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**DOI**

[10.5465/AMPROC.2025.98bp](https://doi.org/10.5465/AMPROC.2025.98bp)

**Publication date**

2025

**Document Version**

Final published version

**Published in**

Academy of Management proceedings

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[Link to publication](#)

**Citation for published version (APA):**

Curran, K., Hubbard, T., & Plesa, M. (2025). Ghosts of Forms Past: Foundational Organizational Forms and Social Enterprise Performance. *Academy of Management proceedings*, 2025, Article 21551. <https://doi.org/10.5465/AMPROC.2025.98bp>

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# **GHOSTS OF FORMS PAST: STRUCTURED ATTENTION AND SOCIAL ENTERPRISE PERFORMANCE**

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## **ABSTRACT**

Social enterprises offer a promising hybrid organizational form to address societal challenges through market-based activities, but extant research has questioned their long-term viability. Drawing on the attention-based view of the firm, we theorize how the attention allocation of social enterprises as a function of their organizational form influences financial performance, survival, and growth trajectories. Using a longitudinal dataset of 5,202 firm-year observations of Community Interest Companies (CICs) in the United Kingdom (2005–2023), we find support for our theorizing. These findings challenge assumptions about the fragility of hybrids and underscore the importance of structured attention in shaping social enterprise performance.

## **INTRODUCTION**

Can an organization deliver social impact and generate profit at the same time? Social enterprises are a promising organizational form that combine market-based activities with societal benefits (Battilana & Dorado, 2010). The economic and social impact of social enterprises has significantly increased in the 21st century, leading to the establishment of regulatory frameworks that legally define them as a distinct organizational form supporting a dual mission (Ebrahim, Battilana, & Mair, 2014). Despite this growth, the unique hybrid nature of social enterprises creates tensions that impact the likelihood of achieving financial viability (Battilana, Sengul, Pache, & Model, 2015; Ebrahim et al., 2014; Pache & Santos, 2010). Financial performance is crucial for social enterprises, as it underpins their commercial goals, their ability to deliver on their social mission, and their ability to scale their impact.

The legal recognition of social enterprises by frameworks such as Community Interest Companies in the UK or Benefit Corporations in the US (Ebrahim et al., 2014) has made it easier for existing organizations to transform into a social enterprise form or for it to be chosen at founding (Curran & Ozcan, 2024). Organizational forms encompass the fundamental structure, design, and characteristics that define how an organization operates and aligns its activities to achieve its goals (Tracey, Phillips, & Jarvis, 2011). Crucially, the form of a social enterprise likely

structures organizational attention in distinct ways. This study examines how such attentional configurations, shaped by organizational form, influence financial performance and survival.

Existing research, predominantly framed by the institutional logics perspective (Battilana & Dorado, 2010; Smith & Besharov, 2019), has highlighted the inherent conflict between dual logics. Although scholars have documented mechanisms by which organizations navigate these competing logics (Battilana & Dorado, 2010; Pache & Santos, 2010), the emphasis on trade-offs suggests that the tension between social impact and financial performance may compromise long-term sustainability (Cappellaro, Tracey, & Greenwood, 2020; Pache & Santos, 2010). To offer a more precise analytical lens, we integrate the Attention-Based View (ABV) of the firm (Ocasio, 1997). By focusing on how organizations allocate and structure attention, the ABV provides a framework for predicting performance outcomes that result from the inherent tension in dual-purpose organizations.

In this study, we examine whether the origin of a social enterprise, whether formed as a new hybrid venture or transformed from an existing commercial or charity organization, influences its financial performance and survival. Over the course of the 21st century, the rising economic and social impact of these organizations has prompted the establishment of regulatory frameworks—such as Community Interest Companies (CICs) in the UK or Benefit Corporations in the US—that legally define them as distinct entities tasked with pursuing dual missions.

## LITERATURE REVIEW

### **The social enterprise as an organizational form**

A social enterprise is an organizational form that integrates social purpose with commercial activity (Smith & Besharov, 2019). Unlike traditional organizations typically governed by a single logic—such as profit maximization in commercial firms or social welfare in charities—social enterprises integrate and balance these competing logics in their core operations, decision-making processes, and overall value proposition (Pache & Santos, 2010). This integration is reflected in the organization's structures, governance mechanisms, and resource allocation, which are designed to balance and support the diverse objectives it seeks to achieve (Smith & Besharov, 2019). Social enterprises typically respond to failures by governments in welfare domains or social issues neglected by incumbents in industries that generate negative externalities (Pache & Santos, 2010).

### **Social Enterprise Performance**

One reason the literature has provided for why social entrepreneurs increasingly choose a hybrid organizational form instead of a traditional charitable model (based on grants and donations) is to scale impact quicker and be more financially independent (Battilana et al., 2015). However, the tension between fulfilling social objectives and achieving financial sustainability puts these social enterprises at risk of underperformance in both domains (Ebrahim et al., 2014). While some hybrids may succeed financially by prioritizing commercial activities, neglecting the social mission can lead to mission drift and failure (Grimes, Williams, & Zhao, 2019). Conversely, social enterprises that overemphasize their social mission without ensuring sufficient revenue and sustainable growth may also face failure. Company survival and organizational longevity depend on effectively balancing social and financial objectives, as neglecting either mission can jeopardize performance and sustainability. This interplay and how it eventually influences financial performance and survival is central to the theorizing of our study.

## THEORETICAL FRAMEWORK

To frame our hypotheses, we use the attention-based view of the firm (ABV). The ABV offers a compelling framework to understand how organizational structures shape the distribution and focus of attention within firms, influencing decision-making and strategic actions (Ocasio, 1997). Its application to hybrid organizations, allows us to theoretically build the likely structural predispositions of these organizations (Battilana & Dorado, 2010; Thornton, Ocasio, & Lounsbury, 2012). Some work has looked at multiple goals in the ABV but exclusively in the context of innovation with differing focuses on exploration and exploitation goals (Joseph, Rhee, & Wilson, 2023). Hybrid organizations, which blend social and commercial goals, face distinct challenges in managing attention across divergent objectives. This necessitates investigating how the ABV's core principles—focusing on the structural distribution of attention—manifest in environments where the alignment and conflict between social and commercial imperatives are ever-present.

Our theoretical arguments posit that the way an organization structures its attention is fundamentally affected by its foundational form. We contrast three configurations within the social enterprise form: new venture hybrids designed from inception to balance social and commercial objectives, commercial organizations that transform into hybrids, and charities that transform to a hybrid form. We argue that new venture hybrids, unburdened by legacy structures and attention to a singular mission, are better positioned to manage the competing demands inherent in hybridity and will be best able to structure their attention to multiple goals and have overall greater performance. In contrast, organizations that transform from existing forms tend to inherit attention structures that may favor one logic over the other, thereby influencing both short-term profitability and long-term survival.

*Hypothesis 1: A social enterprise transformed from a commercial organization will perform better financially than those founded as a new hybrid venture.*

*Hypothesis 2: A social enterprise transformed from a commercial organization has lower survival rates than those founded as a new venture.*

*Hypothesis 3: A social enterprise transformed from a charity will perform worse financially than those founded as a new venture.*

*Hypothesis 4: A social enterprise transformed from a charity has lower survival rates than those founded as a new venture.*

*Hypothesis 5a: The larger a new venture social enterprise grows, the less likely it is to fail and will generate greater financial performance.*

*Hypothesis 5b: The larger a social enterprise transformed from a commercial organization grows, the more likely it is to fail and the more likely it will generate greater financial performance.*

*Hypothesis 5c: The larger a social enterprise transformed from a charity grows, the more likely it is to fail and the less likely it will generate greater financial performance.*

## METHODS AND RESULTS

To test our hypotheses, we analyze a unique longitudinal sample of Community Interest Companies (CICs) in the United Kingdom, comprising 5,202 firm-year observations from 2005 to 2023. Being a legal form of social enterprise, the CIC offers a unique setting for examining how the foundational form of social enterprises influences organizational outcomes (Nicholls, 2008).

### Dependent Variables

*Financial performance* was measured as gross profit before tax in GBP, reported annually to HM Revenue and Customs.

*Firm survival* was a binary variable coded 1 if a firm was dissolved in a given year per the Companies House register, and 0 otherwise.

### Independent Variables

CICs can form in three ways: as a *new hybrid venture*, a *transformed commercial organization*, or a *transformed charity*. The new hybrid venture serves as the baseline in regressions.

*New hybrid venture*. Coded 1 if no prior legal form was listed at incorporation.

*Transformed commercial organization*. Coded 1 if the firm changed from a Private Limited company.

*Transformed charity organization*. Coded 1 if the firm changed from a registered charity.

### Results

\*\*\*insert figure 1 and 2 here\*\*\*

Our results provide mixed support for our hypotheses. Hypothesis 1, predicting superior financial performance for transformed commercial social enterprises relative to new ventures, was not supported, as the coefficient was positive ( $b = 87.112$ ,  $p = 0.261$ ) but not statistically significant. Hypothesis 2, which posited lower survival rates for the same group, was supported ( $b = 2.334$ ,  $p = 0.000$ ), indicating a significantly higher hazard ratio. Hypothesis 3 was supported: transformed charities underperformed financially relative to new ventures ( $b = -117.189$ ,  $p = 0.033$ ). Hypothesis 4 was also supported, showing that transformed charities had significantly lower survival rates ( $b = 2.334$ ,  $p = 0.000$ ). Hypothesis 5a, predicting that larger new ventures outperform and survive better than smaller ones, was supported with significant differences in both financial performance and survival ( $p = 0.006$ ;  $p = 0.099$ ). Hypothesis 5b was partially supported—larger transformed commercial organizations were more profitable ( $p = 0.055$ ) but not significantly more prone to failure ( $p = 0.484$ ). Hypothesis 5c received mixed support: larger transformed charities showed no significant difference in profitability ( $p = 0.798$ ) but did have significantly higher failure rates ( $p = 0.099$ ). Figures 1 and 2 visualize the results for hypotheses 1 to 4.

## DISCUSSION AND CONTRIBUTIONS

By theorizing how new hybrid ventures can survive and grow successfully, we challenge previous ideas about the potential fragility of the social enterprise form. Furthermore, we contribute to research on hybridization by theorizing how structured attention creates difficulties in

maintaining a hybrid form when attention was previously structured towards one goal. Finally, policymakers can use our study's findings to create and refine legal frameworks supporting hybrid organizational forms aimed at addressing pressing societal grand challenges.

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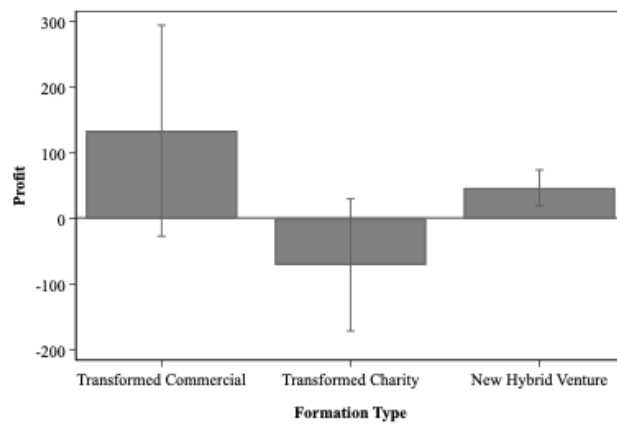
**ENDNOTES**

1. All authors contributed equally.

**FIGURES**

**Figure 1.**

**Predicted Profitability Based on Formation Type**



**Figure 2.**

**Survivor Function Based on Formation Type**

