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Risk Tolerance, Legitimacy, and Perspective: Navigating Biases in Social Enterprise Evaluations

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Abstract:
Social enterprises viewed as viable from societal perspectives are often regarded differently from traditional business perspectives. To examine this difference, we undertook two empirical studies of risk tolerance and legitimacy perceptions among observers of social enterprise and for-profit ventures. In Study 1, participants (n = 115) drawn randomly from Amazon’s Mechanical Turk, an online crowdsourcing marketplace for human intelligence tasks, examined two hypothetical cases and completed the risk tolerance scale of the Jackson Personality Inventory. Results show that social enterprises were seen as having lower industry legitimacy, especially by individuals with lower risk tolerance. Here, industry legitimacy mediated the effect of venture purpose on cognitive legitimacy. In Study 2, practicing entrepreneurs (n = 23) narratively interpreted Study 1 results from social enterprise and traditional business perspectives. Both studies demonstrate that social enterprise legitimacy evaluations vary based on risk tolerance and the type of legitimacy in question. Overall findings show that explicit observations of risk tolerance effects, and multidimensional conceptualizations of legitimacy, are important to accurate evaluations of social enterprises.

Keywords: social entrepreneurship, legitimacy, risk tolerance

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When stakeholders perceive an entrepreneurial venture as a legitimate business enterprise, this judgment tends to yield resources instrumental to performance (Delmar and Shane 2004; Suchman 1995). Whether deriving from potential customers, investors, employees, or suppliers, legitimacy perceptions underpin decisions to support that venture (Cornelissen and Clarke 2010; Shepherd and Zacharakis 2003). However, there is little agreement among such diverse stakeholder (e.g. potential customers, investors, employees, or suppliers) about what defines a high-potential, successful social enterprise. Moreover, many people in general disagree about the definition of the very concept of social enterprise (Shaw and de Bruin 2013). Thus, and not surprisingly, social enterprise performance criteria are unclear in the literature. Nonetheless, the venerable literature related to social enterprise activity spans multiple decades across various contexts – including institutional settings, government, and public policy realms, academic fields, and markets contexts (Dacin, Dacin, and Tracey 2011). And, the lack of consensus regarding how to delineate legitimate social enterprises from other social enterprises creates problems for social enterprises seeking resources to support their growth and development.

A wide range of definitions of social enterprise, based on an evolving literature, complicates attempts to clarify what makes these ventures viable (Choi and Majumdar, 2014). Currently, the range of definitions entails (a) hybrid firms subsidizing social missions with business activities (Elder 2014; Murphy and Coombes 2009), (b) business activities instead of state programs serving the underserved (Francois 2003; Margolis and Walsh 2003; Seelos and Mair 2005), (c) social innovation and social change activities (Martin and Osberg 2007; Nicholls and Cho 2008), and (d) virtually any form of social value creation (Austin, Stevenson, and Wei-Skillern 2006; Dees 1998). Despite varying definitions and ambiguity regarding so many different activities and outcomes, what is clear is that social enterprise viability entails some additional criteria that do not apply in purely for-profit contexts (Bitektine 2011; Nagy et al. 2012; Santos 2012).

In addition to more traditional venture performance criteria, social enterprise viability can entail the legitimacy of larger social contexts that can subsume entire business settings. For social entrepreneurs, a venture’s mission is embedded in its operations, and this mission can hold special relevance to larger systems of meaning,
The implication for value generation is that social enterprises produce more than one denomination of value (Desa 2012; Elder 2014). In other words, the same operational model generates multiple, measurable denominations of value that are objective. For this reason, the well-known double and triple-bottom line approaches to entrepreneurship define financial, social, and natural value denominations in combination, which has come to be known as blended value (Bozzo 2000; Nicholls 2009).

Although the blending of multiple denominations of value makes logical sense in social enterprise contexts, it creates measurement and perceptual challenges. These challenges have become salient in research that examines social enterprise performance and multiple questions remain unanswered (Choi & Majumdar, 2013; Hill, Kothari, and Shea 2010). For instance, does blended value inappropriately treat elements of social settings as reliable business data? Whereas social entrepreneurship research regarding ventures as “hybrids” sees no major issue with the approach (e.g. Elder 2014; Murphy and Coombes 2009), other research on social value and entrepreneurship points out certain problems (e.g. Austin, Stevenson, and Wei-Skillern 2006). Similarly, does the blending of scores from social and economic denominations of value confound measurement with error-laden contextual factors? Whereas research focusing on institutional contexts (also known as “crescive” conditions) in which social enterprise activity occurs might dispute that notion (e.g. Dorado and Ventresca, 2013), other research integrating communities and local cultures assert the objective importance of contextual factors (e.g. Kibler, Kautonen, and Fink 2014; Peredo and Chrisman 2006). Such divergences suggest that a given social enterprise can be perceived as viable from a societal perspective but not viable from a purely business or other nonsocial perspective.

In this paper, we use a novel approach to undertake the examination of legitimacy-based perceptions of social enterprises. Here, our research offers several contributions. First, we integrate the literatures of legitimacy with the literature related to risk tolerance. As our work focuses on perception of ventures, naturally we gravitated to the vast literature on risk tolerance as it is, fundamentally, a perception-based construct. In doing so, we are able to shed new light on linkages between social enterprise and larger domain of entrepreneurship through the lens of risk tolerance. Second, as our two-study empirical undertaking uses both quantitative data and qualitative data sourced from practicing entrepreneurs, we offer contextual implications for future social enterprise research. Third, and finally, we offer an aggressive path forward outlining multiple areas for novel academic inquiry for future studies in this domain.

Conceptual Background and Review

When social innovation and change activities are part and parcel of an entrepreneurial venture’s operations, externally derived perceptions of new venture legitimacy are more difficult to attain. In those cases where innovation and change benefit society, demonstrating returns on investments is difficult due to the subjective and nonmonetary nature of societal benefits. Moreover, when perceptions of new venture viability vary subjectively, widely recognized venture legitimacy is even harder to achieve (Elder 2014).

Individuals undertake sense-making processes when evaluating entrepreneurial venture legitimacy. Their sense-making yields varying levels of approval that can underlie validity judgments at collective levels (Tost, 2011). In social and market settings, legitimacy can entail a cohesive social perception of an operational model and venture goals belied by dramatic variation at individual levels (David, Sine, and Haveman 2013). As noted above, these evaluations and judgments can address societal contexts and business contexts. Since variables such as cultural values, social justice, and welfare tend to be more complex than market size, product quality, and brand awareness, social enterprises face different legitimacy criteria. Research shows that, all else being equal, these ventures tend to be perceived as riskier (Shepherd, Douglas, and Shanley 2000). Therefore, applying a construct of legitimacy with multiple layers will better accommodate the blended value that underlies social enterprise performance.

Risk Tolerance and Legitimacy

The most common underpinnings of legitimacy in entrepreneurship settings include clear performance parameters (Chambré and Fatt 2002; Hager, Galaskiewicz, and Larson 2004), transparency and demonstrable accountability (Schlesinger, Mitchell, and Gray 2004), realistic social and public expectations (Beck, Lengnick-Hall, and Lengnick-Hall 2008; Tracey and Phillips 2007), associations with respected constituencies (Austin, Stevenson, and Wei-Skillern 2006; Murphy et al. 2007), and explicit venture identities and goals (David, Sine, and Haveman 2013). When it comes to social enterprises, these underpinnings especially shape risk tolerance and legitimacy perceptions, primarily due to the difficulties in measuring returns on investment based on nonstandard denominations of value. Thus, when a plurality of such propriety judgments begins to generate a collective judgment,
it comes with an objective evaluation of a venture’s validity. For social enterprises, this process often renders them as part of an informal “gray sector” of the economy (André 2012; Loten 2012; Reiser 2011).

When it comes to social enterprises, therefore, the risk and uncertainty of entrepreneurial action tend to be higher than in other, more regulated, entrepreneurial sectors. Because the value generated by a social enterprise is harder to ascertain reliably compared to other types of enterprises, investing in social enterprises becomes more of a risky bet. Social enterprises surmount these barriers by generating business models that reference specific needs and elements of a community, in addition to competitive markets (Peredo and Chrisman 2006). The shared values of a community can connect with the shared values of a social enterprise’s mission. In this way, social enterprises acquire strategic guidance from the environment. However, because impact and performance are not as objective, a very healthy tolerance for risk is necessary on the part of investors before those investors see a social enterprise as legitimate. Clear strategy and vision can enhance perceptions of legitimacy, but such perceptions are limited to well-defined contexts that go beyond markets or industries, such as geographic or demographic communities. This articulation defines the legitimacy problem facing social enterprises in relation to the importance of risk tolerance among potential customers, investors, and supporters.

Legitimacy and Social Enterprises

Perceived legitimacy functions as a gateway to many resources in both the established firm context as well as the new venture context. The attainment of legitimacy facilitates the generation of sales, the attraction of partners and collaborators, and the creation of positive reputations in competitive markets (Tost, 2011). However, when an entrepreneurial venture must generate value in both social and business environments simultaneously, achieving such legitimacy becomes more complex (Huybrechts and Nicholls 2013). A social enterprise cannot marshal legitimacy on demand, even when the social issue it targets is a universally legitimate one. Instead, external observers assess the venture’s legitimacy based on its operations or, in other words, how effectively it engages the social issue. Once acquired, venture legitimacy is a reliable way to acquire other kinds of resources and partnerships. Therefore, better understanding the means to the acquisition of legitimacy, and how legitimacy perceptions can benefit social enterprises in particular, is worthy of research attention.

Legitimacy is a social construct and it is subject to cognitive processes. Variations in these cognitive processes account for different types of legitimacy that have been examined in previous entrepreneurship research. It is our view that the types of perceived legitimacy fall into four categories: regulative, normative, cognitive, and industry. Regulative legitimacy is based on formally inaugurated policy, usually by sanctioned bodies (e.g. government). Normative legitimacy, by contrast, is based on the perceived appropriateness due to alignment with prevailing societal norms. Examples of the regulative category tend to be more demonstrably objective (i.e. based on existing customs or laws) when compared with examples in the normative category (e.g. fashions, ephemeral elements of popular culture).

The third category, cognitive legitimacy, entails an active judgment process combined with non-active perceptions. For instance, when a new venture idea is taken for granted as legitimate, a judgment mechanism is apparent even though negligible mental effort is expended (Tost, 2011). For social enterprises, cognitive legitimacy perceptions are particularly germane, because many of these ventures do take approaches that are nontraditional and engage problems and issues heretofore unknown. Thus, the venture’s legitimacy is more difficult to assess.

Industry legitimacy, the fourth category, derives from perceptions of the industry in which a business venture already exists or intends to enter. The perception originates from the body of firms populating a particular industry context, as well as the dominant technologies and other environmental elements that define that particular environment. This legitimacy category has special significance for new firms that do not yet have their own histories or reputations (Aldrich and Fiol 1994; Zimmerman and Zeitz 2002).

For social enterprises, industry legitimacy functions as a type of social (or institutional) capital that enables new ventures to attain legitimacy by proxy or association (Lounsbury and Glynn 2001). Research shows that some industries are perceived as more reliable and legitimate than others; accordingly, firms populating those sectors are subject to comparable perceptions and evaluations (Pollock and Rindova 2003). Industry legitimacy has been found to influence the amount of resources that new technology ventures receive in emerging industries based on sociopolitical factors (Deeds, Mang, and Frandsen 2004). Related, Suddaby, Bitektine, and Haack (2017) examined the legitimacy levels of the automobile (p. 455), wood products (p. 459), and cattle (p. 460) industries. Overall, industry legitimacy sheds light on the perceived legitimacy levels of entrepreneurial ventures in general and social enterprises in particular because it derives heavily from social and institutional factors. The next section discusses industry legitimacy and reviews past research with a focus on social enterprises.
Industry Legitimacy and Social Enterprises

Prior research has examined the industry legitimacy of social enterprises in comparison with for-profit ventures. For example, Aaker, Vohs, and Mogilner (2010) show that social enterprises are perceived as more favorable socially, whereas traditional ventures are perceived in more rational, feasible, and practical terms. Interestingly, this research shows that the positive psychological perceptions of social enterprises do not translate directly into sales.

This may be because stakeholders have a tendency to evaluate social enterprises more stringently because venture viability is more difficult to demonstrate. Accordingly, one way to combat such perceptions is for social enterprises to present their value creation process as unfettered by traditional expense structures. The programs delivered by social enterprises are amenable to concrete illustrations of community engagement, impact, and empowerment. Ashoka Fellows (Ashoka 2017) provide illustrations of this approach. When the denomination of value generated by each fellow is defined objectively, the legitimacy of the value proposition is virtually self-evident. Such signals to the external environment can lead to more balanced evaluations of blended value (Balser and McClusky 2005).

Social enterprises serve multiple constituencies with varying interests, which appeals to beneficiaries, donors, community members, employees, and boards of directors. The diversity of these individual categories reflects the general benevolence of the social enterprise sector. When social enterprises appeal to a broader range of stakeholders, they gain the flexibility to measure value creation in unique ways that reflect such diversity (Kaplan 2001; Speckbacher 2003).

Although a balanced approach to social and economic value creation is a hallmark of successful social enterprises, certain stakeholders view this approach negatively based on the belief that it hinders good business practices. This perception can lead to social enterprises being judged as less effective than their for-profit counterparts. Serving the interests of many different stakeholders may be perceived, erroneously or not, as utilizing resources and time that could otherwise be devoted to innovating, increasing profits, and building richer stakeholder relationships. These conflicting pressures can evolve and become incongruent with social enterprise objectives (Balser and McClusky 2005). Mission drift is one result of unbalanced management for social enterprises. It can drive perceptions of low legitimacy, even when social enterprises are attempting to remain adaptable in light of diverse stakeholder interests (Jones 2007; Weisbrod 2004).

Organizational status (i.e. public or private) and legal status (i.e. sole proprietorship, partnership, limited liability company, corporation) also influence legitimacy perceptions (Kervyn, Fiske, and Malone 2012). These statuses influence a venture’s reputation, because they imply a strategic orientation. Prior research suggests that this influence applies to social enterprises as well. For example, social enterprise legitimacy increases when a benefit corporation acknowledges the importance of maximizing returns (Rose-Ackerman 1996). In such cases, organizational status is balanced against strategic orientation. This balance influences social enterprise legitimacy perceptions that underlie the constituency mobilization that brings resources to a social enterprise (Murphy and Coombes 2009). Similar to the effect of a strong brand, constituents use the identity of a mission or a model as a proxy for features and benefits (Aaker, Fournier, and Brasel 2004; Ahuvia 2005). Those perceptions bear upon venture legitimacy, as they reflect a sector’s norms and practices (Aldrich and Fiol 1994; Suchman 1995; Van de Ven 1993).

The concept of industry legitimacy facilitates examination of social enterprises and the sectors in which they operate in the same way that it facilitates examination of industries more generally (Luke, Barraket, and Eversole 2013). Whereas for-profit ventures attain legitimacy via more demonstrable value generation, social enterprises struggle to attain legitimacy as they deal with multiple denominations of value. Unique denominations of value do not usually relate to existing, normative frameworks. And, as we know, the methodological limitations of measuring social return on investment are known to hinder legitimacy perceptions (Doherty, Haugh, and Lyon 2014). Social enterprises, thus, embody a distinct unfamiliarity, which manifests as perceptions of low legitimacy at the sector level.

Hypothesis 1. Stakeholders perceive social enterprises as having lower industry legitimacy than non-socially purposeful ventures.

Risk Tolerance as a Moderator

Risk tolerance moderates the relation between business purpose and industry legitimacy because risk is a more salient factor in context-based perceptions (Hvide and Panos 2014). In other words, industries and sectors (i.e. contexts) with low legitimacy strongly repel risk-averse individuals. Thus, ventures that are well designed and managed, if entering non-legitimate contexts, are viewed far more critically than poorly designed and managed ventures entering legitimate, established industries or sectors (Landier and Thesmar 2009). As the two types of
legitimacy address the context (industry) and ventures (cognitive), we designed our study with a theoretically driven examination of both types.

Entrepreneurial decision-making involves bounded rationality (March 1978; Murphy 2011). Whether a decision pertains to strategic management and operations, investments, or whether to become a benefactor or even a customer, it is subject to human biases, heuristics, and rules of thumb (Tversky and Kahneman 1974). Regardless of how the decision is made, what makes it entrepreneurial are the risks that come from the range of potential outcomes (Bacq and Janssen, 2011). Entrepreneurship research shows that, unlike uncertainty, risk can be estimated in terms of probability distributions of potential outcomes (Adler and Dumas 1984).

Someone’s tolerance for risk involves such probability distributions in conjunction with one’s psychological propensities (Roszkowski and Davey, 2010). Risk tolerance has rational aspects but it becomes less rational and more ambiguous as available information decreases. With more information to assess outcomes, risk becomes a question of opportunity costs: the value of success versus the cost of error, and the relevant probabilities. Entrepreneurship research using risk tolerance refers to outcomes of entrepreneurial venture activity (Hvide and Panos 2014). The novelty of an entrepreneurial venture idea can become a kind of liability in that it generates uncertainty based on unavailable information (Aldrich and Fiol 1994; Singh 1986). As such, novelty has also been shown to hinder new venture survival rates (Shepherd, Douglas, and Shanley 2000). It follows that novel social enterprises operating in industry contexts with established norms may incur perceptions of lower legitimacy. How might risk tolerance relate to this notion?

Hypothesis 2. Compared to individuals with lower levels of risk tolerance, individuals with higher levels of risk tolerance perceive social enterprises as having greater industry legitimacy.

Industry Legitimacy as a Mediator

Beyond industry legitimacy, perceptions of cognitive legitimacy are more difficult for entrepreneurial ventures to attain (Suchman 1995). One of the reasons for the difficulty is the assumption that organizations are legitimate when they are understandable (Pollack, Rutherford, and Nagy 2012; Shepherd and Zacharakis 2003). An entrepreneurial venture tends to be easier to understand when it is, essentially, congruent with accepted norms. For example, the biotechnology sector enjoys high industry legitimacy perceptions, because of its levels of development and growth. Many firms in those sectors are perceived as legitimate as a matter of course, before the evaluation of specific firm attributes even occurs (Aldrich and Fiol 1994). As such, individuals assume that the venture’s mere existence and operations are justified and warranted (Zucker 1987). However, the specific firms populating such a sector have their own elements, which may or may not be perceived as legitimate.

These considerations show the importance of cognitive legitimacy and the influence of industry legitimacy. Overall, we contend that entrepreneurial ventures attain cognitive legitimacy via a path-dependent process (Pollack, Rutherford, and Nagy 2012). Here, we suggest that preceding stages of judgment involve perceptions based on industry legitimacy (Bitektine 2011). As such, we surmise that industry legitimacy influences cognitive legitimacy.

Hypothesis 3. Perceptions of entrepreneurial venture industry legitimacy generate positive perceptions of cognitive legitimacy.

These three hypotheses illustrate, in line with prior theoretical as well as empirical evidence, that cognitive legitimacy attainment is path dependent and may be influenced by industry legitimacy attainment. However, our model makes a unique contribution, because it depicts risk tolerance as a moderator and industry legitimacy as mediator of these interrelations (Figure 1 illustrates these hypothesized relations in an integrated model).
In the following sections, we outline the empirical approach to the present work. To test the aforementioned hypotheses, we formulated and completed two separate empirical studies. Study 1 used a large sample of working adults, with data collected using quantitative measures of personality and attitudes toward new ventures. The purpose of Study 1 was to capture reliable results pertaining to the perceptions of entrepreneurs based on the study variables. This study was a quasi-experiment, which we undertook to parse and examine the legitimacy types, with a view toward their differential effects on social enterprises and their for-profit counterparts. After presenting Study 1, we outline Study 2, an empirical study of qualitative data. Study 2 was an effort to analyze open-ended reports from 27 practicing entrepreneurs, who interpreted and explained the findings of Study 1 based on their own experiences.

**Study 1: Method**

**Sample and Procedure**

Our data for Study 1 were derived from a sample of working adults (N = 115; 85 male, 30 female) via Amazon Mechanical Turk (MTurk: Paolacci, Chandler, and Ipeirotis 2010). MTurk is an online community of anonymous volunteer internet users from the general population who are available to participate in tasks that cannot be automatized and require human intelligence and decision-making. It offers crowdsourced solutions for completing such tasks. MTurk has been used in entrepreneurship research, and the findings of studies conducted via MTurk, as well as data procured from MTurk, have repeatedly been found as reliable and valid other data samples utilized in empirical research (Buhrmester, Kwang, and Gosling 2011; Mason and Suri 2012). Indeed, the results of these studies have been published in mainstream scholarly journals across disciplines (Burnette et al. 2012).

The average age of individuals comprising the sample was 29.27 (SD = 7.55); 19.8% were Caucasian, 25.9% were Asian American, 19.8% were Indian, 27.2% were Asian, 5% were Hispanic, and 1.2% were of African descent. Of the participants, 90.6% were currently employed in full-time jobs. The participants had an average of 6.98 years of work experience (SD = 6.39).

Participants read the study materials and instructions before completing a survey in one of two conditions designed to reflect a social or a for-profit business purpose. A total of 34 men and 19 women provided data pertaining to socially purposeful condition, and 21 men and 11 women provided data pertaining to the for-profit condition. The between-subjects design exposed participants to the study treatment as they inaugurated the procedure, before they completed the individual difference measures, which we describe in what follows.

**Measures**

**Business purpose.** All participants read one of two different executive summaries. These two summaries were identical except that one summary used the term “socially purposeful” while the other summary used the term “for-profit.” The treatment thus articulated a well-defined case of social enterprise. For each condition, this treatment was mentioned three times. In the socially purposeful condition, participants received an overview of the venture that read, “Excellerate Energy is a socially-purposive entrepreneurial venture which provides financial consulting expertise in the area of Green House Gas (GHG) emissions footprint calculations to large municipalities.” The overview also noted, “We are a socially-purposeful entrepreneurial venture focused on providing financial consulting expertise on GHG emissions footprints for large municipalities.” The finance section of the overview stated, “Excellerate presently concentrates on the governmental markets, due to management’s familiarity with these areas and socially-purposeful orientation.” These descriptions model the definition of social enterprise presented in earlier section of this paper.

The other condition emphasized the for-profit nature of the case venture. The overview read, “Excellerate Energy is a for-profit entrepreneurial venture which provides financial consulting expertise in the area of Green House Gas (GHG) emissions footprint calculations to large municipalities.” The overview also noted: “We are a for-profit entrepreneurial venture focused on providing financial consulting expertise on GHG emissions footprints for large municipalities.” Finally, the finance section of the overview stated: “Excellerate presently concentrates on the governmental markets, due to management’s familiarity with these areas and our for-profit orientation.”

Before explaining variance in participant perceptions, it was important to ensure the study treatment was meaningful to participants. Our research design included a manipulation check to assess treatment effectiveness. Two items asked participants to indicate the believability of the case description on a scale of 1 (strongly
disagree) to 7 (strongly agree). An independent-samples t-test showed that the manipulations were effective \( t(83) = 5.17, p < 0.001 \). Participants in the for-profit condition reported higher agreement that the purpose was for-profit \( (M = 6.25, SD = 1.05) \) compared to participants in the social enterprise condition \( (M = 4.42, SD = 1.83) \). As well, participants in the social enterprise condition reported lower agreement \( t(82) = -3.04, p < 0.01 \) that the purpose of the business was for-profit \( (M = 4.94, SD = 1.39) \) relative to the social enterprise condition \( (M = 5.83, SD = 1.25) \). The full text of the venture descriptions is available from the first author.

**Risk tolerance.** To generate individual-level scores in risk tolerance, participants completed the risk tolerance subscale of the Jackson Personality Inventory (JPI: Jackson 1976). This established ten-item scale uses response options ranging from 1 (strongly disagree) to 7 (strongly agree). To mitigate positive or negative response biases, the scale balances equal numbers of positively keyed items such as “I enjoy being reckless,” “I take risks,” and “I seek danger,” with negatively keyed items such as “I would never make a high-risk investment” and “I avoid dangerous situations.” The reliability \( (\alpha = 0.78) \) was within acceptable parameters.

**Industry legitimacy.** A two-item measure assessed perceptions of industry legitimacy. The items read, “The industry in which this business operates is well-established” and “The industry in which this business operates has many easily identifiable members.” Participants responded to both items using a 7-point scale that ranged from 1 (strongly disagree) to 7 (strongly agree). Higher ratings represented greater perceived industry legitimacy. The item scores correlated highly enough \( (r = 0.78, p < 0.001) \) to warrant aggregation into a composite index of perceived industry legitimacy \( (\alpha = 0.88) \).

**Cognitive legitimacy.** We use the established three-item scale from Nagy et al. (2012) and Pollack, Rutherford, and Nagy (2012) to operationalize cognitive legitimacy. The scale items use a 7-point scale ranging from 1 (strongly disagree) to 7 (strongly agree). These items included, “I envision this business receiving high-profile endorsements in the future,” “I envision this business receiving favorable press coverage in the future,” and “I envision this business having a top management team that will benefit the organization.” The reliability \( (\alpha = 0.77) \) of this scale was also found to be acceptable.

**Study 1: Results**

Table 1 presents descriptive statistics and intercorrelations for all study variables. Figure 2 shows the conceptual model with the ordinary least squares regression equations from Table 2. The effect sizes and confidence intervals for these regression results appear in Table 3.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Min.</th>
<th>Max.</th>
<th>Mean</th>
<th>SD</th>
<th>n</th>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Business purpose condition</td>
<td>0</td>
<td>1</td>
<td>0.62</td>
<td>0.49</td>
<td>85</td>
<td>0.059</td>
<td>-0.455**</td>
<td>0.211</td>
</tr>
<tr>
<td>2. Risk tolerance</td>
<td>1.20</td>
<td>5.90</td>
<td>3.85</td>
<td>0.98</td>
<td>84</td>
<td>0.057</td>
<td>-0.130</td>
<td>0.414**</td>
</tr>
<tr>
<td>3. Industry legitimacy</td>
<td>1.50</td>
<td>7.00</td>
<td>4.95</td>
<td>1.37</td>
<td>85</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Cognitive legitimacy</td>
<td>3.33</td>
<td>7.00</td>
<td>5.49</td>
<td>0.91</td>
<td>85</td>
<td>0.057</td>
<td>-0.130</td>
<td>0.414**</td>
</tr>
</tbody>
</table>

**p = <.001**

**Figure 2:** Conceptual framework with regression models.
Table 2: OLS regression model coefficients (standard errors in parentheses).

<table>
<thead>
<tr>
<th>Outcome Predictor</th>
<th>→</th>
<th>Model 1</th>
<th>Model 2</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Industry legitimacy</td>
<td>Cognitive legitimacy</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Coeff.</td>
<td>Coeff.</td>
<td></td>
</tr>
<tr>
<td>Intercept</td>
<td>6.645 (0.993)</td>
<td>3.299 (0.436)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>&lt;0.001</td>
<td>&lt;0.001</td>
<td></td>
</tr>
<tr>
<td>Business purpose</td>
<td>→</td>
<td></td>
<td></td>
</tr>
<tr>
<td>condition</td>
<td>a1→</td>
<td>−4.247 (1.165)</td>
<td>−0.591 (0.202)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>&lt;0.001</td>
<td>&lt;0.05</td>
</tr>
<tr>
<td>Risk tolerance</td>
<td>→</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industry</td>
<td>b→</td>
<td>0.367 (0.072)</td>
<td></td>
</tr>
<tr>
<td>legitimacy</td>
<td></td>
<td>&lt;0.001</td>
<td></td>
</tr>
<tr>
<td>Condition × risk</td>
<td>a3→</td>
<td>0.771 (0.298)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>&lt;0.05</td>
<td></td>
</tr>
<tr>
<td>Model R²</td>
<td>0.316</td>
<td>0.248</td>
<td></td>
</tr>
<tr>
<td></td>
<td>&lt;0.001</td>
<td>&lt;0.001</td>
<td></td>
</tr>
</tbody>
</table>

Note: Risk tolerance was mean centered to render parameter estimates that are interpretable within the range of the data. All coefficients are unstandardized and based on models with all variables entered.

Table 3: Numerical representation of conditional indirect effect of condition on cognitive legitimacy (with bootstrap confidence intervals), through industry legitimacy, at values (low, mean, high) of the moderator: risk tolerance.

<table>
<thead>
<tr>
<th>Risk tolerance</th>
<th>Effect size</th>
<th>Bootstrap lower limit confidence interval</th>
<th>Bootstrap upper limit confidence interval</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>−0.744</td>
<td>−1.095</td>
<td>−0.430</td>
</tr>
<tr>
<td>Mean</td>
<td>−0.468</td>
<td>−0.734</td>
<td>−0.255</td>
</tr>
<tr>
<td>High</td>
<td>−0.192</td>
<td>−0.510</td>
<td>0.050</td>
</tr>
</tbody>
</table>

Our first hypothesis held that individuals in the social enterprise condition perceive lower industry legitimacy than individuals in the for-profit condition. Our results supported this hypothesis ($F(1,84) = 21.70, p < 0.001, \eta^2 = 0.207$). As Figure 3 shows, individuals in the socially purposeful condition reported lower perceptions of industry legitimacy ($M = 4.47, SD = 1.41$) compared to the for-profit condition ($M = 5.75, SD = 0.83$).

Our second hypothesis held that higher risk tolerance buffers the deleterious effects of negative perceptions of socially purposeful businesses. In addition to the path analysis, we executed a multiple regression analysis using the PROCESS macro (Hayes 2012). For industry legitimacy, venture purpose yielded a significant main effect [$B = −4.247, t(81) = −3.645, p < 0.001$]. As hypothesized, an interaction term for risk tolerance qualified these findings, even though the risk tolerance variable did not yield a significant main effect [$B = −0.239, t(81) = −0.93, p = 0.36$].

Figure 4 shows the average levels of perceived legitimacy based on venture purpose. Variation in the two averages suggests a two-way interaction with risk tolerance [$B = 0.771, t(80) = 2.59, p < 0.05$]. Figure 4 presents the
trend lines associated with the interaction. Indeed, in support of our second hypothesis, higher risk tolerance individuals viewed the social enterprises case as having more industry legitimacy.

**Figure 4:** Indirect effects: Industry legitimacy as a function of venture purpose and risk tolerance.

We used Johnson–Neyman techniques (Bauer and Curran 2005; Hayes and Matthes 2009) to probe the interaction results. Figure 5 shows the regions of significance, which reveal scores in the range of the risk tolerance interaction term where the relation between venture purpose and industry legitimacy is not zero. This analysis shows that individuals reporting risk tolerance below 4.60 were influenced most negatively by venture purpose, which thereby decreased their perceptions of industry legitimacy.

**Figure 5:** John–Neyman regions of significance for the conditional effect of venture purpose condition at values of risk tolerance.

Our findings also generated support for our third hypothesis. The effect of industry legitimacy on cognitive legitimacy \(B = 0.367, t(81) = -5.118, p < 0.001\) shows a conditional indirect effect of venture purpose on cognitive legitimacy. Specifically, cognitive legitimacy trends positive as risk tolerance increases. As Figure 6 illustrates, this finding suggests that industry legitimacy mediates the relation between venture purpose and cognitive legitimacy. The effect also becomes less extreme as risk tolerance increases, as the bootstrap confidence interval included zero for high risk tolerance individuals.
Figure 6: Conditional indirect effect of condition on cognitive and industry legitimacy types at moderating levels (low, mean, high) of risk tolerance.

This pattern of findings supports the model that we propose in this paper. In summary, Study 1 shows that high risk tolerance individuals reliably evaluate social enterprises with more positive conclusions, especially in terms of high industry legitimacy. The effect is held for cognitive legitimacy, especially in the cases of individuals with more modest levels of risk tolerance. The research design of Study 1 is complex and was designed to control for statistical error and high-fidelity measurement. As it is with quasi-experimental empirical research based on short vignettes such as these, the rigorous control we accrued possibly came at the expense of relevance (i.e. realism). Thus, we complemented our findings from Study 1 by examining the same questions with qualitative data from practicing entrepreneurs. In the next section, we describe the method and results of Study 2.

Study 2: Method

Study 1 was based on a theory-driven measure of individual differences (i.e. the JPI) and participant ratings of standard dimensions in order to explain statistical variance in legitimacy perceptions. In Study 2, we examined data that quantitative surveys and rating scales do not provide. This empirical undertaking is designed to extend Study 1 findings based on qualitative reports from practicing entrepreneurs, who reflect both the social and nonsocial orientations in the Study 1 case ventures. The data and information we sought to collect in this portion of the study are not only intended to provide greater context to the findings of Study 1 but to offer richer and more specific information that will be instrumental to formulating research questions in future research.

Sample and procedure. We accessed three centers of entrepreneurial practice via our primary universities. Each center provided contact information for a diverse set of ten entrepreneurs. We mitigated selection bias by requesting random selection of the 30 participants. We use the three data sources to build a sample of practicing entrepreneurs who had engaged in various outreach projects with our home institutions. We contacted each of these 30 entrepreneurs via email and 23 (76.6%) responded with completed surveys and usable qualitative data. Respondents represented a variety of categories in terms of product and service businesses, venture longevity, and gender. The response rate among the social entrepreneurs \( (n = 15) \) was higher. In fact, this response rate approached 100%, given that the three entrepreneurship centers each provided an equal mix of social and nonsocial entrepreneurial types.

Next, working as a team, we designed five open-ended survey items based on the findings of Study 1. We designed these five items to effectively present the participants with Study 1 findings in practical but rigorously accurate forms and to capture their insights into the external validity of the results. Table 4 presents the text of the five survey items and Table 5 displays demographics of our sample.

Table 4: Study 2 survey items.

<table>
<thead>
<tr>
<th></th>
<th>Question</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>This question pertains to the industry or sector that an entrepreneurial venture intends to enter, not to the entrepreneurial venture itself. In your view, if an industry sector is new, unregulated, and/or unreliable, does it damage your perceptions of an otherwise well-designed entrepreneurial venture intending to enter that space? In what ways? To what extent? Please share your views on the importance of whether or not an industry is well established and reliable versus non-tested and dubious.</td>
</tr>
<tr>
<td>2</td>
<td>When you perceive an entrepreneurial venture entering an industry environment that is known to be unregulated and unreliable, to what extent and in what way do you believe your own personal feelings about risk influence your perceptions of the future success of that venture?</td>
</tr>
<tr>
<td>3</td>
<td>Which is more important to you, (a) the legitimacy of a new venture or (b) the legitimacy of the industry that venture intends to enter? Please expound on the relative importance of (a) and (b) to future success of an entrepreneurial venture.</td>
</tr>
<tr>
<td>4</td>
<td>This question pertains to an entrepreneurial venture itself, not to its industry. Some entrepreneurial ventures have explicit social missions embedded into their operations, whereas others do not. Do you perceive that ventures with explicit social missions tend to be more or less legitimate as business operations?</td>
</tr>
<tr>
<td>5</td>
<td>Some entrepreneurial sectors are socially oriented (e.g. microloans) than others (e.g. equity crowdfunding). Do you think that ventures in either one of those sectors tend to have more legitimate business operations in general?</td>
</tr>
</tbody>
</table>

Table 5: Demographic characteristics by venture orientation \( (N = 23) \).
Study 2: Results

For each of the five survey items, we report our findings in terms of venture orientation (social, non-social), business type (product, service), and gender (male, female). These demographic variables are routinely observed used in theory-driven studies of entrepreneurial legitimacy as reviewed earlier and we used them to more closely examine the qualitative data.

For the first item, we asked the entrepreneurs if industry legitimacy is likely to influence their perceptions of the legitimacy of a given entrepreneurial venture. In Study 1, the results for Hypothesis 3 supported this notion. However, the qualitative data suggest a more moderate result. Table 6 presents the responses (damages perceptions; perceptions unchanged) in terms of the three demographic variables.

The social entrepreneur respondents offered a range of perspectives, with many qualifications of these concepts in practical settings. For instance, as one respondent explained:

"Whether or not the industry is well established and reliable vs. non-tested and dubious has some bearing on my view of the industry, however this would not be the only deciding factor. There are a variety of other factors that play in my perception of a venture such as: industry trends to date, business viability, market availability, other business opportunities/risks and the assembled leadership team."

Table 6: Respondent views on industry legitimacy.

<table>
<thead>
<tr>
<th>Non-social (n = 8)</th>
<th>Social (n = 15)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Service</td>
<td>3</td>
<td>11</td>
</tr>
<tr>
<td>Years of operation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average</td>
<td>5.03</td>
<td>7.60</td>
</tr>
<tr>
<td>Median</td>
<td>1.88</td>
<td>5.00</td>
</tr>
<tr>
<td>Minimum</td>
<td>0.50</td>
<td>1.00</td>
</tr>
<tr>
<td>Maximum</td>
<td>15.00</td>
<td>30.00</td>
</tr>
<tr>
<td>Gender</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>4</td>
<td>11</td>
</tr>
<tr>
<td>Female</td>
<td>4</td>
<td>4</td>
</tr>
</tbody>
</table>

The nonsocial entrepreneur respondents offered more direct responses to this item, with less qualifying language, although they also made the general point that industry legitimacy does not determine their perceptions of a given venture’s legitimacy. In fact, two respondents tended to perceive non-legitimate industries in quite positive ways. As one respondent wrote:
The industry I intend to enter is electronic shopping. My product is a safety vehicle magnet/decal. I believe that is important that an industry be not necessarily established, but certainly reliable versus non-tested and dubious.

The next survey item inquired about risk tolerance regarding unregulated and unreliable industry environments. Table 7 presents the results (influential; not influential) based on the three demographic variables. Study 1 showed that low risk tolerance as measured by the JPI was associated with negative evaluations of the feasibility of ventures entering such industry environments. This item showed a greater tendency for non-social entrepreneurs to evaluate such ventures negatively. The social entrepreneurs tended not to be so influenced, and they also expressed more optimism about the circumstances described by this item. As one explained, “Not necessarily, I think it’s courageous and ambitious for one to try to succeed.” Another response not only suggested the same orientation but also underlined the importance of the qualitative data in Study 2:

Any venture, product, service, or idea must be evaluated for market risk, counterparty risk, etc. I tend to have a higher qualitative risk threshold than my known quantitative risk appetite.

<table>
<thead>
<tr>
<th>Table 7: Respondent views on risk tolerance findings.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Influential</td>
</tr>
<tr>
<td>Social entrepreneurs (n = 15)</td>
</tr>
<tr>
<td>Product</td>
</tr>
<tr>
<td>Service</td>
</tr>
<tr>
<td>Male</td>
</tr>
<tr>
<td>Female</td>
</tr>
<tr>
<td>Nonsocial entrepreneurs (n = 8)</td>
</tr>
<tr>
<td>Product</td>
</tr>
<tr>
<td>Service</td>
</tr>
<tr>
<td>Male</td>
</tr>
<tr>
<td>Female</td>
</tr>
</tbody>
</table>

The nonsocial entrepreneur respondents were generally more influenced by the risks of an unregulated and unreliable industry environment. For example:

My own personal feelings about risk will greatly influence my perceptions of the future success of my venture. If I have any trepidation or am risk averse, I will not think that the venture will be successful. I will want some form of assurance when entering this risky environment. However, as an entrepreneur, there are no guarantees, and risks come with the territory. The short answer is yes.

The third survey item asked respondents for their perspective on the relative importance of venture and industry legitimacy and to explain their rationale. This item reflects the cognitive and industry legitimacy types from Study 1. Table 8 presents the findings (cognitive; industry) based on the demographic variables. There were no clear demographic trends, except for an emphasis on industry legitimacy by male social entrepreneurs. This finding partially reflects findings for Hypothesis 2 (Figure 4), which holds that individuals high in risk tolerance emphasize the importance of industry legitimacy. As one nonsocial entrepreneur explained:

The legitimacy of the industry that the venture intends to enter is more important. The new venture has no traction, has no imprint in the market. So, in my opinion, the future success of the venture depends (not solely) on the viability and strength of that particular industry.

<table>
<thead>
<tr>
<th>Table 8: Respondent views on legitimacy type importance.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cognitive</td>
</tr>
<tr>
<td>Social entrepreneurs</td>
</tr>
<tr>
<td>Product</td>
</tr>
<tr>
<td>Service</td>
</tr>
<tr>
<td>Male</td>
</tr>
</tbody>
</table>
Similarly, according to another respondent, a social entrepreneur,

The legitimacy of the new venture is entirely dependent on the legitimacy of the industry. They are inseparable. The venture may be designed to capitalize on the uncertainty of an industry though.

In general, the respondents to the third survey item reflected a range of views regarding the relative importance of industry and cognitive legitimacy, except for male social entrepreneurs, who tended to emphasize the nature of the larger environments in which entrepreneurial ventures are embedded.

For the fourth item, we asked the entrepreneurs whether or not social enterprises are perceived as less legitimate than non-socially purposeful venture counterparts. Not surprisingly, as shown in Table 9, we found an effect across the social and nonsocial entrepreneur categories that aligned with self-reported venture type. For the social entrepreneur respondents, a social mission tended to add a level of legitimacy even if largely due to external perceptions:

I believe more and more that social missions empower, inspire, and drive companies. However, I consider many things social missions – like the growth and emergence of my staff or the bringing of an authentic marketing message to a company so that it can be more truthful. In short, social consciousness makes a business more legit. Sometimes the social mission is more badge value, but even that works.

Table 9: Respondent views on social orientation and cognitive legitimacy.

<table>
<thead>
<tr>
<th></th>
<th>More legitimate</th>
<th>Less legitimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social entrepreneurs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Service</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td>Male</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Female</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Nonsocial</td>
<td></td>
<td></td>
</tr>
<tr>
<td>entrepreneurs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>Service</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Male</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>Female</td>
<td>0</td>
<td>4</td>
</tr>
</tbody>
</table>

For the nonsocial entrepreneur respondents, the trend was in the opposite direction, often for similar reasons, such as the superficial nature of external perceptions. For example:

I do not think that having a social mission tied to your business model lends legitimacy to an idea or business. It can make consumers/customers feel better about what they are supporting, but it does not mean that business will find more success than the same one without a social purpose. That is unless the social purpose is tied to the core of what the business is about and is not an add on just to add legitimacy to the primary mission of the company.

The final item of the survey addressed the social aspects that entire industries possess, and whether or not the socially purposeful aspects of those sectors had an effect on the perceptions of ventures in those sectors. For this item, as shown in Table 10, social entrepreneurs tended to believe that socially minded industries did not necessarily equate to perceptions of legitimacy for ventures in those sectors. This item corresponds to Hypothesis 3, which examined the mediating effect of industry legitimacy on cognitive legitimacy. Similar to the results of Study 1, we found that the effect was more reliable for sectors perceived as more socially oriented.

As one social entrepreneur expressed it, “No.” Another one responded, “Nope.” Another one explained her/his perception in greater detail:

I think it’s entirely dependent on the venture itself, and it’s unfair to make a blanket statement.
Table 10: Respondent views on social orientation and industry legitimacy.

<table>
<thead>
<tr>
<th></th>
<th>More legitimate</th>
<th>Not more legitimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social entrepreneurs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Service</td>
<td>2</td>
<td>9</td>
</tr>
<tr>
<td>Male</td>
<td>3</td>
<td>8</td>
</tr>
<tr>
<td>Female</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>Nonsocial entrepreneurs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Service</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Male</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Female</td>
<td>1</td>
<td>3</td>
</tr>
</tbody>
</table>

For both the nonsocial and the social entrepreneurs, sectors with social orientations were not necessarily seen as more legitimate, but this view was more pronounced among the social entrepreneurs. Surprisingly, the social entrepreneur participants (compared to nonsocial entrepreneur participants) insisted upon more objective and much clearer evidence for examining the legitimacy of social enterprises and the environments in which social enterprises operate.

Working as a research team to interpret the responses from practicing entrepreneurs, these qualitative findings gave richer context for interpreting the findings of Study 1. The full responses to all five Study 2 items are available from the corresponding author. In what follows, we discuss the findings of Study 1 and Study 2 with a view toward theoretical and practical implications.

Discussion

We find general support for the hypothesized path model of relations among venture purpose, risk tolerance, industry legitimacy, and cognitive legitimacy. These results contribute new information concerning social enterprises seeking to gain legitimacy as a means to harness resources. Specifically, results for our first and second hypotheses suggest that respondents perceive social enterprises as less legitimate, but that this perception becomes stronger among those respondents with more moderate levels of risk tolerance. Results for the tests of our third hypothesis suggest that the interaction of venture purpose and risk tolerance drives cognitive legitimacy and, moreover, that industry legitimacy mediates this effect. These insights precipitate multiple research-based as well as practical contributions which we outline below.

Implications for Research

Our study is the first one to rigorously examine how perceptions of industry legitimacy influence cognitive legitimacy. Our quasi-experimental design allowed us to control treatment effects to the extent that we could generate strong evidence of a two-way interaction between risk tolerance and industry legitimacy on the distal outcome of cognitive legitimacy. We were also able to show boundaries of the interaction using additional empirical testing. These findings promote a deeper understanding of how individuals perceive social enterprises and for-profit ventures. Entrepreneurial ventures are perceived generally as risk laden because of legitimacy issues, but the moderating effect sheds light on the nature of those general perceptions, especially with regard to social enterprises. In short, social enterprises are perceived as more legitimate when their industry is perceived as legitimate and the perceiver has moderately high levels of risk tolerance.

The results in both studies suggest that industry legitimacy yields an effect on attainment of cognitive legitimacy. Moreover, our study delineates a path for this effect in terms of an interaction with risk tolerance level, and in terms of whether the venture is for-profit or socially purposeful. Therefore, our findings show that when entrepreneurs attain industry legitimacy, it is also possible to realize the kind of cognitive legitimacy that applies to their venture alone. This particular result sheds light on, and bolsters, prior research on industry legitimacy (Aldrich and Fiol 1994; Elsbach 1994; Lounsbury and Glynn 2001).

In concordance with past research, we found that risk tolerance plays an important role in entrepreneurship in general, and in social enterprises in particular. Further, our findings suggest some boundary conditions for
this effect. Specifically, the perceivers of entrepreneurial ventures viewed them in terms of their own personal risk tolerance but only under certain conditions, such as when the venture’s purpose suited them. This finding extends the results of other studies assessing risk tolerance levels of individuals unaffiliated with the venture in question (Janney and Dess 2006; Teoh and Foo 1997). Accordingly, our work in this area serves to deepen our understanding, and scholars can now better conceptualize different types of social enterprise perceptions.

### Implications for Practice

Perceptions of industry legitimacy and cognitive legitimacy are germane to the launching of social enterprises, which often seek to enter new or ill-defined industries. Our study clarifies understanding of these cases because it illustrates the importance of industry legitimacy. Social enterprises targeting a particular problem often have a range of industry sector options for addressing that problem. For instance, social enterprises seeking to enhance child education in an underserved neighborhood may choose to utilize the banking sector, or they may choose to utilize the education sector. Our findings suggest that if one of those industries is deemed more legitimate than the other in that given community, then a social enterprise is more likely to achieve viability in that industry context. This effect is most pronounced when the observers are more comfortable with risk.

Our study findings also suggest that social entrepreneurs would do well to focus attention on industry legitimacy, rather than cognitive legitimacy. This implication is important, because most social entrepreneurs spend more time and attention on perceptions of their particular venture. However, we suggest that the industry sector with which they are associated or the channel to market that they strategically choose represents an important foundation for eventually achieving cognitive legitimacy. The impact of advocacy work or educational programs for the sake of the larger cause or mission of an entire field of social enterprises can serve to generate this kind of value.

When social enterprises are congruent with the norms of an industry that is already perceived as legitimate, it sets the stage for cognitive legitimacy perceptions. These findings clarify the roles of the two legitimacy types by showing that industry legitimacy perceptions are enhanced when a venture is understandable, believable, and intriguing based on a sector already perceived as legitimate (Pollack, Rutherford, and Nagy 2012). Our findings extend this notion by showing that the effect is stronger when risk tolerance is higher.

Studies have long shown that another strategy for attaining legitimacy is a well-constructed business narrative. A venture’s story, conveyed through a variety of different media, is vital to industry legitimacy and cognitive legitimacy. Past research also shows the effectiveness of such narratives in driving legitimacy perceptions among key stakeholders (Anderson 2005; Delmar and Shane 2004). Our study builds on these findings in several ways. A compelling social enterprise mission is helpful amid high levels of external ambiguity and uncertainty. However, unduly novel social enterprise operational models can hinder mission-based legitimacy perceptions. Our study shows that the careful alignment of social enterprises in the context of an established industry can ameliorate this effect because access to resources is more likely when the venture is affiliated with an established sector. Therefore, when social entrepreneurs make presentations to various stakeholders (e.g., investors, customers, etc.), one effective approach is to use facts that are in-depth and logical based on the industry sector in question. The perceptions of industry legitimacy can and do extend to the venture itself.

Our implications also shed light on the limits of impression management to increase perceptions of legitimacy. Past studies have shown that entrepreneurial venture communications can be infused with ingratiation, self-promotion, and exemplification (Nagy et al. 2012). Whereas these tactics have been suggested to be persuasive when it comes to industry legitimacy and cognitive legitimacy, our study suggests that the compelling facts derived from a legitimate industry sector, and how a social enterprise is aligned with them, are persuasive. Here, one way to enhance perceptions of legitimacy is to collaborate with existing, more legitimate ventures. “The venture is a key partner with ‘Venture A,’ and ‘Venture A’ just opened their second store location” is a typical example. Caution is recommended when using such tactics, which have been shown to be of questionable value when limited information is known about industries in question (Cornelissen and Clarke 2010). Put differently, our study suggests that referencing existing ventures as a means to gain perceptions of legitimacy must take stock of the sector in which those other ventures are embedded.

### Limitations and Future Directions

Our study examined risk tolerance and perceptions of legitimacy as they pertain to social enterprises. Yet, there are many more phenomena that we did not include in the present research. One such limitation pertains to the importance of interpersonal interaction. The format we used to introduce the venture cases and exercise a high level of quasi-experimental control did not allow for interpersonal interactions between entrepreneurs and participants. Thus, this is a potentially fruitful area for future research.
Relatively, in lieu of survey instruments and qualitative reporting, prior studies have used video recordings or interviews to add richer interpersonal contexts (Lewis 2016). We did not use such an approach in our study, but future studies can use such methods to evaluate the effects of risk tolerance and legitimacy perceptions with a research design identical to ours. Despite creating a loss of quasi-experimental control, the introduction of such interpersonal factors as physical appearance or other traits can be important, but they were also outside the scope of our study. After all, those particular desirability factors are tangential to the viability of an entrepreneurial venture, even if they are germane to the legitimacy perceptions (Macko and Tyszka 2009).

Thus, future research efforts in this stream may find it valuable to measure interpersonal effects of personal characteristics as additional moderators. Additionally, here, we strongly suggest that future research examine other types of legitimacy (normative, regulative) to extend and advance the present work. Our approach to focus on industry legitimacy and cognitive legitimacy was theory based. However, we surmise that divergent theoretical musings could build a compelling case to examine normative legitimacy and regulative legitimacy in future endeavors.

Another potential limitation is the context of our vignettes. Here, the issue of greenhouse gas emissions, as described in our case narratives, may have generated perceptual biases based on participants’ opinions of the values of that specific sector (e.g. the degree to which a participant perceived global warming, or not). Future research is advised to choose various contexts for the vignettes to examine how perceptions change, if at all. However, here, we note that no evidence of such bias emerged in the qualitative data collected in Study 2, and our quasi-experimental design allowed us to control for such confounding factors because participants encountered the same stimuli (except for the venture purpose treatment) across the two conditions. All told, however, we explicitly geared our manipulation check to assess the degree to which the quasi-experimental treatments had the desired perceptual effect on study participants. Those findings supported the effectiveness of the venture case vignettes.

Future research on the specific legal statuses that social enterprises take, such as benefit corporations, nonprofit organizations, nongovernmental organizations, sole proprietorships, limited liability companies, and how those legal statuses relate to legitimacy, will shed light on the questions we engaged in this study. Some of these legal statuses are intended for ventures that generate financial returns for investors, whereas some prohibit such returns, and still others are geared to operate at levels of affordable loss. Our materials used the term “socially purposeful venture” to mirror the term “for-profit venture” for quasi-experimental purposes. However, as the field evolves, the term “social enterprise” is growing in usage but does not yet have a common definition.

We endorse the use of the term “social enterprise.” One reason for the evolving definition of this term is that social enterprises, despite being mission-driven, generate revenue via fee-based income (like for-profit ventures) and not just via donations (like nonprofit organizations). We call for more research of the degree to which financiers, customers, employees, and suppliers of social enterprises draw distinctions among different legal statuses as they apply to social enterprises.

Another vista for future research entails the degree to which social enterprises can “borrow” legitimacy by partnering with more traditional firms. This sort of hybrid arrangement is a common strategy among nonprofit and for-profit organizations (Murphy and Coombes 2009). However, social enterprises may enhance legitimacy even further for themselves and their traditional partners by collaborating more strategically and in more innovative ways. If such alliances are signaled effectively to key stakeholders, both firms can enjoy greater legitimacy by association.

Other venture-level characteristics such as name, location, and aspects related to brick-and-mortar versus web-based ventures all influence perceptions and can therefore tie into the relationships that generate legitimacy perceptions. Research that longitudinally tracks actual decisions of entrepreneurs and/or stakeholders and examines future social enterprise performance would be particularly useful in moving this area of study forward.

It is important to note the multiple aspects of entrepreneurial activity related to industry legitimacy that warrant future attention based on our findings because the construct requires theoretical clarification. From a theoretical perspective, industry legitimacy has been in the literature for more than two decades. However, empirically, it is still in its infancy. Future work has an opportunity to delineate similarities and differences between industry legitimacy and constructs such as industry recognition. Moreover, the way in which legitimacy perceptions form needs exploration. For instance, do industry trends, business viability, market availability, or other elements of risk explain the most variance? Finally, the antecedents of industry legitimacy, and the relations among them, are clearly a needed area for future inquiry.

Finally, we found that low risk tolerance contributes to the legitimacy perceptions of social enterprises by moderating certain effects of industry and cognitive legitimacy types. This finding suggests some new avenues for social enterprise research. It implies that social enterprises are exposed more fully to perceptions of risk deriving from the external communities and environments in which they are embedded. As risk is relative to
individual-level knowledge, education and awareness can influence these risk perceptions in light of risk tolerance levels to help promote legitimacy perceptions in turn. We acknowledge that the legitimacy impediments facing social enterprises are primarily venture centric, as they are for most for-profit entrepreneurial ventures. However, we posit that social enterprises are influenced by perceptions from external sectors and environments in other ways that matter to performance and are not applicable to their for-profit counterparts, which appears to call for distinct strategic affordances.

Conclusion

We anticipated that exploring the relations among risk tolerance, industry legitimacy perceptions, and cognitive legitimacy perceptions would be a straightforward task. Rather, this examination was much more nuanced than we anticipated, and much more nuanced than the extant literature portrays the relations to be. What we found – that perceptions of venture purpose influence cognitive legitimacy via a conditional (on risk tolerance) indirect path, through industry legitimacy – sets the stage for exciting new lines of future academic inquiry and practitioner success.

Notes

1 Entrepreneurship research has utilized industry legitimacy as a concept for decades. Delacroix, Swaminathan, and Solt (1989: 249) focused conceptually on the legitimacy of the wine industry. Capon, Farley, and Hoenig (1990) found strong empirical relations between industry legitimacy and financial performance. Aldrich and Fiol (1994: 646) defined industry legitimacy as “social processes surrounding the emergence of new industries, from the early pioneering ventures through the early stages of growth, when the form proliferates as the industry becomes established.” These research studies illustrate industry legitimacy as an element of industry growth.

2 For this insight, we are grateful to one of Entrepreneurship Research Journal’s editorial board members, who served as an anonymous reviewer of this paper.

References


