing technologies, and changing end-customer needs. By acting as a single team that is dedicated to customer, this enterprise creates a lot of knowledge. This relationship has been explicitly mentioned by Interviewee 1: “The tailoring of the product and how we want to align with the interests of the end user, social and commercial impacts are perfectly in line here.”

Propositions for new solutions are caused by integrated incentives and control systems in this company. New solutions can come from all of the employees, including the freelancers. This mindset is enabled by the periodical reviews, where employees are encouraged for a common direction. This relation has been explicitly mentioned by Interviewee 1: “We

support autonomy. Let's take entrepreneurship in a broad sense. They have a sense of engagement and responsibility of shaping their own world in line with the goals of the company. This is something pretty much integrated into the company. [...] Reviews help with that."

Trial and error phases are caused by integrated governance. This relationship has been implied by Interviewee 1 who also is a board member and a co-founder of the company. "In most cases we have to make some adjustments, and we continuously learn from our adjustments. We continuously learn and adjust. We do this pretty much all the time."

#### 4.2.2. Case 2

Case 2 is a social enterprise engaged in restaurant operation and catering services. The enterprise gives people that have fallen out of the labor market a new chance to work. They train these people, which are internally referred to as "students", for hospitality industry in their catering companies. After helping them become professionals with diplomas, the enterprise helps these students with their future recruitment procedures as well, or hires them as full-time employees in some cases. Their goal is to reach all the untapped human capital that sits at home in the Netherlands, and give them an opportunity in the labor market.

##### 4.2.2.1. Description of organizational design in Case 2

Operationalization features	Labels	Differentiated/Integrated
Organization structure	Separated teams	Differentiated
	Operational conflicts	
	Coordinating roles	
Incentives and control systems	Customized commercial and/or social performance metrics	Differentiated
	Individualized incentives	
Governance	Complementary board member profiles	Differentiated
	Occasional compromise on social goal	

This enterprise is mainly divided into two groups of employees: students and professionals. Students can be regarded as interns that are admitted into the organization for a diploma program, at the end of which they are hired by some other restaurant in the regular labor market. Professionals, on the other hand, are divided between commercial and social members, alongside some special roles, which we refer to as “coordinating roles” in this study. This team separation is evident in the entire organization, as all 5 of the employees from various levels that were interviewed have confirmed the separation of roles between commercial, social, and coordinating members. Commercial roles are mainly made up of chefs and waiting staff, social roles include student coaches, and coordination roles include coordinators that are aware of what is going on at any given point of the organization at all time. That being said, all employees take act for commercial and social operations when necessary. For instance, a chef, whose main responsibility is the excellence of food that comes out of the kitchen takes time to train students from time to time. This separation among organizational roles creates occasional conflicts. According to the Interviewees 3, 4, and 5, conflicts occur when social side of the business intervenes with commercial operations. For instance, a motivational breakdown of a student waiter causes a delay in table service, or, as stated by Interviewees 4 and 5, a student employee having had a visible body accessory as a self-reward causes the infringement of sanitary rules, and results in student being expelled from kitchen. Due to the special conditions of these students, a rigid professional intervention causes the structure to crack. Therefore, a third, and a very crucial role comes into play: student coaches. Student coaches help students stay on track by providing emotional support, and acting as a communication gateway between the student and the rest of the organization, helping resolve any conflict that appears. This formation reveals an organization structure that is differentiated across social and commercial roles.

This enterprise tracks commercial and social metrics with its different organizational members in different levels. Therefore, metrics are customized for roles. According to all interviewees, all employees are subject to commercial and social evaluation of some sort; however, the weighing depends on the role. For instance, a coordinator is evaluated both for commercial success of restaurant operations, and the number of students that were successfully outplaced to the job market. However, a waiter, a chef, or a purely commercial

role is majorly evaluated for the commercial success, and not so much for the social outcomes of the business. Reward mechanisms of Case 2 place emphasis on personalized incentives. Types of rewards - which mainly involve personal development opportunities, differ across roles. Therefore, incentives and control systems are differentiated in Case 2.

The organization has a board member distribution that is separated between responsibilities of generating more revenues, and generating more social impact. Board member profiles complement each other. Board structure allows for a balanced decision-making environment, and the overarching ambition that is agreed upon by all board members is on the social side. However, in some cases, in order to stay a commercially sustainable business, occasional sacrifices on social goals are tolerated. Due to the separation in the responsibilities of board members, and these occasional compromises, governance structure of Case 2 is differentiated as well.

#### 4.2.2.2. Description of value creation process in Case 2

Operationalization features	Labels
Knowledge creation	Knowledge inquiry
	Discussion and development
	Identification of best practice
	Standardization
Learning	Trial and error
	Reflect on past experiences
Entrepreneurial labor	Discovery
	Resourcing
	Actualization

In this enterprise knowledge creation starts with knowledge inquiry. Here, knowledge inquiry happens in three ways. First, the commercial team constantly collects customer feedback on site, online, and from the press. This way, customer feedback enters the organization. Second, the enterprise has a program where the students look into the operations of other similar commercial businesses. This way, students collect inspiration from other restaurants' kitchens. New ideas are further matured by discussion and development. This happens through casual team interactions and internal trainings. The

company also identifies what the best practice should be, in order to excel in its commercial side. This happens by hiring specialized professionals. The company then standardizes the generated knowledge by creating standards of procedures and house rules.

In this enterprise learning from past experiences takes place in two ways: encouraging trial and error, and reflecting on past experiences. Reflecting on past experiences happens through internal reflection meetings and writing down everything.

Finally, this company successfully attains entrepreneurial labor by creating an environment where discovery, resourcing, and actualization of ideas take place. Discovery is enabled by empowerment of the individual, and clear goal setting. Resourcing happens by building external relationships. Finally, actualization takes place by the employee's acting like the owner of the company.

#### 4.2.2.3. Relational mechanisms in Case 2

Organizational design	Value creation process	Relational mechanisms	Type
Differentiated organization structure	Knowledge inquiry	Presence of commercial members enable customer inquiries, and develop programs to look into other similar businesses	Explicit
Differentiated organization structure	Discussion and development	Coordinating members facilitate casual team interactions, and internal trainings	Explicit
Differentiated governance	Identifying best practice + Standardization	Commercially minded board members trigger hiring of specialized professionals, and creating standards of procedure	Implicit
Differentiated governance	Trial and error + Reflect on past experiences	Complementarity of the board members encourage trial and error, internal reflection meetings and writing down every progress	Implicit
Differentiated incentives and control systems	Discovery + Resourcing + Actualization	Individualized incentives enable clear goal setting, empowerment of the individual, building external relationships, and acting as the owner of the company	Explicit

Inquiring customers, and developing programs to look into other commercial businesses' kitchens are caused by the differentiated organization structure. Dedicated commercial members crave and seek for service excellence. Their presence causes knowledge creation in two ways: constant interaction with the customer, and searching for novel knowledge in the external world. This relationship has been explicitly mentioned by multiple interviewees. Interviewees 4 and 5 from the commercial team said, "We ask customers what they think about food and service on a daily basis." Moreover, Interviewee 3 mentioned, "Chefs went to look at other kitchens"; and Interviewee 6 from the management team which is commercial, stated "We developed a program where our employees look into other kitchens."

Casual team interactions, and internal trainings are a result of the differentiated organization structure as well. Team interactions allow commercial and coordination members to convey knowledge to students. In some cases, students even convey information to each other. Team interactions are stimulated by the coordinating members of the organization, which is a key element of the differentiated organization structure. Coordinators, for instance are fully aware of what takes place in the kitchen, in the student team, or in the service area all the time. Their presence creates an environment where separate teams constantly communicate. These employees also help resolve conflicting situations between separate teams. For instance, Interviewees 4 and 5 mentioned: "Coordinating people helps resolve conflict." Internal trainings are also coordinated in the same manner. Social employees and students are trained for commercial skills. Interviewee 7 mentioned: "Without any coordination, it would be difficult to bring things together equally." This relationship was explicitly mentioned in almost all of the interviews.

Moreover, these interactions create constant communication within the enterprise, which allows the newly acquired knowledge to disperse. Second, internal commercial trainings are given by internal training staff of the company. They allow the student team to be educated about commercial operations. This mechanism actually forms the essence of the value creation in this enterprise.

Hiring of specialized professionals, and creation of standards of procedures are linked with differentiated governance. Board is made up of separate, commercially, and socially focused members. As commercially focused members try to get in as much revenues as

possible, they have taken actions to bring in operational excellence. They did this by hiring specialized professionals dedicated to a specific improvement in the operations. Two of these professionals that have been interviewed in this study (Interviewees 4 and 5) indicated that bringing in industry best practice to the company is their utmost aim. They also put standards and house rules in written format in order to form a basis for further development. According to these interviewees, in order to become a successful social enterprise, one must become a successful enterprise first. Therefore, in their words, they dive to “the basics” to enable better value creation. This relationship was implicitly derived from the interviews. Similarly, another implicitly derived relationship involves complementarity of the board members, and how they encourage trial and error, internal reflection meetings and writing down every progress. The top down governance forces that have been mentioned in several interviews imply that such learning styles are induced by the board of directors.

Lastly, individualized incentives enable entrepreneurial labor in the form of discovery, resourcing, and actualization. This is achieved by clear goal setting, empowerment of the individual, building external relationships, and acting as the owner of the company. The company almost applies custom rewarding to each of its employees. Employees are clearly let known about the supportive environment, incentives to grow, and spaces to develop. One impressive example to this relationship conveys a success story. As a result of the correctly functioning reward mechanism, one of the student employees of the company developed a recipe, which was found so successful that it was put on the menu with the student’s name attached to it like a brand. In this case, reward, or incentivizing does not come in the monetary form; however, the leap that is attained is far more visible. This relationship was explicitly mentioned in interviews 4, 5, and 7: “[...] was insecure before, got a lot of help and training from chefs, and they developed this recipe together.” Interviews 4, 5, and 7 revealed other successful cases where incentive systems enabled entrepreneurial labor, such as the renovation of the wine list, and the QR code implementation in the menu.

#### **4.2.3. Case 3**

Case 3 is a social enterprise that is engaged in the design and execution of startup acceleration programs specialized to support impactful and sustainable hardware startups. The enterprise believes that innovation is an answer to the biggest challenges in the world,



and that anyone with a good idea of making a positive impact should be empowered to make it a reality. Because the normal accelerator model would not work for hardware startups, the social enterprise came up with a specialized program to help companies go from prototype to market, partnering with, and raising funds from the large companies in the region.

#### 4.2.3.1. Description of organizational design in Case 3

Operationalization features	Labels	Differentiated/Integrated
Organization structure	Integrated team No conflicts Coordinating roles	Integrated
Incentives and control systems	Standard operational performance feedback Encouragement for a common direction	Integrated
Governance	Complementary board members Occasional compromise on social goal	Differentiated

This enterprise functions as an integrated team where roles are mostly aligned with each other. There is no separation between commercial and social roles. All employees acknowledge the overarching social goal of the organization, as these two are entangled. No conflicts between different roles have been mentioned by any of the interviewees. According to Interviewee 8, “the mindset is relatively in line.” That being said, organization structure contains a couple of coordinating roles. These roles make sure that the structure is keeping its social edge alive, and not becoming a regular accelerator when exerted to market conditions. Thus, the organization structure that is found in Case 3 is of integrated nature.

The enterprise provides standard operational performance feedback to all of its employees. There are no clear metrics that are in use, and no separation between commercial and social performance feedback is present. Employees are encouraged for a common direction. No separation between rewarding of social and commercial performance has been mentioned. The encouragement comes in the form of appraisal or an increase in pay. The reward mechanism serves the purpose of becoming a cohesive team. These imply that Case 3 has an integrated set of incentives and control mechanisms.

Despite the integrated nature of organization structure, and incentive and control systems, board members in Case 3 are of diverse nature. Division of the board members is between commercial and social mindset. Because the decision-making is done by weighing of votes, commercial members have a dominance, which might cause occasional compromises on social goal. Thus, the governance of Case 3 is differentiated.

#### 4.2.3.2. Description of value creation process in Case 3

Operationalization features	Labels
Knowledge creation	Knowledge inquiry
	Discussion and development
	Identification of best practice
	Standardization
Learning	Trial and error
	Reflect on past experiences
Entrepreneurial labor	Actualization

Knowledge creation process comes in the form of knowledge inquiry, discussion and development, identification of best practice, and standardization. Knowledge inquiry takes place by inquiring customers. According to Interviewee 9, corporate clients are constantly asked “how they do things” in the corporate sustainability perspective. Knowledge acquired by this way shows the company how to become an impactful company. Discussion and development is done through ideation sessions with employees, and internal trainings. Ideation sessions are held monthly, where they prepare one pagers and discuss new ideas. Internal trainings are given by special internal teams. For instance, team dynamics group (HR and sustainability focus) gives out trainings for becoming a high performing team. Identification of best practice is made possible by hiring specialized professionals. Finally, standardization takes place by creating standards of procedure. Coming up with an updated, 8-metric venture index that is applied to portfolio companies is an example.

Learning happens in the form of trial and error, and reflecting on past experiences. New ideas are encouraged, and failure is not shamed in the company. Reflection on past

experiences happens through monthly reflection meetings. As stated by Interviewee 8, “during the monthly meetings, we look back.”

Entrepreneurial labor is found in the form of actualization. In actualization of an initiative, employees act as the owner of the company. On hesitantly taking the lead on a particular job for a first time, one example given Interviewee 9 was: “The boss described the situation that I was going to face, and how to cope with it, thus making sure that I would succeed. Then I went out and did it.”

#### 4.2.3.3. Relational mechanisms in Case 3

Organizational design	Value creation process	Relational mechanisms	Type
Integrated organization structure	Knowledge inquiry	No separation in team structure causes all members to be customer centric, and inquire customers all the time	Implicit
Differentiated governance	Identification of best practice + Standardization	Complementary board members facilitate hiring of specialized professionals and creating standards of procedure	Explicit
Differentiated governance	Trial and error + Reflect on past experiences	Complementarity of the board members encourage trial and error, and internal reflection meetings	Implicit

Customer inquiries are caused by the fact that the organization structure is integrated, and there is no separation in team focus. As stated by Interviewee 10, integration of the team enables all employees to be mainly customer centric. Knowledge influx is caused by this mechanism. This relationship was implicitly derived from the interviews.

Hiring of specialized professionals, and creating standards of procedure are a result of the differentiated governance. Complementary board members trigger improvement in both commercial and social performance with a top down approach. For example, in order to import the latest knowledge about sustainability in the world, the company hired employees that run MSc research on sustainability. In addition, the previously mentioned 8-metric venture index is a result of the standardization efforts in the company. As a side note, the venture index includes sustainability as one of 8 metrics to aim for. Another implicitly derived relationship is how trial and error, and internal reflection meetings are affiliated

with differentiated governance. This type of learning is encouraged by the decision makers in order for the company to improve.

#### 4.2.4. Case 4

Case 4 is a social enterprise that is engaged in providing office space formulas for young and innovative technology companies at a particular University, and in a particular Technology Campus. The social enterprise offers a stimulating environment for its tenants bearing high growth potential.

##### 4.2.4.1. Description of organizational design in Case 4

Operationalization features	Labels	Differentiated/Integrated
Organization structure	Integrated teams	Integrated
	No conflicts	
	Internal communication	
Incentives and control systems	Standard operational performance feedback	Integrated
	Encouragement for a common direction	
Governance	Complementary board member profiles	Differentiated
	Occasional compromise on commercial goal	

This enterprise has a very integrated team structure where employees have fully aligned mindsets. No conflicts between different roles have been mentioned by any of the interviewees. All employees acknowledge the overarching social goal of the organization, as the two goals are entangled. As stated by Interviewee 12: “We are doing what a commercial company cannot do. [...] These companies (tenants) are risky for real estate agencies. We are giving these companies correct space that commercial companies would not give.” The dominant coordination mechanism is internal interactions among employees. Taking these into consideration, Case 4 has an integrated organization structure.

The enterprise provides standard operational performance feedback to all of its employees. As stated by Interviewees 13 and 14, there are no clear metrics that are in use, and no separation between commercial and social performance feedback. Employees are

encouraged for a common direction. The main success criterion of the company is the number of startup companies that have grown out of their buildings; however, employees are not directly kept responsible for this social metric. Employee performance is evaluated to improve operational service level only. No separation between rewarding of social and commercial performance has been mentioned. The encouragement comes in the form of appraisal or an increase in pay. The reward mechanism serves the purpose of becoming a cohesive team. These imply that Case 4 has an integrated set of incentives and control mechanisms.

Case 4 has a board of directors that is made up of members that have different professional backgrounds, they have complementary profiles; however, their focus areas on decision making do not contradict. Interviewee 12, a board member mentioned: “You have to be totally different in your thinking, then you have a balance.” Although the board of directors reports to a board of advisors, which demands the company to be financially stable at all time, governance structure of the company never sacrifices the social goal. As stated by one of the interviewees, “social part is dominant, and is the most important”. Occasional compromise on financial goal is tolerated. As an indication by Interviewee 12, they are “in a phase that they are not earning money.” These imply that governance in Case 4 is of differentiated nature.

#### 4.2.4.2. Description of value creation process in Case 4

Operationalization features	Labels
Knowledge creation	Knowledge inquiry
	Discussion and development
	Identification of best practice
Learning	Reflect on past experiences
Entrepreneurial labor	Resourcing
	Actualization

Knowledge creation in this enterprise is found in three forms: knowledge inquiry, discussion and development, and identification of best practice. Knowledge inquiry is done by inquiring customers. All interviewees stated that customer inquiry is done on a daily basis.

Interviewee 13 mentioned that discussion and development is done through quarterly ideation sessions. According to Interviewee 14, identification of best practice is done by hiring specialized personnel. For instance, marketing best practice is being established with the help of hiring an ex-marketing professional as a location manager.

Learning exists in the form of reflecting on past experiences in Case 4. For instance, Interviewee 12 said that they are actively making a research on the companies that are located in their buildings. The aim is to learn how they can do better in the future.

Finally, entrepreneurial labor takes place in the form of resourcing, and actualization. Resourcing is done by building external relations. Actualization happens by acting as the owner of the company. For instance, a new office complex to be built from scratch that was taken from discovery to actualization by Interviewee 12 thanks to this running process.

#### 4.2.4.3. Relational mechanisms in Case 4

Organizational design	Value creation process	Relational mechanisms	Type
Integrated organization structure	Knowledge inquiry	No separation in team structure causes all members to be customer centric, and inquire customers all the time	Implicit
Integrated organization structure	Knowledge inquiry	Internal communication enables ideation sessions	Implicit
Differentiated governance	Identification of best practice	Occasional compromise on commercial goals causes hiring of specialized professionals	Implicit
Differentiated governance	Reflect on past experiences	Complementarity of the board members encourage reflection reports to be written	Explicit

Customer inquiries are caused by the fact that the organization structure is integrated and there is no separation in team focus. Integration of the team enables all employees to be mainly customer centric. A knowledge stream is caused by this mechanism. This relationship was implicitly derived from the sum of interviews.

Another implicitly derived relationship is that integration of the team enables ideation sessions as well. As the primary coordination mechanism of the company is internal

communication, ideation sessions that are held quarterly become crucial for knowledge transfer.

Hiring of specialized personnel is caused by the differentiation of governance. Since decision making dominance is on the social side, the company hires specialized professionals to attain best practice in commercial operations.

Written reflection reports about how the company has been providing services to its clients is triggered by the differentiation in governance. As stated by Interviewee 12, in order to keep a balanced sight for social and commercial performance with a top down view, the company produces reflection reports, clearly revealing what has been going well, and what needs to be changed. This relationship was explicitly mentioned by Interviewee 12: “Are they taking off? Are they working with other companies in the region? We do it, so that we learn how we can do better in the future.”

#### 4.2.5. Case 5

Case 5 is a social enterprise that is engaged in bread and baked goods manufacturing, and sales, as well as café operations. The enterprise sources organic and sustainable ingredients and raw materials, and runs its entire operational chain in an environmentally-conscious fashion starting from sourcing all way to packaging and delivery.

##### 4.2.5.1. Description of organizational design in Case 5

Operationalization features	Labels	Differentiated/Integrated
Organization structure	Separated teams	Differentiated
	Operational conflicts	
	Internal communication	
Incentives and control systems	Standard operational performance feedback	Integrated
	Encouragement for a common direction	
Governance	Overlapping board member profiles	Integrated
	No compromise on commercial or social goal	

This enterprise functions in separated teams, made up of a founder who sets the vision and forms the social side of the business, versus a commercial team that runs the organization

like a regular bakery/café. They face operational conflicts from time to time. For instance, a baker suggested to add bread improver to attain more “perfect” breads, but it was against the social standing of the organization. According to Interviewee 16, the main coordination mechanism in Case 5 is internal communication. Therefore, the organization structure in Case 5 is of differentiated nature. The company is very integrated when it comes to incentives and control systems. Standard operational performance feedback is provided to employees, who are encouraged towards a common direction. Governance in Case 5 by is very integrated as well, as there is no board of directors and decision making is done by a single person. No compromise is made on social goal.

#### 4.2.5.2. Description of value creation process in Case 5

Operationalization features	Labels
Knowledge creation	Knowledge inquiry
	Discussion and development
Learning	Trial and error
	Discovery
Entrepreneurial labor	Resourcing
	Actualization

Knowledge creation comes in the form of knowledge inquiry, and discussion and development in this enterprise. Knowledge inquiry happens in two ways: inquiring customers, and looking into similar commercial businesses. Inquiry of the customers are done on a daily basis and feedback, as well as collecting new ideas. Looking into similar businesses is done in order to excel in the commercial side of the business. Inspiration is collected across bakeries across the world.

Discussion and development happens through casual team interactions. New ideas are processed by team members in a spontaneous nature.

Learning takes place in the form of trial and error. Ever since its founding, the company has gone through a lot of small iterations, let it be in the form of offering new products and discarding some others, to launching additional services such as workshops, community events, art exhibitions, et cetera.



Finally, entrepreneurial labor is present in three forms: discovery, resourcing, and actualization. Discovery happens by empowering individuals. Resourcing is done by building external relations, and actualization happens when employees act as the owners of the business.

#### 4.2.5.3. Relational mechanisms in Case 5

Organizational design	Value creation process	Relational mechanisms	Type
Differentiated organization structure	Knowledge inquiry	Presence of commercial members enable customer inquiries, and looking into other similar businesses	Explicit
Differentiated organization structure	Discussion and development	Internal communication enables casual team interactions	Explicit
Integrated governance	Trial and error	Single decision maker provides an uninterrupted focus for iterating and testing hypotheses	Explicit

Inquiring customers, and looking into other commercial businesses for inspiration are caused by the differentiated organization structure. Dedicated commercial members crave and seek for service excellence. Their presence causes knowledge creation in two ways: constant interaction with the customer, and searching for novel knowledge in the external world. This relationship has been explicitly mentioned by Interviewees 15 and 16.

Casual team interactions are a result of differentiated organization structure. This relationship has been explicitly mentioned by Interviewee 16. An example given was the food packaging that is made of sustainable materials not fulfilling the expectations of the customers, as they were torn easily, was conveyed from the commercial team to the social team using this mechanism. Internal communication, which is the coordination mechanism of the organization structure enables discussion and development through the medium of casual team interactions. This way, admitted knowledge can be transferred within the organization.

Trial and error is enabled by the integrated governance through the mechanism of iterating and testing multiple hypotheses through time. Because the governance structure is

made of a single decision maker, iterations are short and effective. The decision maker, Interviewee 15, explicitly mentioned to be a “trial and error person.”

#### **4.3. Cross Case Analysis**

In this subsection, findings collected from individual case analyses are integrated. This means that the findings regarding organizational design dimensions, as well as the indicators of value creation process dimensions coming from individual cases are revealed and compared. Below is a summary table combining the findings from 5 cases:

CASE	ORGANIZATIONAL DESIGN			VALUE CREATION PROCESS		
	Organization structure	Incentives and control systems	Governance	Knowledge creation	Learning	Entrepreneurial labor
1	Integrated	Integrated	Integrated	Knowledge inquiry Discussion and development	Trial and error	Discovery
2	Differentiated	Differentiated	Differentiated	Knowledge inquiry Discussion and development Identification of best practice Standardization	Trial and error Reflecting on past experiences	Discovery Resourcing Actualization
3	Integrated	Integrated	Differentiated	Knowledge inquiry Discussion and development Identification of best practice Standardization	Trial and error Reflecting on past experiences	Actualization
4	Integrated	Integrated	Differentiated	Knowledge inquiry Discussion and development Identification of best practice	Reflecting on past experiences	Resourcing Actualization
5	Differentiated	Integrated	Integrated	Knowledge inquiry Discussion and development	Trial and error	Discovery Resourcing Actualization

*Table 3: Combination of findings from 5 case analyses*

### 4.3.1. Found relationships

In this subsection, all relational findings from individual cases have been combined. In order to ensure internal validity, the dynamics underlying the relationship, that is, the "why" of what is happening was considered while checking whether a relationship is supported (Golafshani, 2003). One tactic used in order to come up with cross case patterns was to look for within-group similarities coupled with intergroup differences for selected dimensions. Another tactic was to list the similarities and differences between selected pairs of cases. This way, it became possible to look for the subtle similarities and differences between cases. Relationships that were reciprocally supported by two or more cases are listed in the table below:

	Organizational design	Value creation process	Supported by cases
Relationship 1	Differentiated governance	Identification of best practice	2, 3*, 4
Relationship 2	Differentiated governance	Standardization	2, 3*
Relationship 3A	Integrated governance	Trial and error	1, 5*
Relationship 3B	Differentiated governance	Reflecting on past experiences + Trial and error	2, 3
Relationship 4	Differentiated organization structure	Discussion and development	2*, 5*

*\* Explicitly disclosed relationships. See Section 4.1 for the description of relational mechanism types.*

In addition to these relationships, findings in Table 2 reveal an additional pattern. All but two of the cases contain discovery in their value creation processes. The two cases that lack discovery in their value creation processes possess the same organizational design configuration: integrated organization structure, integrated incentives and control systems, and differentiated governance. This relationship, Relationship 5, is also discussed in Discussion section.

Relationship 5	Integrated organization structure + Integrated incentives and control systems + Differentiated governance	Discovery (NEGATIVE RELATIONSHIP)	3, 4
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### **Relationship 1: Differentiated governance and identification of best practice**

Social enterprises in Cases 2, 3, and 4 identify best practice for their operations as a part of the knowledge creation phase of their value creation process. All of these enterprises are governed by a differentiated governance structure. As a proof to this, board of directors in all three cases have complementary board member profiles. In addition, Case 2 and 3 tolerate occasional compromise on social goal, whereas Case 4 defends the dominance of social goal, regarding commercial goal as a secondary priority.

The way differentiated governance effects identification of best practice differs across cases. Three different mechanisms have been found. For example, in Case 2 the presence of commercially minded board members trigger hiring of specialized professionals, and this way, the company sets best practice internally. On the other hand, in Case 3, the presence of coordinating members facilitates a similar hiring mentality. Lastly, in Case 4 the fact that some compromise is made on commercial goals, necessitates identifying best practice in order to support commercial operations. Hiring specialized commercial professionals for specific knowledge creation comes in as a solution. To conclude, differentiated governance leads to identification of best practice by hiring specialized professionals.

### **Relationship 2: Differentiated governance and standardization**

Social enterprises in Case 2 and 3 apply standardization as a part of the knowledge creation phase of their value creation process. Both enterprises are governed with differentiated governance. Board of directors in both cases have complementary board member profiles, and they tolerate occasional compromise on social goal.

The way standardization is affected by governance happens with an identical mechanism in the two cases. The complementarity of board members influences standardization process by triggering the creation of a set of standards of procedures. To conclude, differentiated governance leads to standardization by setting standards of procedure.

### **Relationship 3A: Integrated governance and trial and error**

Social enterprises in Cases 1 and 5 perform trial and error by iterating and testing hypotheses as a part of the learning phase of their value creation process. Both enterprises are governed with integrated governance. Board of directors in both enterprises are composed of overlapping member profiles. In decision making, both companies place equal emphasis on commercial and social perspective. In fact, this dual focus has been intertwined in the operations of these companies so homogenously that it seldom requires even considering making a sacrifice.

In Case 1, overlapping board member profiles provide an uninterrupted focus for iterating and testing hypotheses. Similarly, in Case 5, single decision maker provides the same uninterrupted focus for iterating and testing hypotheses. Therefore, the relational mechanism in these cases are identical. To conclude, integrated governance leads to trial and error by iterating and testing hypotheses.

### **Relationship 3B: Differentiated governance and trial and error in combination with reflecting on past experiences**

Social enterprises in Cases 2 and 3 perform trial and error as a part of the learning sub-process of their value creation. However, in contrast to Relationship 3A these enterprises are governed with integrated governance. This integrated governance structure brings together an additional learning phase: reflecting on past experiences. What is revealed here is that enterprises with an integrated governance structure learn by trial and error, whereas when the governance becomes differentiated, reflecting on past experiences comes in combination with trial and error, in order for corporate learning to happen at its fullest. To conclude, integrated governance influences learning process by enabling trial and error; however, when a differentiation becomes present in the governance, learning is done by reflection on past experiences, in addition to trial and error.

#### **Relationship 4: Differentiated organization structure and discussion and development**

Social enterprises in Cases 2 and 5 display discussion and development as a part of the knowledge creation phase of their value creation process. Both enterprises have differentiated organization structures with separated teams and operational conflicts. The primary coordination mechanism is coordinating employees in Case 2, and internal communication in Case 5.

The way differentiated organization structure influences discussion and development differs across cases. Two relational mechanisms have been found, both of which are explicitly pronounced. In Case 2, coordinating members facilitate casual team interactions, and internal trainings, whereas in Case 5 internal communication enables casual team interactions. To conclude, differentiated organization structure leads to discussion and development.

#### **Relationship 5: A particular organizational design configuration (integrated organization structure, integrated incentives and control systems, and differentiated governance) and discovery**

An interesting pattern emerges from the combination of findings seen in Table 2. It was found that companies possessing a combination of integrated organization structure, integrated incentives and control systems, and differentiated governance do not perform discovery as a part of the entrepreneurial labor sub-process of value creation. These companies do display examples of entrepreneurial labor, and they do support corporate entrepreneurship; however, the way they attain entrepreneurial labor does not start with the discovery of a problem by an employee. Rather, these cases only display resourcing and/or actualization phases in their entrepreneurial labor sub-process. To conclude, the combination of integrated organization structure, integrated incentives and control systems, and differentiated governance leads to the lack of discovery phase in the entrepreneurial labor sub-process.

In conclusion, this study revealed some relational mechanisms between organizational design features and value creation sub-processes. First, a few mechanisms regarding the

influence of governance on value creation process were discovered (Relationship 1, 2, 3A, 3B). These relational mechanisms revealed that governance of a for-profit social enterprise influences its knowledge creation, and learning sub-processes. Second, a relationship between organization structure and knowledge creation process was discovered (Relationship 4). Finally, it was discovered that a particular configuration of integration and differentiation in the organizational design influences entrepreneurial labor sub-process (Relationship 5).

The following section discusses these relationships, trying to explain the reasons why specific organizational design features that were revealed in the findings might have been involved in the discovered relational mechanisms.

## **5. Discussion**

### **5.1. Discussion of Findings**

Findings of this research provide insights about how organizational design features influence value creation process. Below is a discussion of the findings.

First, the influence of governance on the knowledge creation process is discussed. There are four knowledge creation process findings in this research: knowledge inquiry, discussion and development, identification of best practice, and standardization. These findings resonate with the knowledge creation literature, especially with the four-mode knowledge creation cycle by Nonaka and Takeuchi (1995), arguing that knowledge creation takes place through continuous, and reciprocal transformation of tacit and explicit knowledge. All companies who participated in the interviews successfully apply the following two: knowledge inquiry, discussion and development. This might indicate an effort to absorb and internally distribute explicit knowledge. However, not all of them applied the remaining two: identification of best practice, and standardization. In those companies that applied these two, identification of best practice came in the form of hiring specialized personnel, and standardization came in the form of creating standards of procedures. These two additional knowledge creation iterations might help generate tacit knowledge by internalizing acquired knowledge, and thus complete the cycle of knowledge creation thoroughly. Companies that applied identification of best practice, and standardization in addition to the former two are



the ones that are governed by differentiated governance, holding a common property: complementary board member profiles. What might explain this relationship?

The most important function of the governing body of an organization is monitoring management (Bear et al, 2010). In order to be able to effectively monitor management, the board of directors needs the right “skills, experience, expertise and knowledge” (Hillman & Dalziel, 2003, p 383). In addition, study by Carpenter and Westphal (2001) reveals the relationship between diversity in background and experience of a board, and its ability to monitor and advise management. A diverse board, therefore might exert a more thorough knowledge creation process on an enterprise by triggering the hiring of specialized personnel, and creating standards of procedures. This brings us to Proposition 1:

**Proposition 1: Complementarity of board members influences knowledge creation process by triggering identification of best practice, and standardization**

Next, the influence of governance on learning is discussed. Findings of this study revealed two modes of learning: trial and error, and reflecting on past experiences. However, integrated governance led to trial and error, whereas differentiated governance led to trial and error coupled with reflection on past experiences. Therefore, the shift from trial and error to the combination of trial and error, and reflection on past experiences came with the differentiation in the governance. It is proposed by existing literature that trial and error leads to innovation (Sosna et al, 2010). The reason why companies with integrated governance only learn by trial error might be related to two things: first, the single-voiced nature of an integrated governance, or second, an intentional uninterrupted focus for constantly iterating. These might lead to trial and error but prevent the organization from taking time to stop and reflect.

Literature on organizational learning is abundant (Dodgson, 1993). Studies reveal various types and levels of learning. Higher and lower level learning by Fiol and Lyles (1985), generative and adaptive learning by Senge (1990), and strategic and tactical learning by Dodgson (1991) are some differentiated types and levels of learning. However, prior to all of these studies, Argyris and Schon (1977) developed a typology of learning, described as single-loop, double-loop, and deuterolearning. In essence, organizational learning is a

process of detecting and correcting error. The distinction between single and double-loop learning is, in single-loop learning, organizations detect errors, and modify their actions according to the difference between desired and obtained results, but the fundamental norms are not questioned. In double-loop learning a questioning process changes fundamental norms of the organization, causing deep change. Reflection on values and norms invokes double-loop learning (Greenwood, 1998). A diversified decision-making body influences, or maybe even obliges reflecting on past experiences for the double-loop learning to take place. Completion of the double loop learning might also be related to structural ambidexterity, which require coordination at the level of the organization's governance (Tushman & O'Reilly, 1996). This brings us to Propositions 2A and 2B:

**Proposition 2A: Integration in decision making influences learning process by enabling uninterrupted iteration of trial and error**

**Proposition 2B: Differentiation in decision making influences learning process by leading to reflection on past experiences combined with trial and error**

Next, the influence of coordination mechanisms in a differentiated organization structure on knowledge creation process is discussed. It was explicitly found that a differentiated organization structure leads to discussion and development. In social enterprises, coordination across commercial and social members may be achieved through the creation of negotiation spaces (Battilana & Lee, 2014). These spaces are modes of interaction that allow social and commercial members to discuss and come to agreement (Kellogg, 2009). This thesis research suggests that coordination mechanisms that come in the form of coordinating employees, or casual or planned team interactions might be necessary to achieve more intense knowledge creation. This brings us to Proposition 3:

**Proposition 3: Coordination mechanisms in differentiated organization structure influence knowledge creation process by enabling discussion and development**

Finally, the negative effect of a specific configuration of organizational design on entrepreneurial labor is discussed. Three modes of entrepreneurial labor were found in this study: discovery, resourcing, and actualization. Discovery, in most cases had to do with

identifying a problem related to the organization, and proposing a solution for it. An interesting pattern that emerged from the cross-case analysis is a specific configuration in the organizational design preventing discovery from happening in the entrepreneurial labor process in a couple of cases, creating a contrast that is worth discussing. When a social enterprise with integrated organization structure, and integrated incentives and control systems, however, is governed with differentiated governance, discovery does not take place. In such configurations, entrepreneurial labor -although still present- start from resourcing, or actualization phase, which indicates a top-down exertion of entrepreneurial initiatives, rather than a natural blossom. This might be related to the level where structural ambidexterity is present (Tushman & O'Reilly, 1996). The level in which social-commercial dichotomy is first observed when climbing the organization ladder from bottom to top might decide where problem-solving habits develop. This is supported by recent research concerning institutional logics, arguing, for instance, that empowerment of employees is positively related to organizational performance while dealing with multiple institutional logics (Cloudt, 2015). In addition, there is support in competing institutional logics literature as well. For instance, values and beliefs of the most powerful actors end up being reflected in the dominant logic (DiMaggio & Powell 1983); however, competing logics can co-exist and support the accomplishment of common goals (Reay & Hinings 2009). It was found in this thesis that, in case the dualities attached to being a social enterprise are present starting from the very bottom, identifying and dealing with the problems might become an organizational habit for all employees. However, when an integrated structure in the bottom becomes differentiated in the top only, entrepreneurial maneuvers might only appear at the top levels, as duality would only be visible there. In this case, entrepreneurial labor is launched by a top down order, rather than starting with the discovery of a problem by the employee. This brings us to Proposition 4.

**Proposition 4: Differentiation in the board of directors level of an otherwise integrated organization inhibits discovery in entrepreneurial labor process**

As a final point, the propositions of this research are coherent with the study of Tushman and Nadler (1978) arguing that choosing from a particular set of organizational arrangements helps deal with information processing requirements in organizations. As

value creation is most concisely described as information processed by people in order to turn resources into end products, these propositions have strong resonance.

## **5.2. Future Research and Limitations**

This research contributes to the literature of organizational theory on social enterprises, and provides insights for future research. Being an exploratory case study, this research does not test, confirm or decline any hypotheses. Findings derived from the case analyses have been presented as four propositions. Future research will need to test these propositions.

Findings add on to the literatures of organizational learning and knowledge creation, as well as the literature of competing institutional logics. Contribution to the learning and knowledge creation literatures is made by proposing that a dichotomy in governance has influence on the learning, and knowledge creation methods that an organization makes use of. Although literature on learning and knowledge creation is abundant with multiple perspectives, the effects of different (integrated or differentiated) governance forms on these is a scarce research area. Furthermore, the relatively untapped empirical setting provided by for-profit social enterprises makes this research noticeable among other studies exploring the same processes, by enabling the observance of the influence of dichotomy on these processes. Finally, contribution to the literature of competing institutional logics is made in two ways: first, by proposing that exposure to competing social-commercial logics leads to discussion and development; and second, by proposing that exposure to it on different organizational levels has influence on the phases of entrepreneurial labor that shows up. Future research might test these findings, as well as exploring whether and how these learning, knowledge creation, entrepreneurial labor processes turn around and reshape governance in organizations.

This research was subject to certain limitations as discussed below.

### ***Success criterion***

This research has been made with the presumption that all participating companies are successful dual value creators, as they had been backed by an impact investor. This endorsement has been used as the sole success assurance. Future research should create, and apply tailor-made dual value assessment metrics in order to identify successful companies in a more precise way. Having said that, the fact that the selection criterion was

set as being successful might have caused bias. Although triangulation of sources was applied in this research, future research should investigate both successful and unsuccessful social enterprises to further eliminate this bias. It might be the case that findings of this study might apply to unsuccessful social enterprises as well.

### *Language*

This research has been conducted in English. Neither the researcher, nor the interviewees were native English speakers with the exception of one interviewee. Although the level of English spoken by all contributors enabled full expression of all experiences, opinions, and emotions, it might have caused a few to slip through. In a qualitative case study, nuances between expressions might affect the results. According to Polkinghorne (2005, p. 139), “Although people's experiences are not perfectly transparent to them, they do have at least partial access to them. However, the translation of a reflective awareness of an experience into a language expression might further distance the evidence of an experience from the experience itself.” Therefore, this research, and its interviews should be repeated in the future in the native language of participants, conducted by a researcher who is the native speaker of the same language.

### *Company selection*

Due to the limitations of finding for-profit social enterprises that operate in North Brabant, which fulfill the selection criterion of being backed by an impact investor, this research has been conducted with minimal amount of elimination of eligible companies for size and industry focus. For-profit social enterprises in this region are usually small organizations, therefore, sizes of the companies involved in this research do not differ much. However, close to exact match in employee numbers might produce more accurate results, due to a possible relationship between organizational size and organizational design. In addition, industry focus was intentionally left loose in this research in order reach more companies, and to widen the exploration scope. However, lack of industry focus might have affected knowledge creation process findings (i.e. companies from irrelevant industries might not be comparable for their value creation processes). Therefore, future research might consider controlling for size and industry focus.

## 6. Conclusion

This research investigated five for-profit social enterprises located in the North Brabant region in the Netherlands. The relationship between internally oriented organizational design elements and internal value creation process was explored. Organizational design was investigated for its three features: organization structure, incentives and control systems, and governance. Value creation process was explored by putting a lens on its three sub-processes: knowledge creation, learning, and entrepreneurial labor. Data was collected through 16 semi-structured interviews that were conducted with employees from different levels of 5 case organizations. The research question that was aimed to be answered is: “What is the effect of organizational design on the value creation process of a for-profit social enterprise?”

According to the findings of this study, organizational design influences value creation process in four ways. (1) First, differentiated governance influences knowledge creation process by triggering identification of best practice and standardization. (2) Second, integrated governance influences learning process by enabling trial and error; however, when a differentiation becomes present in the governance, learning is done by reflection on past experiences, in addition to trial and error. (3) Third, differentiated organization structure influences knowledge creation process by enabling discussion and development. (4) Finally, different configurations of the integration and differentiation of organizational design features affect entrepreneurial labor by influencing the extent by which employees behave entrepreneurially. Differentiation that is found only in the governance when the remaining organizational design features are integrated, influences entrepreneurial labor process by inhibiting discovery phase.

### 6.1. Implications

This study carries several implications about the way organizational design factors influence the way a social enterprise creates value. To start with, it is proposed that the structure of board of directors has an influence of knowledge creation and learning process of social enterprises. Potential implications of these propositions address board member selection, decision-making routines, as well as their weight on these routines. It was found in this study that by selecting complementary board members of diverse backgrounds, social enterprises

enhance their knowledge creation processes. In addition, as a result of diversifying the decision-making dynamics, social enterprises benefit from reflecting on past experiences. Implications about board of directors are not limited to these. It is also proposed that differentiation in the board of directors level of an otherwise integrated organizational design negatively affect discoveries of problems in the lower level. By exposing the lower levels of the organization to the social-commercial dichotomy, a for-profit social enterprise achieves an environment where employees become problem discoverers, triggering the entrepreneurial labor process from the bottom up. Other implications aside from those concern governance address coordination mechanisms. It is proposed that coordination mechanisms in a differentiated organization structure open up ways for discussion and development. This might affect the power and monetary compensations given to some key “binding” roles, planning of team interactions, or design of suitable negotiation spaces for separated teams to coordinate.

To sum up, it must be underlined that the practical implications of this thesis are particularly important for the industry players since they might influence decisions regarding hiring processes, board member selection, and many other organizational design issues. As a result of acknowledging these implications, a for-profit social enterprise, which probably already functions under severe complexity, might end up with an improved value creation process. An improved value creation process might result in employees focusing their efforts on more value-added processes instead of getting overwhelmed by the jungle of social-commercial dichotomy. Because of the fact that some propositions that are suggested in this research address governing bodies, implications of this research concern impact investment community as well. These particular implications deserve attention. By being aware of the influence of governance on value creation processes of a for-profit enterprise, impact investors might adopt a more systematic approach to the governance of these companies in an effort to expand and develop the value created by impact investment activities aiming for a better future world.

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## Annexes

### Annex – 1: Some Impact Investment Funds in the Netherlands

Impact investors, seeking objective, quantifiable and accurate performance measures evaluate the value of their (potential) investment in social enterprises, not from a venture capitalist perspective, but from a more “blended” point of view, which does not favor social impact over financial return, or vice versa. Generally, impact investors provide loans, guarantees and other debt instruments, as well as equity and quasi-equity to funds, and enterprises through designing and executing private debt deals for social enterprises (Jackson, 2013).

An example to impact investment funds in the Netherlands is ABN AMRO Social Impact Fund (AASIF)<sup>1</sup>, with a portfolio including companies such as SCOPEinsight, Beebox, Bigmove, Nudge, Text to Change, and WAAR. Another example is Social Impact Ventures<sup>2</sup>, providing Dutch social enterprises with financial resources and active support to help achieve their social mission. They focus their investments on three impact themes: health and wellbeing, circular economy, and people power. Among their investments are Marqt, healthy and sustainable food retail chain, Afval Loont, waste recycling company, and Taxi Electric, electric taxi service provider. Other examples include Start Green Capital<sup>3</sup>, managing two funds for sustainable innovation, and consumer products in renewable energy and sustainable materials sectors. Among examples from Brabant region is Brabantse Ontwikkelings Maatschappij<sup>4</sup> (BOM), an economic development company that works as a growth accelerator for companies in Brabant. BOM looks for economic opportunities with explicit social added value, such as growth of employment, CO2 reduction and sustainable production. Examples can be multiplied.

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<sup>1</sup> <https://www.abnamro.com/en/sustainable-banking/finance-and-investment/social-impact-fund/index.html>

<sup>2</sup> <https://www.socialimpactventures.nl/>

<sup>3</sup> <http://www.startgreen.nl/nl/>

<sup>4</sup> <https://www.bom.nl/>

## Annex – 2: Operationalization Table

		Definition	Indicators	Questions
Independent Variable	Organizational Design	Combination of differentiation and integration of an organization's operations, in response to external contingencies.	<ul style="list-style-type: none"> <li>• “Subunits must choose from a feasible set of structural alternatives, a particular set of organizational arrangements, to most effectively deal with their information processing requirements” (Tushman &amp; Nadler, 1978, p. 622).</li> <li>• The three design elements of an organization are: <ul style="list-style-type: none"> <li>○ Vertical hierarchies</li> <li>○ Incentive systems</li> <li>○ Decision decomposition (Rivkin &amp; Siggelkow, 2003)</li> </ul> </li> <li>• Similarly, hybrid organizing features regarding organization design are: <ul style="list-style-type: none"> <li>○ Organization structure</li> <li>○ Incentives and control systems</li> <li>○ Governance (Battilana &amp; Lee, 2014)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• How are social and commercial elements represented in the organization structure?</li> <li>• How are social and commercial elements represented in incentives and control systems?</li> <li>• How are social and commercial elements represented in governance?</li> </ul>
Dependent Variable	Value Creation Process	The processes through which resources are identified, acquired and used in order to create use values in the form of outputs.	<ul style="list-style-type: none"> <li>• New value is created when firms invent new ways of doing things (Porter, 1985).</li> <li>• Innovative organizations introduce new products or services, or develop new management practices related to these (Damanpour, 1995).</li> <li>• Literature of dynamic capabilities (Zuolo &amp; Winter, 2002; Winter, 2003; Helfat, 1997, Brown &amp; Eisenhardt, 1997; Rindova &amp; Kotha, 2001; Adner &amp; Helfat, 2003; Tripsas &amp; Gavetti, 2000) focusses on three main internal factors regarding new advantage creation: <ul style="list-style-type: none"> <li>○ Knowledge creation</li> <li>○ Learning</li> <li>○ Entrepreneurial labor</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• How does knowledge creation serve social goals?</li> <li>• How does learning serve social goals?</li> <li>• How does entrepreneurial labor serve social goals?</li> <li>• How does knowledge creation serve commercial goals?</li> <li>• How does learning serve commercial goals?</li> <li>• How does entrepreneurial labor serve commercial goals?</li> </ul>

## Annex – 3: Interview Script

### Part 1: Introduction (2 minutes)

**Researcher script** *"First of all, I would like to thank you for your time and cooperation for this interview. My name is Basak Demirci. I am a master's student in Organizational Studies at Tilburg University, and I am currently conducting this research for my thesis. My research topic concerns social enterprises in the North Brabant region. I limited my research with for-profit social enterprises that are financially backed by an impact investor that have ambition for social and financial impact. This way I will make sure that I do my research within companies that are endorsed for their success in dual value creation, in both financial and social terms. [Name of company] has qualified with my selection criteria, because [name of company] is a social enterprise, which creates social value but is also profit-driven, that is backed by an impact investor, [name of impact investor]. My particular focus is on how organizational design elements of a for-profit social enterprise influences its value creation process. I will conduct this study in multiple companies, interviewing 2-5 employees in each company. I am hoping that the results of my research will be useful for social enterprises and impact investors."*

*The duration of this interview is 45 to 60 minutes. The research is anonymous and your name will be kept confidential. There are no right or wrong answers to the questions I will ask. Your answers reflect your individual perspective. You may reject to answer any given question.*

*Do you have any questions or comments?"*

### Part 2: Warm up questions (5 minutes)

**Contextual information request**

*"Can you briefly tell about yourself? What is your current position and key responsibility within [the company]?"*

*"Which of the following suits better to the way [name of company] creates social impact? How?"*

- *By procuring supplies*
- *By employing workers*
- *By designing the product/service*
- *By producing the product/service*
- *By marketing to target customers"*

*"This is your social activity. Please keep this in mind for the rest of the interview."*

*"How does [name of company] generate revenues?"*

*"This is your commercial activity. Please keep this in mind for the rest of the interview."*

### Part 3: Research questions (35-55 minutes)

**Researcher script** *"Please note that you should answer the questions by considering the whole organization as you know it."*

**Independent variable: Organizational design**  
**Questions**

Organization structure

Q1) In [name of company] are commercial and social activities addressed by the same people, or separate people? Why do you think so? Please explain.

Q2) How often does social purpose intervene with commercial purpose in a conflicting way? Why do you think so? Please explain.

Q3) How is the coordination between commercial and social teams? Does negotiation take place when a conflict is faced? Why or why not? Please explain.



#### Incentives and control systems

Q4) How is employee performance evaluated? Using commercial and/or social performance metrics?  
Please explain.

Q5) How are employees rewarded? For commercial and/or social performance? Please explain.

#### Governance

Q6) Considering the composition (responsibilities and backgrounds) of board of directors of [name of company], how is commercial and social activities represented by the members? Please explain.

Q7) How does final decision-making take place in the board of directors? Commercial or social dominance? Please explain.

#### **Dependent variable: Value creation process**

##### **Questions**

##### Knowledge creation

*"The aim of the following question is to understand knowledge creation activities within the company. Knowledge creation happens when external knowledge enters to the organization. This can happen through interactions with customers, advisors, other organizations, etc."*

Q8) How are new ideas generated within [name of company]? How does social and commercial separation influence this process?

##### Learning

*"The aim of the following question is to understand learning activities within the company. Learning refers to learning from past experiences. Companies can spend deliberate time and money on their learning activities."*

Q9) How does [name of company] learn from past experiences? How does social and commercial separation influence this process?

##### Entrepreneurial labor

*"The aim of the following question is to understand entrepreneurial labor within the company. Entrepreneurial labor is there when some organizational members can function in autonomous ways, which is explicitly supported by the management."*

Q10) How do employees create their unique and entrepreneurial ways of doing their job in [name of company]? How does social and commercial separation influence this process?

## **Part 4: Closing (3 minutes)**

### **Researcher script**

*"The interview is finished now. I have all the responses that I wanted to receive. [List some important points]. Do you have any additional points that you think are necessary for this study?"*

*I would like to thank you very much for your participation in this interview. Your contribution helps this research tremendously.*

*Do you have any final remarks or comments?*

*Thank you."*

### Annex – 3: Data Table for Individual Case Analysis

The data table below is a sample for the tables used in individual case analyses.

CASE N	INTERVIEW 1		INTERVIEW 2		INTERVIEW X	
Codes	Quotes	Labels	Quotes	Labels	Quotes	Labels
Separation of teams						
Conflict points						
Coordination mechanisms						
Negotiation spaces						
Performance measurement						
Rewarding						
Board composition						
Decision making						
The way new ideas are generated						
The way the enterprise learns from past experiences						
The way employees act autonomously						

## Annex – 4: Case Details<sup>5</sup>

### Case 1

Case 1 qualifies for the context of this research, because it has been backed by a regional Development Agency, which acts as an impact investor, and which lists among their ambitions: “further economic growth, increased employment, solutions to social issues, and a lead role for the region on the world stage.”

As stated by the interviewees, the way Case 1 creates social value is by producing a product and service that solves a social problem. The way Case 1 creates commercial value is by collecting management fees from small scale funds. A total of 2 interviews were conducted for Case 1.

### Case 2

Case 2 qualifies for the context of this research, because it has been backed by one of the largest banks in the Netherlands through a social impact bond<sup>6</sup>. Through this innovative public-private financing structure, the involved Municipality pays back the investors, in this case the Bank’s foundation, and an additional Foundation. The social enterprise returns it when the young people have graduated and found a job.

As approved by all interviewees, the way Case 2 creates social value is by procuring supplies, employing workers, designing a service, and producing a service. The way Case 2 creates commercial value is by restaurant revenues, catering service revenues, funds received from commercial partners, and donations. A total of 5 interviews were conducted for Case 2.

### Case 3

Case 3 qualifies for the context of this research, because it has been backed by the same regional Development Agency described in Case 1, which acts as an impact investor.

As stated by the interviewees, the way Case 3 creates social value is by designing a service, producing a service, and marketing to targeted customers. The way Case 3 creates

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<sup>5</sup> Names of organizations (companies, impact investors, banks, state agencies, etc.) in this chapter were not disclosed due to confidentiality

<sup>6</sup> A social impact bond is a targeted investment contract that is rewarded on the basis of actual social performance improvement, based on certain established criteria.

commercial value is by raising funds, providing innovation consultancy services to corporates, collecting return on equity from investment portfolio, and subsidies. A total of 4 interviews were conducted for Case 3.

#### **Case 4**

Case 4 qualifies for the context of this research, because among its shareholders are the regional Development Agency (described in Case 1 and 2), which acts as an impact investor, as well as the regional Technology Agency, the Municipality, and the University.

As stated by the interviewees, the way Case 4 creates social value is by designing and producing services. The way Case 4 creates commercial value is by collecting rents. A total of 3 interviews were conducted for Case 4.

#### **Case 5**

Case 5 qualifies for the context of this research, because it has been financially backed by one of the world's leading sustainable banks based in the Netherlands. The Bank invests only in sustainable companies, and states its mission as “positive social, environmental and cultural change”, perfectly qualifying as an impact investor.

As stated by the interviewees, the way Case 5 creates social value is by procuring supplies, and producing a product/service. The way Case 5 creates commercial value is by baked goods sales, and café revenues. A total of 2 interviews were conducted for Case 5.

## **Annex – 5: Ethics Review Board | Introductory Script**

### **INFORMATION LETTER FOR SCIENTIFIC RESEARCH**

**Title:** For-profit social enterprise: How organizational design influences value creation process

**Investigator:** Basak Demirci (Master's student)

**Date:** --

#### **Aim & Procedure**

The aim of this study is to find out how organizational design influences value creation process in for-profit social enterprises. Participants will participate in interviews conducted by the investigator.

#### **Confidentiality of the research data**

All gathered data will be confidential. Obtained data is coded, so that there is no link with personal identifiers. Data can be accessed only by the investigators mentioned in this letter. Data will be used for scientific purposes only. Results can never be traced back to an individual participant. Raw data is obliged to be stored for 10 years after completion of the study. By consenting to participate, you consent to the storage of your data. If you do not want that, you cannot participate.

#### **Voluntary participation**

Participation in this study is fully voluntary. No obligations are held.

#### **Further information**

If you need more information on the study in order to decide whether or not to participate, you may contact the principal investigator Basak Demirci. In case of complaints regarding the current study, you may contact the TSB Ethics Review Board

## Annex – 6: Ethics Review Board | Informed Consent

### CONSENT FORM

I agree to participate in the following research study: “For-profit social enterprise: How organizational design influences value creation”

I have read the “INFORMATION LETTER FOR SCIENTIFIC RESEARCH”. I have been given the opportunity to ask questions. Questions that I did have, have been sufficiently answered. I have had sufficient time to decide to participate.

I realize that participation is voluntary. I know that I can decide to quit participation at any time. I do not have to provide a reason for quitting.

I agree to the use of my data for the purpose described in the information letter.

I agree that my data is stored for 10 years after completion of the study.

I want to participate in this research study.

Name participant: .....

Signature: \_\_\_\_\_ Date : \_\_ / \_\_ / \_\_

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I declare that I have fully informed the study participant on the study described in the “INFORMATION LETTER FOR SCIENTIFIC RESEARCH”.

Name researcher: .....

Signature: \_\_\_\_\_ Date: \_\_ / \_\_ / \_\_

END OF DOCUMENT.