

**Unintended consequences of scaling social impact through ecosystem growth strategy in  
social enterprise and social entrepreneurship**

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**Highlights**

- Ecosystem growth strategy has an enormous potential to achieve greater social impact in social enterprises.
- However, existing literature is largely biased towards success stories of ecosystem growth strategy.
- This paper highlights when and how ecosystem growth strategy can create unintended consequences.
- Furthermore, ecosystem growth as a social impact scaling strategy can produce different results in different contexts.
- Social entrepreneurs need to recognise that ecosystem growth strategy is not a panacea for scaling social impact.

# **Unintended consequences of scaling social impact through ecosystem growth strategy in social enterprise and social entrepreneurship**

## **Abstract**

Scaling social impact is regarded as the main currency in social enterprise and social entrepreneurship. Many social enterprises scale their social impact through ecosystem growth strategy, under which they indirectly address targeted social problems by growing and/or sustaining a supportive social enterprise ecosystem through activities such as organising advocacy campaigns and supporting other social enterprises to grow. However, the existing literature is largely biased towards the success stories of ecosystem growth strategy. Countering this “success bias”, this article presents a framework describing how, under certain conditions, scaling social impact through ecosystem growth strategy can create unintended consequences. In doing so, this paper also challenges the prevailing reductionist view of ecosystem growth as a social impact scaling strategy and provides a more reliable and comprehensive account of this scaling strategy. This article hopes to stimulate future research on greater understanding and management of unintended consequences of ecosystem growth strategy in social enterprise, as well as delineating the boundary conditions of this strategy with regard to scaling social impact.

**Keywords:** Social enterprise; Scaling social impact; Ecosystem growth strategy; Unintended consequence; Social entrepreneurship

## **1. Introduction**

Social enterprises (SEs) have attracted increased attention from both scholars and practitioners around the world (Doherty, Haugh, & Lyon, 2014; Saebi, Foss, & Linder, 2019). In a broader sense, SEs are organisations that primarily aim to address social problems whilst engaging in commercial activities to (partially or fully) support their operations, which can take several forms such as cooperatives, community enterprises, credit unions, housing associations, employee-owned businesses, trading arms of charities, development trusts, etc. (Powell, Gillett, & Doherty, 2019; Vickers & Lyon, 2014). In the context of SE and social entrepreneurship, scaling social impact is regarded as the main currency (Bacq & Eddleston, 2018; Bloom & Chatterji, 2009), since the fundamental reason underlying the existence of SEs is to create a positive impact on society (Austin, Stevenson, & Wei-Skillern, 2006; Zahra, Newey, & Li, 2014). Scaling social impact usually refers to the creation of higher social value by serving larger numbers of beneficiaries, as well as serving them well in relation to specific social problems (André & Pache, 2016; Dees, Anderson, & Wei-Skillern, 2004).

In the SE context, an increasingly popular strategy to scale social impact is ecosystem growth strategy (Bloom & Dees, 2008; Montgomery, Dacin, & Dacin, 2012). Under ecosystem growth strategy, SEs indirectly address targeted social problems by growing and/or sustaining a supportive SE ecosystem through activities such as organising advocacy campaigns and providing training and advisory support to other social enterprises (Grant & Crutchfield, 2007; Lyon & Fernandez, 2012). However, most literature that has at least some focus on ecosystem growth as a strategy to scale social impact is mainly biased towards success stories (see e.g., Alvord, Brown, & Letts, 2004; Bauwens, Huybrechts, & Dufays, 2019; Bloom & Dees, 2008; Bradach, 2010; Dees et al., 2004; Montgomery et al., 2012; Uvin, Jain, & Brown, 2000). While relevant, the higher emphasis on success stories of ecosystem growth strategy in SEs does not allow us to appreciate when and how this strategy may not work as intended. This represents a

major shortcoming, constraining our understanding of a more balanced and comprehensive view of ecosystem growth as a social impact scaling strategy. Echoing recent studies in the broader entrepreneurship and development area (Kimmitt, Newbery, & Muñoz, 2019; Muñoz & Kimmitt, 2018), this paper challenges the prevailing reductionist view of ecosystem growth strategy in SEs.

This article makes three contributions. Firstly, it extends the evolving literature on scaling social impact (e.g., André & Pache, 2016; Bacq & Eddleston, 2018; Bloom & Chatterji, 2009) by outlining some conditions under which scaling social impact through ecosystem growth strategy can backfire. Secondly, by elaborating on unintended consequences of ecosystem growth as a social impact scaling strategy, this paper responds to the call from several researchers (Dacin, Dacin, & Tracey, 2011; Zahra, Gedajlovic, Neubaum, & Shulman, 2009) to advance our understanding of the “dark side” of specific practices underlying social entrepreneurship. Thirdly, by countering the “success bias” that largely exists in the current literature on ecosystem growth strategy in SEs, this paper provides a foundation for future research on greater understanding and management of unintended consequences of this strategy.

## **2. Background**

In the context of business and management, the concept of ecosystem generally refers to a set of attributes (e.g., networks, mentors, capital, policy and governance, culture, etc.) that collectively creates a supportive environment for businesses to flourish (Acs, Stam, Audretsch, & O'Connor, 2017; Spigel, 2017; Spigel & Harrison, 2018). A variety of organisations and individuals produce and shape different attributes underlying a supportive business ecosystem (McMullen, 2018; Thompson, Purdy, & Ventresca, 2018; Zahra & Nambisan, 2012). Similarly,

a SE ecosystem encompasses a set of attributes that collectively creates a conducive environment for SEs to thrive (Bloom & Dees, 2008). Literature shows that many SEs scale their social impact through ecosystem growth strategy under which they indirectly address certain social problems by growing and/or sustaining a supportive SE ecosystem (Dees et al., 2004; Meyskens, Carsrud, & Cardozo, 2010; Uvin et al., 2000). As part of ecosystem growth strategy to scale their social impact, SEs engage in several activities, such as organising advocacy campaigns to change public policy in favour of specific social problems (Grant & Crutchfield, 2007), providing training and advisory support to grow other SEs (Ebrahim & Rangan, 2014), helping to establish new industry to address unmet social needs (Bloom & Dees, 2008), developing and disseminating sector-specific knowledge (Dees et al., 2004), and building networks to facilitate the exchange of good practices (Montgomery et al., 2012).

A main highlight of ecosystem growth strategy is that it enables SEs to address the needs of beneficiaries on a much larger scale than what could have been attained through organisational growth strategy (i.e., directly serving beneficiaries by, for example, adding new sites) (Grant & Crutchfield, 2007; Uvin et al., 2000). Indeed, because of the enormous potential of ecosystem growth strategy to achieve greater social impact, existing literature (e.g., Alvord et al., 2004; Bloom & Dees, 2008; Montgomery et al., 2012; Uvin et al., 2000) recommends that SEs use this strategy to a larger extent while scaling their social impact. Although ecosystem growth strategy is expected to generate certain intended consequences, it may also create unintended consequences. However, little discussion exists on the unintended consequences of ecosystem growth strategy in SEs. The current study addresses this issue.

### **3. Unintended consequences of scaling social impact through ecosystem growth strategy**

Three activities commonly found in the literature regarding ecosystem growth strategy are: undertaking advocacy work, supporting the creation of new SEs and growth of young SEs, and undertaking industry development work (see e.g., Alvord et al., 2004; Bauwens et al., 2019; Bloom & Chatterji, 2009; Bloom & Dees, 2008; Dees et al., 2004; Grant & Crutchfield, 2007; Lyon & Fernandez, 2012). This section uses these three activities as the basis to explain how scaling social impact through ecosystem growth strategy can create unintended consequences.

#### ***3.1 Scaling social impact through undertaking advocacy work***

As part of ecosystem growth strategy to scale their social impact, some SEs undertake advocacy work to change public policies towards the betterment of targeted social problems. For example, Grant and Crutchfield (2007) show how several US-based SEs (e.g., YouthBuild USA, Teach for America, Self-Help, etc.) engaged in advocacy campaigns by organising grassroots alliances and other activist organisations to change public policies in favour of social causes, such as protecting civil rights of Hispanics and immigrants, creating federal funding to support employment and training opportunities for low-income youths, and protecting low-income people from predatory lending practices.

However, a SE's advocacy work can also create unintended consequences in the form of triggering hostile behaviour from the government towards the focal SE. This can occur under several conditions. Firstly, in an authoritarian state where the government tends to assume full responsibility of social welfare, any advocacy campaign against the government's social welfare policies is generally considered a direct challenge to the government. In such a context, SEs' advocacy work runs the risk of attracting the government's brutal actions, including the detention of social entrepreneurs and their staff members. For example, in their study of social entrepreneurship in China, Bhatt, Qureshi, and Riaz (2019, p. 622) show that advocacy

campaigns against the country's social welfare policies are often completely crushed by the government: "Social entrepreneurs... can learn a lot from protests against various dams. ... The lesson we learned from these protests is that you cannot challenge the might of Chinese government. If you do that, you will certainly be crushed or at least rendered totally ineffective".

Secondly, unlike China, some authoritarian states (e.g., Egypt) do not assume the full responsibility of social welfare; rather, they encourage other organisations (e.g., commercial organisations, SEs, and civil society organisations) to contribute to social welfare (Bayat, 2002). Here, although social activism is usually permitted, political activism is strictly prohibited (Bayat, 2002). In such a context, a SE's advocacy work runs the risk of triggering government hostility when it crosses the border into political advocacy. For example, in Egypt, the advocacy campaign of Muslim Brotherhood – an organisation that started as a social welfare group – often crossed the line between social activism and political activism (Elsayed, 2018). As a result, the organisation was subjected to the government crackdown and forced to terminate its operations in the country (Elsayed, 2018). Furthermore, in Egypt, as political advocacy is prohibited, many politically-motivated organisations and individuals join advocacy campaigns initiated by socially-motivated organisations only to politicise the campaigns (Abd el Wahab, 2012). That is, in this context, although a SE has good intentions to undertake an advocacy campaign (i.e., changing public policy for social betterment), some of its campaign partners can push the campaign beyond its intended boundary to execute their hidden political agenda, thus prompting government animosity towards the focal SE.

Thirdly, unlike an authoritarian state, a democratic state generally allows both social and political activism. That being said, a SE's advocacy work can also trigger government hostility in a democratic state when the government perceives it as a threat to national interests. For example, in India, SEs that participate in advocacy campaigns against the government's

policies towards power projects and mining are in danger of their assets being frozen and even their registration being cancelled (Kalra, 2015). This is because the Indian government considers advocacy work against its major development projects as a threat to the country's economic interests (Krebs & Ron, 2018). Similarly, in Australia, SEs involved in the advocacy campaign against the government's policies towards the extraction of natural resources are at risk of being framed as "extremists" because the government considers such advocacy work as a threat to the country's economic development (Matejova, Parker, & Dauvergne, 2018).

### ***3.2 Scaling social impact through supporting the creation of new SEs and growth of young SEs***

As part of ecosystem growth strategy to scale their social impact, some established SEs help to create new SEs as well as grow young SEs by providing support, such as training and advisory, legitimacy building, and financing (Ebrahim & Rangan, 2014; Granados & Rosli, 2019; Meyskens et al., 2010). This facilitates the growth in size of the SE sector as a whole (Bloom & Dees, 2008; Lyon & Fernandez, 2012).

However, growing the size of the SE sector can also lead to unintended consequences. Research shows that in many places, SEs operate in a resource-constrained environment. For example, Vickers, Lyon, Sepulveda, and McMullin (2017, p. 1763) observe that although SEs in UK appear to be "one big happy family", "actually in the next breath", they compete against each other to win public contracts. Similarly, Barraket and Loosemore (2018, p. 399) find that SEs in the Australian construction industry are "all in competition with each other for a very small pool of money".

Supporting the creation of new SEs and growth of young SEs in an already resource-constrained environment would intensify competition for limited resources, which could lead to SEs ineffectively addressing targeted social problems. This is because intensified



competition for limited resources may force SEs to spend more time and effort on securing such resources for their survival, rather than serving beneficiaries. Furthermore, allocating limited resources with larger numbers of SEs means each SE will get less than optimal resources to effectively serve beneficiaries. For example, Ramus and Vaccaro (2017) show that during the 1990s, when the competition for resources in the Italian SE sector was moderate, two Italian work integration SEs (Alpha and Beta) could easily obtain resources and could focus more on activities to improve the wellbeing of marginalised workers (i.e., beneficiaries). However, in the early 2000s, when the competition for resources in the Italian SE sector increased, these work integration SEs prioritised activities related to resource acquisition (e.g., boosting customer satisfaction to win customer orders) to survive in the market (Ramus & Vaccaro, 2017). This resulted in reduced numbers of social-oriented projects undertaken, as well as decreased quality of the training and counselling services delivered to marginalised workers (Ramus & Vaccaro, 2017).

### ***3.3 Scaling social impact through undertaking industry development work***

To scale their social impact, some SEs undertake industry development work where they help to establish a new industry and/or mature a nascent industry in relation to addressing certain social problems. A SE's industry development work can develop game-changing solutions to substantially improve the wellbeing of millions of beneficiaries nationally and internationally (Alvord et al., 2004). For example, by observing poor people's limited access to the mainstream mortgage market in the USA, Self-Help – a US-based SE – established a secondary mortgage market for millions of low-income people in 1998 (Bloom & Dees, 2008).

However, SEs' industry development work can also create unintended consequences. The intended recipients of the value generated by SEs' industry development work are the beneficiaries. Unfortunately, where the local and national authorities are less active in

promoting and protecting beneficiary wellbeing, unintended actors may profit from SEs' industry development work in the course of denying beneficiary wellbeing or even harming beneficiaries. Take the case of the microfinance industry in India. Inspired by the Grameen model in Bangladesh, several SEs along with other organisations and individuals started piloting microfinance projects in rural India in the late 1980s, which grew much larger in the 1990s (CGAP, 2010). From the mid-2000s, when the Indian microfinance industry appeared to be lucrative from a financial perspective, several commercial financial institutions entered the industry and started to commercially abuse it (Mader, 2013). For example, these commercial financial institutions engaged in reckless lending, charged very high interest rates (e.g., 25% – 40%), paid million-dollar salaries to directors, overemphasised rapid growth, and followed coercive debt collection practices (Biswas, 2010; Burke, 2011).

In the meantime, several SEs (e.g., SKS, BASIX, and Spandana) had changed their business models from a social orientation to a commercial orientation (Rai, 2010). For example, SKS Microfinance, which originally established with a not-for-profit social business model in 1998, switched to a for-profit commercial business model in 2006 (Kazmin, 2010). Thereafter, it aimed for huge profit, accepted millions of dollars of private investment – which demanded very high returns – from international private equity firms (e.g., Sandstone Capital and Sequoia Capital), and adopted aggressive incentive plans for loan officers to sign large numbers of new borrowers (Associated Press, 2012). Soon, an industry that was developed to improve the wellbeing of poor people became a sanctuary of various actors whose main motive was to earn larger profit from the poorest of the poor (Burke, 2011). This not only denied the wellbeing of intended beneficiaries but also caused them miserable suffering. Hundreds of often illiterate borrowers fell into debt traps (e.g., over-indebtedness), sold their homes and other belongings to repay the loans, faced humiliation in public due to non-payment of loans, and committed

suicide due to unbearable harassment from aggressive collection agents (Associated Press, 2012; Biswas, 2010; Roodman, 2010).

All these unfolded before the eyes of Indian local and national authorities who were accused of treating the microfinance industry as the orphan child of the financial sector (Rhyne, 2010). Indeed, Indian authorities have failed to protect beneficiary wellbeing by failing to ensure solid institutional structure, balanced product offerings, and good governance in the country's microfinance industry (Mader, 2013). However, on a positive note, the authorities recently appear to have woken up and taken several corrective actions (Menon, 2016).

#### **4. Discussion and conclusion**

This study intends to stimulate a broader and deeper conversation around ecosystem growth as a social impact scaling strategy. Countering the success bias that largely exists in the current literature on ecosystem growth strategy in SEs (e.g., Bauwens et al., 2019; Dees et al., 2004; Montgomery et al., 2012), this article presents a framework (see Table 1) that explains when and how scaling social impact through ecosystem growth strategy can create unintended consequences. This paper argues that whilst an articulation of successful episodes of ecosystem growth as a social impact scaling strategy certainly has merits (e.g., inspiring others to pursue this strategy), an overemphasis on this limits the ability to learn from instances where this strategy may not work as intended.

---- Insert Table 1 here ----

The current article advocates for bringing critical voices to the notion of ecosystem growth strategy in SEs, which would offer a more reliable and comprehensive account of this strategy. For example, existing literature shows how SEs' industry development work can create higher social impact by developing game-changing solutions to substantially improve the wellbeing

of millions of beneficiaries (Alvord et al., 2004; Bloom & Dees, 2008). While this is true in general, a critical perspective allows us to appreciate, as this paper shows, that when local and national authorities are less active in promoting and protecting beneficiary wellbeing, unintended actors can profit from the industry in the course of denying beneficiary wellbeing or even harming beneficiaries. That is, the very activity – industry development work – that can create enhanced social impact can also undermine it. This example suggests that, to reap the full potential of SEs' industry development work, industry protection work should be considered as important as industry development work. In other words, the notion of ecosystem growth strategy in SEs should pay due attention to industry protection work in addition to industry development work.

Indeed, due to the lack of a critical perspective in the literature on ecosystem growth strategy in SEs, to date, little empirical work exists on the unintended consequences of this strategy. We know little about, for example, how SEs can or do manage unintended consequences of ecosystem growth strategy. Furthermore, what if a SE fails to effectively manage unintended consequences that may result from, for example, supporting the creation of new and growth of young SEs? Should it stop providing such support altogether? If yes, would there be any ethical issues? Given that we know little about these issues, this paper calls for future research on greater understanding and management of unintended consequences of ecosystem growth strategy in SEs.

Furthermore, our current understanding of ecosystem growth strategy in SEs is apparently built on the assumption of universalism. For example, researchers (e.g., Grant & Crutchfield, 2007) show how SEs in western countries (e.g., USA) create greater social impact through undertaking advocacy work, and recommend that other SEs undertake such advocacy work to scale their social impact. An inherent assumption in these studies is that what works in one context (e.g., western countries) should also work in another context (e.g., non-western

countries). However, as the current study shows, a certain advocacy campaign that can successfully bring policy change in favour of targeted social problems in western countries can trigger hostile behaviours from the government in non-western countries (e.g., China, India, Egypt, etc.) because of the differences in institutional and socio-cultural arrangements.

Therefore, rejecting the current universalist assumption, this paper suggests adopting a socio-spatial (or similar) lens (Kibler, Fink, Lang, & Muñoz, 2015; Muñoz & Kimmitt, 2019) to study the phenomenon of ecosystem growth strategy in SEs, which would seriously take local realities and contexts into account. This could facilitate the development of fine-grained knowledge surrounding ecosystem growth strategy in SEs, for example, by providing context-rich insights into activities underlying this strategy to create enhanced social impact. Also, a socio-spatial lens could be useful in delineating the boundary conditions (Busse, Kach, & Wagner, 2017; Marti & Gond, 2018) of ecosystem growth strategy in SEs, since it would offer researchers the chance to identify the limit of and relationship between specific activities (e.g., advocacy work, industry development work, etc.), as they represent ecosystem growth strategy, in relation to scaling social impact in different contexts.

The above discussion has implications for practice in that social entrepreneurs and practising managers should not consider the wholesale adoption and implementation of ecosystem growth strategy to scale social impact. Rather, while implementing ecosystem growth strategy to scale social impact, they need to remain open and vigilant to refine their activities to better reflect the important subtleties of the context in question. Furthermore, social entrepreneurs should recognise that ecosystem growth strategy is not a panacea for scaling social impact; rather, this strategy can backfire under certain conditions.

To conclude, scaling social impact through ecosystem growth strategy is not without its side effects. Furthermore, ecosystem growth strategy can produce different results in different

contexts. Therefore, while undertaking their scholarly and practice endeavours (e.g., researching, teaching, advising, and policymaking) around scaling social impact in SEs, scholars and practitioners need to pay due attention to potential unintended consequences of ecosystem growth strategy in addition to its intended consequences, as well as local contexts and realities of interest.

Table 1. A framework for understanding unintended consequences of scaling social impact through ecosystem growth strategy in SEs

Scaling social impact through ecosystem growth strategy	Intended consequences	Unintended consequences	Conditions under which unintended consequences can be created
<ul style="list-style-type: none"> <li>• Undertaking advocacy work</li> </ul>	<ul style="list-style-type: none"> <li>• Changing public policies for the betterment of targeted social problems</li> </ul>	<ul style="list-style-type: none"> <li>• Triggering hostile behaviour from the government, which can significantly jeopardise a SE's operations or even lead to the termination of its operations</li> </ul>	<ul style="list-style-type: none"> <li>• When advocacy work against the country's social welfare policies is considered a direct challenge to the government (e.g., in China)</li> <li>• When advocacy work crosses the border into political advocacy (e.g., in Egypt)</li> <li>• When advocacy work is considered a threat to national interests (e.g., in India)</li> </ul>
<ul style="list-style-type: none"> <li>• Supporting the creation of new SEs and growth of young SEs</li> </ul>	<ul style="list-style-type: none"> <li>• Growing the size of the SE sector as a whole</li> </ul>	<ul style="list-style-type: none"> <li>• Intensifying competition among SEs for limited resources, which can lead to SEs ineffectively addressing targeted social problems</li> </ul>	<ul style="list-style-type: none"> <li>• When SEs operate in an already resource-constrained environment</li> </ul>
<ul style="list-style-type: none"> <li>• Undertaking industry development work</li> </ul>	<ul style="list-style-type: none"> <li>• Developing game-changing solutions to substantially improve the wellbeing of millions of beneficiaries nationally and internationally</li> </ul>	<ul style="list-style-type: none"> <li>• Profiting from the industry by unintended actors in the course of denying beneficiary wellbeing or even harming beneficiaries</li> </ul>	<ul style="list-style-type: none"> <li>• When local and national authorities are less active in promoting and protecting beneficiary wellbeing</li> </ul>

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