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ESSEC KNOWLEDGE REVIEW

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Entrepreneurship and innovation

EDITORIAL

"I have not failed. I've just found 10,000 ways that won't work."
- Thomas Edison

"Don't sit down and wait for the opportunities to come. Get up and make them."
- Madam C.J. Walker, entrepreneur, philanthropist, and social activist

At ESSEC, we see uncertainty as an opportunity to act. Our society is changing before our eyes and the world of tomorrow will require innovative solutions to problems that may not yet exist.

In this issue of ESSEC Knowledge Review, we shine a spotlight on the research and the expertise of our professors in the domains of entrepreneurship and innovation. It includes the research and insight of professors in management, entrepreneurship, finance, marketing, and public and private policy, covering myriad aspects of the entrepreneurial experience. ESSEC professors have provided their expert analyses on topics including social entrepreneurship, gender in entrepreneurship, venture capital funding, scaling up entrepreneurial ventures, the aftermath of failed innovation, and more. Their insights touch on various stages of the entrepreneurship and innovation journey, from raising capital, testing the idea, collaborating, and expanding the venture.

This special issue of ESSEC Knowledge contributes to the RISE strategy at ESSEC, our approach to pedagogy, research, and management, which includes initiatives on artificial intelligence and technology, social change, and entrepreneurship, the focus of this issue. Entitled **Enlightening Entrepreneurship,** this strategic axis is an entrepreneurship and innovation ecosystem that trains and encourages students and participants to innovate. We believe that everyone can have an entrepreneurial mindset and that entrepreneurship is a path to finding innovative solutions to the problems our society faces now and in the future.

ESSEC's motto is "Enlighten. Lead. Change." and we hope this issue inspires you to do just that.

Julia Smith, *Editor-in-Chief of ESSEC Knowledge*
Jan Lepoutre and Nicolas Landrin, *Centre for Entrepreneurship and Innovation*

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HOW MOBILE MONEY CAN HELP US UNDERSTAND ENTREPRENEURIAL DEVELOPMENT

***Jan Lepoutre,** PhD is Professor of Entrepreneurship and Strategy at ESSEC Business School, where he is also Academic Director of its Centre for Entrepreneurship and Innovation, and holder of the Armand Peugeot Chair in the Economics of Electromobility and Hybrid Technologies. He is or has been involved in programs at all levels at ESSEC, often with innovative pedagogies. He holds an MSc in Bioscience Engineering (KULeuven) and an MS and PhD in Applied Economics (Ghent University). His research and teaching focus on entrepreneurship and innovation, especially in Cleantech fields. He has published in journals such as* Academy of Management Journal, American Journal of Sociology, Journal of Organizational Behavior, Journal of Business Ethics, Small Business Economics, *and* Technological Forecasting & Social Change.

The benefits and disadvantages of economic growth have become an important point of debate in social, political and economic forums. On the one hand, it is argued that economic growth is necessary for both the sustenance of economic welfare and social wellbeing. On the other hand, economic growth can be associated with the degradation of ecosystems, including climate change, biodiversity loss, pollution, and the destruction of the natural resources on which our social and economic life depend. Finding new models in which economic value creation is decoupled from environmental degradation, or is associated with environmental and social improvement, has become imperative.

Regardless of whether or not economic growth and environmental degradation can be decoupled, it is certain that in our search for a different economic equilibrium, new entrepreneurial solutions and firms will need to be developed, replacing existing and outdated products, services and production methods. Engaging in Schumpeterian “creative destruction”, entrepreneurial initiative may then trigger the de-growth of such economic activities, but hopefully accompanied with the emergence, and growth and scale-up, of novel, more desired economic activity. Different from overall economic growth, achieving ambitious and fast entrepreneurial growth is then not only desired, it is necessary to allow for creative and more sustainable solutions that we urgently need.

Entrepreneurial success, however, is not an easy feat to achieve. Entrepreneurship, by definition, is the development of opportunity when the existence of such opportunity is uncertain: even the best and most seasoned entrepreneurs and investors get it wrong more often than they get it right on the ideas they have for entrepreneurial opportunities. Furthermore, whether or not new entrepreneurial ideas actually lead to societally beneficial solutions is often difficult to anticipate, and governments worldwide are in the difficult position of both stimulating the emergence of new entrepreneurial activity and steering such activity in ways that align with overall societal objectives.

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In a paper published in *Technological Forecasting and Social Change,* Jan Lepoutre and Augustina Oguntoye compared the emergence of mobile money in Kenya, and the massive success of M-Pesa, with the non-emergence of mobile money in Nigeria, to explore just why the same entrepreneurial idea can take off in one country and fail in another. The emergence of M-Pesa is a true intrapreneurial story (an entrepreneurial venture started within an existing company, in this case Vodaphone): an aspirational series of trial-and-error, resourceful and collective learning, surprises and pleasant discoveries. Yet for the venture to achieve the massive growth it has, it required both significant financial and regulatory support. Kenya and Nigeria, while countries with otherwise similar socio-economic and technological development, differed in their governmental ability to oversee and control the social impact and risks of this new financial innovation. While the Nigerian government was not opposed to mobile money, it lacked the capabilities and bandwidth post financial crisis to oversee an unknown financial activity. The Kenyan government, instead, was part shareholder of Vodaphone’s Kenya subsidiary (Safaricom) where M-Pesa was being developed. As such, it was able to learn alongside M-Pesa about financial innovation and develop a regulatory framework with it.

The lessons this paper offers are not only of value for financial services in developing countries. The speed at which entrepreneurial ecosystems can deliver entrepreneurial successes depends on the ability – either individually or collectively – to absorb the costs of error, to turn errors into knowledge and intelligence, and to find solutions for the constraints of either. In the past few years, entrepreneurial ecosystems across the world have been inundated with financial capital, and the impressive increase in the number of unicorns, non-publicly traded firms of less than 10 years with a valuation of at least 1 billion dollars, shows just how fertile the soil for entrepreneurial growth currently is. Very often, however, the constraints for entrepreneurial success and growth are elsewhere, and resources other than financial ones are what stifles further development of opportunity: a lack of talent, regulatory or social legitimacy, raw material and more.

It is for this reason that at ESSEC Business School, we are massively investing in the development of talent that is able to read the economic environment in which opportunities are being developed, and has a strong understanding of the environmental, sociological, organizational, and human challenges that are involved in this process. By confronting students with these challenges early on, they are able to hit the ground running in the labor market and contribute faster to overcoming challenges in entrepreneurial and scale-up development. ■

Reference

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UNDERSTANDING THE ENTREPRENEURIAL UNIVERSITY

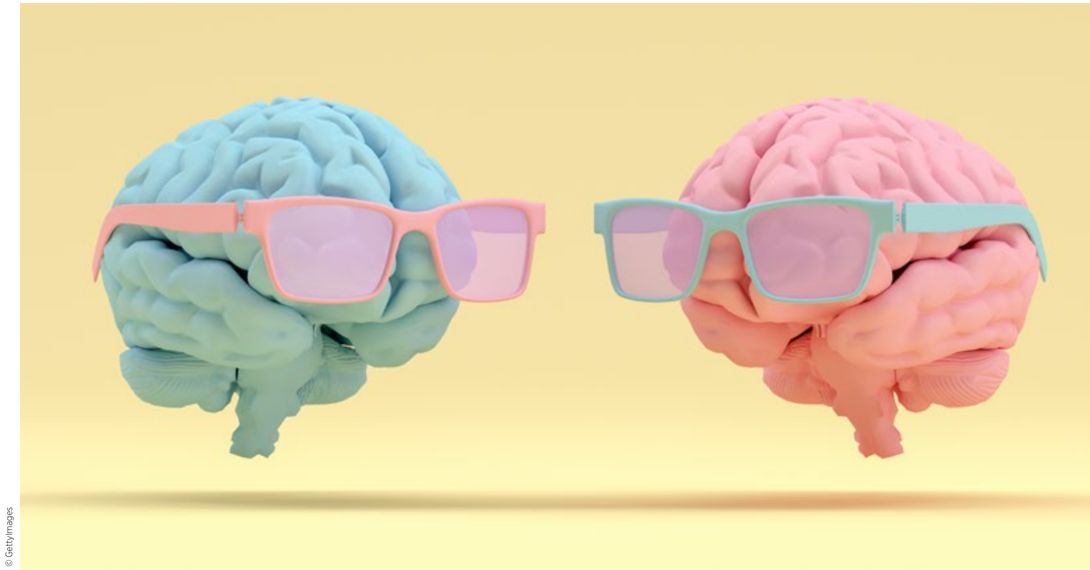
Steven Seggie *is a professor of marketing at ESSEC and the Academic Director of the EMBA program. He does teaching, research and consulting in the areas of customer-driven innovation, interorganizational relationships, and marketing for startups. He did his PhD in marketing at Michigan State University and has published widely in journals including* the Journal of Marketing, Journal of International Marketing, Journal of Product Innovation Management, *and* Industrial Marketing Management*. He is also known to blog occasionally at https://medium.com/@Seggitorial.*

Universities, including ESSEC, are dedicated to nurturing budding entrepreneurs. Many higher education institutions are also looking to become more entrepreneurial themselves, pursuing different revenue streams and changing their processes. Steven Seggie and his colleagues Baris Uslu, Alper Calikoglu, and F. Nevra Seggie analyzed a selection of the existing literature on entrepreneurial universities in their recent paper in *Higher Education Quarterly* to better understand the entrepreneurial university and the entrepreneurial academic, finding that much of the discourse has focused on commercialization of academic activities[1].

Higher education institutions have a responsibility to contribute to the economic and social well-being of their communities. The notion of the entrepreneurial university has evolved in response to this: it positions the university as a "triple helix model", in which contributing to economic development by applying research findings in business practices is added to the traditional goals of teaching and research[2]. This means that there are increasing connections between universities and industry, which helps transfer academic knowledge into tangible outcomes. Higher education researchers have explored how these activities impact internal dynamics and impact the entrepreneurial university's social and economic development goals, while business, economics, and policy researchers have focused mainly on certain activities such as the role of business incubators in nurturing entrepreneurship.

Academic entrepreneurship can be defined as "creating economic and/or social transformation beyond the boundaries of the academy"[3]. Various aspects of academic entrepreneurship have been explored, including its impact on recruitment policies, organizational design, and pedagogical and research activities.

The researchers aimed to bring together the body of research to identify common entrepreneurial activities of institutions and academics and better understand their value for organizational transformation.



Studying the entrepreneurial university and the entrepreneurial academic

To better understand entrepreneurship and academia, the research team conducted a meta-synthesis of the literature, including 25 articles published in higher education journals in their final sample.These papers included universities from a wide variety of countries, including Australia, Canada, Chile, Japan, the United States, the United Kingdom, and more. These articles focused on the economic and social development of these entrepreneurial universities, emphasizing that universities should foster an entrepreneurial culture for staff as well as students and establishing internal support for innovation. Their analysis also uncovered four main operational themes that universities could undertake to accomplish their aim of contributing to their community's social and economic development, namely:

1. **Alternative income and resource generation:** including activities like commercializing research and knowledge (the most common one), alumni donations, university services and products, research funds.
2. **Collaboration with external organizations:** working with industry partners and the private sector.
3. **Knowledge/technology production and transfer:** producing and sharing knowledge that can be of use to society, and establishing incubator services, science hubs, innovation and entrepreneurship centres.
4. **Innovative and creative property acquisition:** acquiring trademarks, patents, and licensing, and generally protecting intellectual property rights.

Given that academics produce the knowledge and research findings discussed above, they are often implicitly or explicitly expected to manage these entrepreneurial activities. Here, too, the researchers identified that the same four main themes encompass how academics can contribute to their institutions, but with different activities linked to these themes:

1. **Alternative income and resource generation:** founding new ventures, consulting activities, commercializing research, research funding, external teaching income, creating graduate student funds, and personal revenue from their innovations and knowledge.
2. **Collaboration with external organizations:** working on research projects with industry and maintaining positive relationships, and leading seminars and workshops for industry partners.
3. **Knowledge/technology production and transfer:** disseminating their research and knowledge, developing innovative research, transferring knowledge and technology, and leading the development of incubators and science hubs.
4. **Innovative and creative property acquisition:** keeping their intellectual property rights and acquiring patents and licenses.

The operational activities of entrepreneurial universities and entrepreneurial academics coincide, and can be classified as income diversification and external outreach.

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This has resulted in a changing academic landscape, with universities experiencing this change differently depending on their circumstances.

What's next for the entrepreneurial university and its entrepreneurial academics?

This analysis provides us with a holistic understanding of the operational areas and activities of an entrepreneurial university and of entrepreneurial academics. Universities have become more entrepreneurial often as a means of generating income in response to public budget cuts[4]. Being entrepreneurial is also seen as a way to accomplish the university's mission of giving back to the community by boosting its economic and social value, a form of social entrepreneurship. Entrepreneurial universities seek to infuse students with an entrepreneurial spirit, and produce and transfer practical knowledge and innovations to industry partners and society in general It is, however, important to consider how the activities can conflict with this social mission, if the university becomes too focused on the income generating aspect and less so on their pedagogical and social goals. Many academics are, understandably, interested in external income generation and intellectual property acquisition, which can lead to an individualistic mindset and less of a focus on teaching[4]. That being said, their external collaborations create value for the university, meaning that universities consider networks when recruiting staff, creating a very competitive job market. These networks are also taken into account when making promotion decisions. The researchers outlined some suggestions for working toward creating social value in addition to economic value, to stay true to the heart of the university.

Moving toward social entrepreneurship

- One suggestion is for universities to encourage academics from the "soft" disciplines with external actors, to execute social projects (as opposed to the "hard" sciences, where this is more common practice).
- It would also be interesting for university stakeholders to develop strategies for evaluating and rewarding entrepreneurial projects that positively impact the community.

Knowledge creation and entrepreneurship go hand in hand, and more and more academics and universities are trying their hand at entrepreneurial activities for a number of reasons, including value creation, disseminating knowledge, and boosting their income. As these activities grow more popular, university actors should ensure that their entrepreneurial activities aren't taking them away from the core goals of research, teaching, and having a positive social impact. This paper provides us with a concise overview and framework for understanding the entrepreneurial university and where it can go next.

Article written with Julia Smith, editor-in-chief of ESSEC Knowledge

SOCIAL ENTREPRENEURSHIP

***Stefan Linder** is Associate Professor at ESSEC's Department of Accounting and Management Control. He teaches in the BBA Program, the MiM Grande Ecole, Executive Education, and Ph.D programs. In his research, he studies the role of management accounting and control (MAC) systems for intrapreneurial behaviors, for (the prevention) of undesirable and unethical behaviors, and for the well-being of managers and employees subjected to exactly these MAC systems and how a non-maleficent, humanistic internal control can be designed. His work has been published, among others in,* European Accounting Review, IEEE Engineering Management, Journal of Banking & Finance, Journal of Business Ethics *and* Journal of Management. *Prior to returning to academia, he worked as a management consultant.*

Improving society requires a collective effort, and social entrepreneurship aims to do its part: it refers to individuals and organizations that use business to tackle a societal issue. The concept has been around since the 1950s, but has only begun to garner significant research attention in the last decade. The rapid growth and emerging nature of social entrepreneurship research, coupled with the fact that social entrepreneurship builds on different disciplines and fields (entrepreneurship, sociology, economics, ethics) have led to a disjointed literature without dominant frameworks.

Professors Tina Saebi (Norwegian School of Economics), Nicolai Foss (Copenhagen Business School) and Stefan Linder (ESSEC Business School) analyzed existing research to develop a framework and outline future directions, highlighting the need for a holistic approach.

What makes social entrepreneurship unique?

What sets social entrepreneurship apart from other related phenomena like CSR, philanthropy, and sustainability? Saebi, Foss, and Linder focused on identifying commonalities among the existing definitions.

They found that social entrepreneurship's hybrid nature sets it apart. Commercial entrepreneurship focuses on the economic side of creating value: opportunity identification, resource mobilization, etc. In social entrepreneurship, profitability goes hand-in-hand with solving a social problem.

Similarly, social entrepreneurship differs from CSR in that the latter is an extension of a firm's traditional business activity to reach out to its stakeholders and increase profit. Charitable and not-for-profit organizations are also different, because their funding is usually from external sources. Consequently, their social initiatives do not compete for resources with profit-seeking ones.

As such, the researchers explored the idea that "the dual mission of social and economic value creation reflects the core characteristic of social entrepreneurship"[1].

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Classifying social entrepreneurship

Social entrepreneurship can be classified according to its social and economic missions.

The social dimension is whether or not the beneficiaries are active participants in the social entrepreneurship's model. Aravind, which offers free vision care in rural India, is an example where social value is created for the beneficiaries. In the other model, value is created with beneficiaries, such as Unicus, a Norwegian consultancy that employs people diagnosed with Asperger's syndrome.

The economic dimension is the extent of integration of social and commercial activities. For example, commercial activities may subsidise social ones. Alternatively, social activity captures economic value, as in the case of award-winning Grameen Bank, which provides collateral-free small loans to the rural population in Bangladesh.

Combining these two dimensions creates a four-quadrant matrix, illustrated in Figure 1.

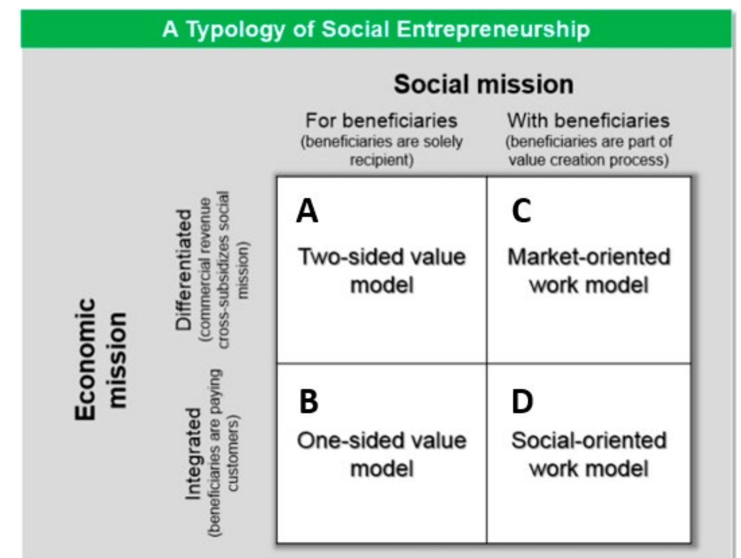

Figure 1. A typology of social entrepreneurship.

In Quadrant A are social enterprises with a 'two-sided value model', such as TOMS shoes, which gives one pair of shoes to a child in need for every pair purchased. In Quadrant B, enterprises employ beneficiaries to produce goods or services sold in the commercial marketplace. For example, British restaurateur Jamie Oliver trained and employed disadvantaged youths in his restaurant and funded the training program with the revenue. In Quadrant C, the beneficiaries are paying customers. Last, in Quadrant D, is when the beneficiaries are both internal and external customers—VisionSpring sells quality eyewear at affordable prices and also employs them in sales and distribution.

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To shed light on the multi-faceted nature of social entrepreneurship, the researchers examined 395 articles, focusing exclusively on social entrepreneurship and excluding articles on sustainable, developmental, institutional entrepreneurship, or entrepreneurship in general. The researchers identified the factors that affected social entrepreneurship at three distinct levels—individual, organizational, and institutional—and gaps in the research.

As management phenomena are often multidimensional, the researchers developed a multistage and multilevel framework to integrate the various levels of analysis. Drawing on theory, this is divided into 2 stages—before and after the venture is formed.

With this framework, the research team linked the effect of the macro-environment and the individual's goals and beliefs (situational mechanisms), the effect of these goals on individual behavior (action-formation mechanisms), and the effect of these in bringing about broader changes (transformational mechanisms).

These describe the relationships that affect the three levels of analysis. Pursuing these mechanisms further, both before and after the venture's creation, is necessary to fill existing research gaps and to find out what makes social enterprises tick.

Breaking down the levels of analysis

At the individual level, theory suggests that a key trait of social entrepreneurs is a prosocial personality (the inclination to empathize with others), coupled with qualities that promote an entrepreneurial spirit, like self-efficacy and work history with social organizations.

The difference is between action and intent. Social entrepreneurs need to seek resources, gain support, and act to form their ventures. It is also of interest to study how the entrepreneur creates value after getting the go-ahead by examining organizational-level factors at the venture formation phase.

Organizational-level analyses have focused on the ability to finance a venture, the importance of networking, and marketing capability. Given the case-based nature of this research, little is known about the common features that can make or break a social venture, and whether these factors are different for commercial ones.

The hybrid nature leads to rifts that need to be addressed for the venture to thrive. This can be done in various ways, such as hiring managers who embrace this hybridity. Social entrepreneurship's mandate requires examining existing kinds of social ventures and potential problems.

Other questions include the link between the type of venture model and the legal and organizational structure, venture management, the choice of a particular model, and the impact of model choice on venture success.

Research shows that when the private sector does not meet societal demands, social enterprises are formed. These tackle a wide range of problems, including reducing poverty, empowering women, and inclusive growth.

Measuring the impact of different kinds of social ventures varies between ventures, but all social ventures share the same broad goal: addressing a social problem while remaining profitable. To this end, it is imperative to develop a common framework to gauge and assess the effectiveness of such enterprises. This void can be filled by institutions, which social enterprises can work in and with, and thus establish key metrics accepted by academia and applicable to multiple contexts.

What's next?

Individuals can have a big impact, and they are influenced by personal experience, which impacts the role they want to play, the problem they want to solve, and their ability to identify an opportunity and take action. More research is needed to understand how exactly an individual impacts a venture and the process they follow.

Research has largely focused upon individuals rather than entrepreneurial teams. This leaves a gap in research on how team dynamics affect the kind of social mission selected, design of the social venture, motivation, and the ability to secure funding and translate thought into action. It's also critical to study how different levels, like individual and organizational factors, interact with each other.

The pre-launch process is only the beginning. As such, more research and practical knowledge are needed on the relationships between individual motivations and the social value created, especially given the decision and resource conflicts that can arise from the model's hybridity. It is also key to analyze how other incentives, such as certifications for ventures that conform to high standards, may affect motivation. As these ventures require teamwork, it is important to study social entrepreneurship on the organizational level, for example, using an ethnographic perspective. This means studying issues that shed light on the human side, like organizational hierarchy, communication skills, and task delegation.

The big picture

More work is needed to understand potential negatives to social entrepreneurship, but we must not lose sight of the bigger picture: social ventures exist to improve society, one step at a time.

To this end, research should also look at if and how these ventures change society by creating value rather than redistributing it from one group to the other. The framework outlined here provides a basis for future research and for social enterprises to help build our understanding of social entrepreneurship. ■

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A version of this article was first published in the Council of Business and Society.

CHANGING THE SCALE OF SOCIAL BUSINESSES

Thierry Sibieude *is chair professor of the Chaire Entrepreneuriat et Innovation à Impact, former director of ESSEC Africa, founder of the Clé pour l'autisme foundation, trustee of FEGAPEI (now NEXEM) (2002-2010), member of the Conseil d'administration national de la Croix Rouge (2009-2013), vice-president of the Conseil Général du Val d'Oise responsible for the environment (2001-2008), for people with disabilities and for equal opportunity, and president of the MDPH (2011-2015). He began his academic career as a professor at the Institut catholique de Paris and joined ESSEC in 1996. He co-founded the Chaire Innovation et Entrepreneuriat Social and created the social business accelerator Antropia ESSEC and the laboratoire Evaluation et Mesure de l'Impact social. He has been the president of the Conseil Scientifique de Finansol since January 2021. He has created 15 MOOCs on social innovation and social entrepreneurship.*

A graduate of ESSEC Business School and the Federal University of Rio de Janeiro, ***Jérôme Schatzman*** *is an expert in social innovation, entrepreneurship, sustainable development, corporate social responsibility and philanthropy. He manages LA TABLE DE CANA, a non-profit catering firm reintegrating individuals into the workforce and the community, and founded TUDO BOM, a fair-trade fashion brand. From 2008 to 2016, he oversaw philanthropy for L'Occitane en Provence and became Chief Sustainability Officer. He manages the social venture accelerator Antropia ESSEC. He is co-founder of the impact investment fund Investir & + and of the optimism accelerator Marseille Solutions and president of the social ventures Marguerite and Association Départ.*

Scaling up social impact: how can we go from local success stories to systematic, widespread change?

The Chaire Entrepreneuriat et Innovation à Impact conducted a study on the key factors of scaling up a social business, combining a literature review, a dozen case studies, and interviews with nine founders of social[1] businesses that have previously received support from Antropia ESSEC. The study aims to illustrate the connections between the theoretical dimension and the practical and operational dimensions, with the objective of creating a framework that integrates the main empirical and theoretical elements.

1 - These nine leaders are Frédéric Bardeau (Simplon.Co), Ariane Delmas (Les marmites volantes), David Lorrain (Recyclivres), Matthieu Grosset (Coopératif Demain), Domitille Flichy (Farinez'vous), Guillaume Desnoes (Alenvi), Thibault Bastin (Alphonse), Marina Gning (ApiNapi) and Olivier Gambari (iNex Circular).

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First things first: what is a social business?

There is increasing interest in social entrepreneurship amongst both economic and political actors and in the academic literature.

The OECD defines the social entrepreneur as one who takes risks, uses resources in a logical and efficient way, innovates in creating new services, products or processes over the long term by goal-setting, and produces benefits above and beyond the current allocation of resources. Additionally, the social entrepreneur seems to use the same resources, with the exception of the ability to distribute monetary resources[A]. The beginning of the journey resembles that of a typical entrepreneur in that their initiative emerges after noting an unmet need, but differs in that they undertake their initiative to serve society and not just for the entrepreneur's or company's own purpose. A typical business will seize an opportunity, and a social business seeks to fulfil an unmet need. The social entrepreneur is constantly trying to generate more impact. Semantics give us additional food for thought on the differences between a typical business and a social business.

While we would use the terms "expansion" or "growth" for a for-profit organization, "scalability" is preferred for social businesses, the goal being to increase the contribution to social change and positive results for society, whereas the primary goal of typical businesses is to increase their returns. The expression "small is beautiful"[2], describing the small, local nature of these businesses, must cohabit with "big is necessary"[3].

There is still not a consensus on the definition of a "social business", but the European Commission tried their hand at building a common understanding. Their definition has three essential components:

1. **Entrepreneurial:** producing goods and services in an entrepreneurial and innovative way.
2. **Social:** the goal is social impact, rather than generating revenue for the owners and shareholders.
3. **Governance:** accountability, transparency, and stakeholder participation.

Social impact refers to "all the consequences (evolutions, reorientations, changes, ruptures) of an organization's activities on its external (beneficiaries, users, clients), direct or indirect, and internal (employees, volunteers) stakeholders, as well as on society in general, resulting from the organization's (or a group of organizations') ability to anticipate needs that are not or are poorly met and to respond to them, through its prevention, repair or compensation missions. It is translated into terms of individual well-being, behaviors, capabilities, sector practices, social innovations or public policy decisions."[4]

2 - Social Enterprise Initiative, Harvard Business School, 1993.
3 - Fazle Hasan Abed, Founder du Bangladesh Rural Advancement Committee (BRAC).
4 - Definition of the working group on social impact measurement of the Conseil Supérieur de l'Économie sociale et solidaire in 2011 chaired by Thierry Sibieude, preparatory to the law of July 31, 2014 on the social and solidarity economy.

The level of sophistication of social businesses and their integration in the economy varies widely from one country to another. France is one of the most developed European countries in this sense, with a business ecosystem favorable to social businesses. The law of July 31st, 2014 that pertains to the social and solidarity economy aims to promote scaling up the sector by defining a regulatory framework that will enable the sector's restructuring and establish specific financing.

Recent work by Julie Battilana has classified social entrepreneurs into three categories:

1. **The agitators,** who challenge, alert, and rally stakeholders to raise awareness.
2. **The innovators,** who offer solutions and who show that we can meet a certain need with the right resources.
3. **The orchestrators,** who take a solution that has worked locally and aim to apply it more systematically and widely.

The team explored this third category in their recent research, supposed by BNP Paribas [5].

Changing the scale of social businesses is a major challenge for the improvement of society, with the current crisis highlighting the urgency of doing so.

The crisis is not only a public health crisis: it is also a crisis of society, the environment, and energy use. It is the result of a period during which economic actors prioritized financial performance to the detriment of other dimensions of value creation. Over the past twenty years, impact entrepreneurs have therefore seized upon multiple causes and needs that neither public policies nor the market could fully address, both quantitatively and qualitatively, to propose solutions based on hybrid economic models and approaches to assessing their social impact.

This movement is part of the extension and enrichment of the action of the actors of the social and solidarity economy in the associative sector, particularly in the social, medico-social, cooperative, and insurance fields.

Certain solutions can be found on a local scale, benefiting a limited group of people. This should be saluted, but it is not sufficient. These entrepreneurs don't have the resources to expand the solution, even when the problem exists elsewhere.

The emerging literature on changing the scale of social businesses discusses the theory behind the complex relationships between the fundamental elements that strengthen or limit scale-up potential.

In previous works by the Chaire Entrepreneuriat et Innovation à l'Impact, particularly under the leadership of Anne-Claire Pache and Kevin André, four types of scalability for social businesses have been identified:

- **"scale up":** offering the activity in more areas or expanding its use in one area through endogenous growth or absorption
- **"scale out":** diversifying activities.
- **"scale deep":** to deepen and enrich operations to better serve the beneficiaries.
- **"scale across":** entrusting other organizations with the means to develop operations to serve an increased number of beneficiaries.

In a general sense, a changing scale represents "the expansion, adaptation and sustainability of successful policies, programs or projects...to reach more people"[B]. To simplify this definition, for the purposes of this study we consider it to be the strategy that a business puts in place to increase and optimize (maximize under constraints) its social impact.

Changing scale is part of the last phase of the life cycle of a social business, defined by the social innovation spiral[C]:

- **Needs:** identifying the challenges and the opportunities.
- **Ideas:** generating ideas to address those needs.
- **Prototypes and trials:** development and first trials of the proposed ideas.
- **Support:** analysis and identifying lessons learned from the first trials, developing the ideas and considering the project's economic and social sustainability.
- **Scalability:** developing or expanding the activity.
- **Systemic change:** the social innovation is widely accepted and becomes an integral part of life; however, not all social innovations will experience a systemic change or change scale.

Changing scale is considering the most effective and efficient way of maximizing the social impact of a social business, based on its business model, to meet the demand for the products or services offered. This term focuses on increasing social impact, rather than the growth of the social business itself. This means it's possible to change the scale of the business using different strategies than those a conventional business might use[D].

5 - BNP Paribas, la MACIF, Malakoff Humanis, MAIF, AESIO, la Fondation Deloitte et le Conseil Départemental du Val-d'Oise sont les mécènes de la chaire Entrepreneuriat et innovation à Impact de l'ESSEC.

Key challenges of changing scale and five key success factors:

Let's turn our attention to the key motivations leading an entrepreneur to increase the social function of their activities.

Regardless of its definition, changing the scale of a social business aims to maximize the social impact of a business. This must remain the ultimate goal of this approach.

The idea of changing scale has become a sort of panacea for the field of social innovation in recent years, and is often described as the ultimate success in the sector. However, there is a risk that a poorly managed scale up could be detrimental to the social business and that the economic side overtakes the social side, that governance participates less, or that the quality of the service decreases when the scale increases. That's why the team sought to define the key factors and problem areas impacting success.

In the study, the team explored the challenges of expansion, duplication, cooperation, and cross-fertilization.

The goal is to ensure the longevity of the activity and/or to seize an opportunity, but above all to maximize the social impact of the business.

Business operations and their approaches to scale up are analyzed around four major issues: human resources and internal organization, financing, and support and governance, in particular establishing partnerships. They identified a number of potential problem areas to consider before any scale up:

- The consistency of the strategy with the Vision, Mission, and Objectives.
- The proven success of the concept (first of the concept, then of its market success) that form the basis for the scale up.
- The ability to measure social impact and therefore the expected and achieved increase in impact.

Based on this, they identified five keys to success for the entrepreneur:

- Listening to and taking care of one's team and oneself.
- Choosing the right investors and building a strong relationship.
- Building a solid, efficient network.
- Establishing balanced and stimulating partnerships within one's network.
- Making the measurement of social impact a tool for steering activities and performance.

This work aims to guide entrepreneurs in how to maximize their impact and to convince investors that it is possible and worthwhile to encourage and finance social businesses, which will help transform our society into one that is more just and sustainable.

We would like to thank the entrepreneurs who gave us some of their precious time and shared their experience and their advice. We would also like to thank Lea Schullel Allal for her research work. Without their help, this work would never have been produced. We would also like to thank the BNP Paribas retail banking teams (Raphaele Leroy and Mélanie Lahaix) and the BNP Paribas CSR leaders (Antoine Sire and Maha Keramane) who made this study possible, as well as the nine incredible impact entrepreneurs who shared their experiences and their analyses. Finally, we thank the Antropia ESSEC team for their always helpful advice and insights: in particular Aline Pehau, operational director, and Emmanuelle Bomble, Alice Bourassin and Matthieu Courtois, program directors.

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WHAT CAN BUSINESSES LEARN FROM SOCIAL ENTREPRENEURSHIP INITIATIVES?

***Anne-Claire Pache** is Professor in Social Innovation at ESSEC. She is the chair holder of the ESSEC Philanthropy Chair. She graduated from ESSEC, holds an MPA from the John F. Kennedy School of Government (Harvard) and a Ph.D. in Organizational Behavior from INSEAD. Her research interests lie at the intersection of organizational theory and social innovation, with an emphasis on pluralistic environments, hybrid organizations, and organizational scaling-up processes. She has conducted qualitative studies on social enterprises, corporate philanthropy and private foundations. She has published in prestigious journals such as* Academy of Management Review *and* Academy of Management Journal, Journal of Business Ethics, *and* Leadership Quarterly. *She is currently Associate Dean for Strategy and Sustainability and was previously Dean for Academic Programs (2014-2017). She is Associate Editor at* Journal of Organization Design.

Is it possible to have a positive social impact without sacrificing the bottom line? Anne-Claire Pache of ESSEC Business School, Julie Battilana (Harvard Business School), Metin Sengul (Boston College) and Marissa Kimsey (Harvard University) studied companies around the world that simultaneously pursue financial and social goals, finding that the most successful commit to creating economic and social value into their core organizational activities.

Social entrepreneurship refers to companies that use business logic in a novel way to address social needs, blending financial goals with social ones. A famous example is Veja, a company that sells sneakers made under fair trade and environmentally friendly conditions in small cooperatives in Brazil. This setup allowed them to embrace and achieve two goals: profitability as well as social and environmental impact. Often, profitability and sustainability can be in conflict, making it valuable for corporations to take notes from social businesses that have pulled off accomplishing both.

Corporations are increasingly being taken to task for their social impact and customers and stakeholders alike expect companies to change. This is easier said than done, since they often need to rework their business model to ensure long-term sustainability as well as profitability, leading them to abandon the former in favor of the latter. The fact remains that companies need to keep their finances in mind if they want to stay afloat, and indeed, the researchers found that successful socially driven businesses adopt a dual purpose: social good and profitability.

These dual-purpose businesses share an approach the researchers dubbed hybrid organizing.

This model includes 4 components:

- **Setting and monitoring social goals as well as financial ones.**
- **Structuring the organization to support both socially oriented and financially oriented activities.**
- **Hiring and training employees to take on both goals.**
- **Practicing dual-minded (social and financial) leadership.**

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Setting and monitoring dual purpose goals

Organizations need to set both social and financial goals and measure their performance on both dimensions. This means having well-structured goals that explain a company's purpose to its stakeholders. To set successful social goals, it's important to do research: what are the needs the company wants to address and who are the beneficiaries? Goals must also be clear and enduring to achieve a long-term impact.

Setting dual goals is only half the battle: companies also need to **monitor progress** made on these goals. This includes identifying key performance indicators: simple for financial goals, less straightforward for social ones. The research process involved in setting goals will help companies identify a way to measure them. For example, Grameen Veolia Water, which aimed to provide safe, affordable drinking water and have sustainable operations, consulted academic experts and members of the rural communities they were serving and identified KPIs from their information-gathering process. Companies also need to foster a learning mindset, as it may be necessary to do some experimentation and adaptation to come up with the most relevant KPIs. Setting well-researched dual goals with measurable KPIs is a key component of a successful dual purpose company.

Structuring the operations

Dual purpose companies need to **align their activities and their structure.** To do so, companies should consider the kind of value an activity creates: social, economic, or both? If an activity creates both kinds, it makes sense to integrate the organizational structure, but if not, it's best to manage the activities separately. For example, an American company called Revolution Foods offers healthy lunches to low-income students. When they sell a meal, they fulfill a social purpose - supporting a child's health - and an economic one - earning money. In their case, it makes sense to integrate their structure, such that one manager is in charge of different tasks like business growth and promoting nutrition education, as educating children on healthy foods helps both their wellness and sales.

On the other hand, a French company, ENVIE, learned their lesson that sometimes a differentiated organization is best. Its purpose was to reintegrate people into the job market by hiring them to collect and repair appliances that were then resold, with the reselling activity creating economic value. It offered training for their employees in professional skills and appliance repair, helping them find new jobs. This did create social value- but it didn't help the bottom line. Initially, supervisors were asked to provide both social support and technical guidance, often struggling to do both. In the end, ENVIE's founders separated their organizational units with one for social support and another for technical skills, allowing them to generate both kinds of value more effectively.

Unfortunately, complications will still arise. This means it's important to **create spaces for negotiation.** These spaces are essential to give employees the tools to address and work through tensions. In doing so, they can find compromises between economic and social goals.

Hiring and training employees

For dual-purpose companies to succeed, they need to build a workforce with shared values, behaviors, and processes. This starts at the **hiring process.** The researchers identified three profiles of successful dual-purpose employees: hybrid, specialized, and blank slate. The hybrid employees have training or experience in both business and social value fields (think environmental science or social work), equipping them to understand and connect to both goals. They tend to do well in managerial and coordination roles. Another successful profile is that of specialized talent: this allows companies to benefit from someone's more in depth expertise and experience. This person is well-suited to middle manager roles in differentiated structures. However, someone who is highly specialized in a social field may not understand the business side of things, which can lead to tension and turnover especially in companies with a differentiated structure. To mitigate this, companies should make both goals clear to candidates from the outset of the recruitment process. The third kind of profile is the blank slate candidate: someone who has no social or business experience who is hired for an entry-level position and then trained to acquire the required skills and values. However, this requires a significant amount of training and can impact productivity, so they are best suited to entry-level roles that don't require too much training.

Regardless of an employee's back-ground, their socialization is key, but it is challenging as it entails employees understanding, valuing, and eventually contributing to both the financial and social goals of the company. Some ideas for doing so include:

- Retreats where goals and values are explained and discussed.
- Training sessions to remind employees how interconnected economic and social activities are.
- Job shadowing programs to foster empathy and perspective taking.
- The aforementioned spaces of negotiation, which can offer informal learning opportunities where people can ask questions and discuss tough topics.
- Promotion and compensation for excelling in embracing the company's values and accomplishing both social and financial goals. This also means equitable compensation within the company itself.

More generally speaking, it's critical for dual purpose companies to foster psychologically safe environments, where employees feel comfortable asking thorny questions and discussing complicated topics. This also helps employees feel that their contribution is valued and that the company is "walking the walk' in addition to talking the talk.

Dual-minded leadership

Leadership is essential to pulling off all of this. Specially, dual-minded leadership, that embraces both financial and social goals and deals with tensions head-on. It involves different leadership activities, including making decisions that embody dual goals and representing the dual goals of the company to the board.

Goals are one thing: decisions are another. Showing a company's commitment to dual goals involves deciding how to allocate their profits as well as taking actions that align with the company's values. Take Veja, a company that makes fair-trade sneakers: its founders committed to a zero-ad policy, which allowed for them to have reasonable prices despite high labour costs. They educated salespeople at major retailers about the social benefits of their product, reducing initial skepticism. . This is an example of a bold decision which helped them achieve both social impact and economic success but also showed employees and other stakeholders the leaders' commitment to their dual goals and highlighting their priorities. It also is proof that dual companies are able to avoid the trap of prioritizing profits over social impact if their leaders are truly committed to their dual mission.

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The board is another important component of leadership, since the board acts as a guardian of the dual purpose. A diverse board is crucial, with both business and social expertise having a seat at the table. While this diversity is key, it can also engender conflict because of differing viewpoints. One way to address this kind of conflict is to have a chair or director that can bridge the gap between the two groups, helping them share information and come to a mutual understanding.

The dual purpose playbook

A dual purpose company can't control all external factors, however, and there are still roadblocks to success. These include the fact that creating shareholder wealth is still a priority in the business ecosystem, and that social ratings are not consistent across the board. While dual purpose companies face challenges and it is not necessarily an easy road to success, the four components identified by the researchers form a useful framework for setting up a dual purpose business that is designed to succeed. Companies wishing to serve a dual purpose should keep in mind those four components: setting and tracking dual goals, the organizational structure, hiring and socializing employees, and dual-minded leadership.

Article written with Julia Smith, editor-in-chief of ESSEC Knowledge

HOW DO ANTIDISCRIMINATION EMPLOYMENT POLICIES IMPACT ENTREPRENEURSHIP?

Raffaele Conti, *Full Professor and holder of the CY chair of excellence in Strategy and Innovation, received a PhD in Management from Bocconi University and a MSc in Economics from Pompeu Fabra University. His research interests focus primarily on how institutions affect innovation, entrepreneurship, and, more broadly, the economic behavior of individuals and organizations. He has been elected as representative-at-large of the Knowledge and Innovation Division of the Strategic Management Society. He is also a member of the research committee of the Technology and Innovation Management Division of Academy of Management, and he was a member of the research committee of the Strategy Division of Academy of Management. He currently serves as Associate Editor of* Management Science *and of the* Strategic Management Journal.

How do antidiscrimination employment policies impact entrepreneurship?

Haven't we all dreamed of being our own boss at some point or another? Entrepreneurs make this dream a reality, striking out on their own to found an independent business venture. This makes the factors impacting someone's decision to leave paid employment and become a founder an interesting question, including institutional factors such as regulations and policies that could encourage or discourage entrepreneurship. When making such a decision, an individual will consider their circumstances, which includes comparing life as an entrepreneur to the conditions they have as an employee. This means that regulations impacting how inclusive and equitable the working environment is can have a significant impact on someone's decision to become an entrepreneur, a possibility that has not been thoroughly researched. In recent research published in Strategic Management Journal, Raffaele Conti (ESSEC Business School), Olenka Kacperczyk (London Business School) and Giovanni Valentini (IESE Business School) were particularly interested in the effects of regulations enacted in order to combat discrimination at the workplace, on the basis of race, sex, sexual orientation, gender identity, disability, pregnancy, religion, age, and more on startups[1]. The researchers focused in particular on the effects of the Employment Non-Discrimination Acts (ENDA) in the United States. This legislation included employment protections for sexual orientation and gender identity, the focus of this study. It was also introduced progressively in 15 states between 1980-2006, so that the researchers could study its impact as it was implemented.

Regulation, discrimination, and innovation

Who becomes an entrepreneur? Much ink has been spilled examining individuals' motivations to become founders, mostly studying individual and organizational factors. Lately, researchers have turned their attention to the study of the institutional environment (which can be the workplace) and especially changes in the institution, and how the characteristics of the institution impact people's decision to become an entrepreneur. This research

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has largely focused on institutions that appeal to prospective founders, for instance by providing access to resources for launching a new business. However, resources are not the only factor impacting someone's decision to strike out on their own: it's a big decision to leave salaried employment for a risky new business. So it makes sense that past studies have found that people are more likely to become entrepreneurs when the alternative, salaried employment, is less appealing, and vice versa[2].

How do legislations that protect against discrimination come into this, then? These laws protect their employees from discrimination, with the aim of improving workplace conditions and providing an equitable environment. The researchers studied the effects of the Employment Non-Discrimination Act at the state level. To gather data on entrepreneurship, they studied the number of new firm filings in states following the enactment of the ENDA between 1980 and 2006. They found that indeed, when the ENDA was enacted, employees were less likely to strike out on their own and found a new venture: there were fewer new ventures following the implementation of the ENDA in a given state.

Quality over quantity: while there were fewer ventures, the new ones were of higher quality. They measured quality in three different ways, the first being by the number of patent applications by young firms in a given year. Firms that file for patents are likely to 1) have superior technology and 2) seek to capture the value of their technology, and having a patent portfolio has been linked to firm survival[3,4]. This makes patent filings a suitable proxy for quality. The researchers also used the amount of venture capital raised as a proxy for quality, since funding is also linked to growth potential and quality. The third proxy for quality was their survival chances, measured by the proportion of startups created in a given year that survived for at least five years. They found that indeed, following the implementation of the ENDA in a given state, startup quality was higher in that state, with more patent filings and venture capital raised for those startups. The ENDA also had a small but significant effect on firms' survivability.

They also found that the effect of antidiscrimination laws was even stronger in states where LGBT populations are larger and where discrimination levels tend to be higher, as measured by the number of civil rights suits. In these cases, there were again significantly fewer new firms - but higher quality ones.

Does it matter who the founder is? The researchers looked at startups founded by all minorities (not only the LGBT population) and found that there were fewer new startups founded by members of minority groups. This can likely be traced back to improved work conditions at salaried employment, making members of minority populations less likely to transition to a founder role. Delving deeper into individual traits, they conducted an experiment with over four hundred US-based employees, finding that those who were put into a scenario where their employer enacted ENDA policies reported that they would be less likely to leave their job to be an entrepreneur and that they felt more satisfied with their employer. This suggests that antidiscrimination policies increase the appeal of the workplace.

The researchers also explored antidiscrimination policies at the firm level. They found that firms in states that enacted the ENDA were more likely to adopt antidiscrimination, or progressive LGBT policies - interestingly, these firms also displayed higher corporate social responsibility scores as well. The pattern was again replicated here: these policies were associated with fewer new ventures, but higher new venture quality. This indicates that the ENDA impacts firm policy, and that this firm policy also impacts entrepreneurship behavior.

Research and policy implications

We can agree that antidiscrimination policies are a positive step, but it is also useful to empirically examine the tangible effect of such policies. In this study, Dr. Conti and his colleagues explored the effect of ENDA policies in a new way by examining how such policies impact entrepreneurship. Their findings show that antidiscrimination policies increase the appeal of the workplace, making employees less likely to leave paid employment when they feel protected by their workplace and resulting in fewer new ventures, but that the new ventures that were founded were of superior quality. This suggests that antidiscrimination policies can not only improve the worklife of minority populations, but can also improve entrepreneurship quality, a novel finding and useful information for policymakers seeking to improve employment conditions and entrepreneurship quality alike. This also shows that keeping employee welfare in mind is beneficial for building a clearer understanding of how institutional policies impact new firms. Quality over quantity: antidiscrimination policies can keep current employees satisfied in their roles, and improve the results for those that do decide to step into a new business venture.

Article written with Julia Smith, editor-in-chief of ESSEC Knowledge

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EMPLOYEE ENTREPRENEURSHIP AND THE CREATION OF NEW VENTURES

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We tend to associate entrepreneurship with striking out on your own to create a new venture, but this isn't always the case. Employee entrepreneurship refers to new ventures created within their parent organization, often to benefit said organization with innovative ideas. Ha Hoang (ESSEC Business School) and Markus Perkmann (Imperial College London) examined physicians in the UK National Health Service (NHS), looking at their relationship to their organization and how they transition to entrepreneurship while remaining part of the NHS.

Employee entrepreneurship ventures can be a boon to their employers, as a source of innovation[1], wealth[2], and increased organizational learning[3,4]. We know that employee entrepreneurship is good for business - what we know less about is the journey from employee to entrepreneur.

Examining employee entrepreneurship

To learn more about employee entrepreneurship, the researchers studied physicians in the UK's National Health Service (NHS) who participated in the Clinical Entrepreneurship Programme. The goal of this program was to support health professionals in pursuing their entrepreneurial dreams, with the hope of developing solutions that would benefit the NHS, but it supported the would-be entrepreneurs whether or not their project was directly linked to the NHS.

The researchers observed the aspiring entrepreneurs over the course of the program and interviewed participants, the clinician leading the program, and mentors. Using this data and survey data, the researchers explored key points of the venture founding process: motivation and steps taken, their relationship with the organization, and their personal goals and outlook.

They noticed that most of the ideas aimed to solve medical or health issues: a free teleconsultation service, easier access to clinical trials, better public health education for children, and

more. The employee's orientation to their organization- how they felt about it - colored their efforts, with their orientation displaying two different facets. The first is their intentions: some participants reported an intent to innovate and create solutions to problems they'd noticed on the job, thereby improving the organization. These people wanted to take action to improve the NHS, and to identify opportunities that would allow them to do so. The second set of people displayed a close attachment to the organization, with it being a core component of their identity. These people identified with the values of the NHS and so wanted their project to improve its functioning.

Many of the aspiring entrepreneurs were driven to improve the NHS, fueled by their close affiliation with it. But it wasn't all smooth sailing: sometimes their efforts were curtailed by their responsibilities and a lack of resources and they needed to look outside the organization to achieve their goals.

Sometimes, these budding entrepreneurs felt that their efforts were hindered by their position, feeling a mismatch between their job and their innovation goals. When people felt this mismatch, they tended to also feel dissatisfied with certain aspects of the NHS, for instance perceiving a lack of support for innovation. For example, one person noted: "… people are just putting out fires, there's no time for improvement, there's no time for really restructuring". In response, many participants devoted themselves to activities outside their job description - but sometimes got pushback from colleagues who felt this was inappropriate.

If the NHS entrepreneurs had to break free of their prescribed role, they often also had to look outside the NHS for resources and mobilize their individual network both inside and outside the organization. Along with going beyond the boundaries of their official position, this represented a move toward founding a venture outside the organization.

This didn't mean they wanted to cut ties entirely with the NHS - quite the opposite. Typically, the budding entrepreneurs also maintained their membership in the organization. They tended to see the NHS as a source of inspiration and knowledge, and a way to gain valuable insight for their project. They were also motivated by the advantages of being affiliated with such an established organization, advantages they could capitalize on for the good of their venture, like reputation and respect. Even aside from these benefits, people were also keen to maintain professional continuity, recognizing the risks of halting their activities and becoming a full-time entrepreneur. Though working full-time presented challenges to their entrepreneurial dreams, they tended to still pursue it in their spare time rather than fully leaving the NHS.

This also had the advantage of letting people reflect on their job and in some cases, mold their role and their career trajectory to align with their new goals of simultaneously pursuing an entrepreneurial career alongside their career in the NHS

Staying close to the parent

This desire to remain affiliated with the NHS shaped their projects, with many designed to be interconnected with the organization. This played out in a few different ways. Some innovators saw their project being deployed within the NHS, with the NHS as a customer: for example, a new system for managing medical imaging reports. Another was to create solutions for the NHS patients, like a device that would facilitate home care. A third feature was for the NHS to serve as advisors, board members, or supporters, who would counsel and endorse the venture. Finally, some envisioned the NHS as a source of referrals for the venture. Though the interdependence played out in different ways, it was common for individuals to link their project to the NHS.

What does this mean for hybrid entrepreneurship?

Hybrid entrepreneurs are those that simultaneously create a new venture and maintain their previous employment. Much of the literature has assumed that entrepreneurs remain employed for financial reasons, but this research shows that identity is also a key driver. This means that people also develop complementary ventures that could address the needs of their organization. This has valuable implications for employers seeking to encourage entrepreneurial behavior. It shows that it is possible to pursue entrepreneurship alongside employment in the parent organization. To capitalize on this, employers could develop policies to support and promote interdependent ventures that will address challenges like conflicts of interest, intellectual property, and venture governance, as well as providing resources. Together, these findings suggest that employee entrepreneurship provides a valuable pathway to more innovative organizations, and that employees are willing to align their career and venture goals to continue their organizational membership while they pursue their entrepreneurial dreams.

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THE DARK SIDE OF COLLABORATION IN REGIONAL INNOVATION NETWORKS

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In the last decade, the Hauts-de-France region has made sizable efforts to promote collaboration between local entrepreneurs, private firms, and universities. For example, PSA and Total decided to invest in a new factory to produce batteries for electric vehicles in Douvrin, collaborate with members of the Hauts-de-France automotive cluster, and benefit from local innovation parks and centers (e.g., Critt M2A, Valutec). Local players have also been encouraged to engage in initiatives outside the region, in sectors like retail, nutrition, bio-agriculture, and seafood, benefiting from regional, French and European partnerships. Notwithstanding all these efforts, the region keeps lagging in French productivity rankings. It accounts only for 3.7% of the patent filings in France. Its rate of new venture formation per 10 000 inhabitants is half compared to the region of Provence-Alpes-Côte d'Azur, and about one-third of the one observed in Île-de-France.

Under what circumstances do increased collaborative efforts, like in the Hauts-de-France case, not lead to increased innovation and entrepreneurship? Elisa Operti, Associate Professor at ESSEC Business School, and Amit Kumar, Assistant Professor at Warwick Business School, addressed this puzzle in a recent study in *Regional Studies*. The study is part of a broader research project funded by the CY Initiative of Excellence and l'Agence Nationale de la Recherche.

The first step to address this paradox was to bring together past research on collaboration networks and regional innovation. The innovation-enhancing effects of either creating connections between previously disconnected actors within a region (internal brokerage) or linking local players to actors in other areas (external boundary-spanning) are well-known. Yet both mechanisms have been studied independently. By contrast, the research team examined what happens when they operate simultaneously, developing a typology of regional collaboration networks based on the degree of internal brokerage and on the number of collaboration ties outside the region. They identified four archetypes. The first configuration ("fortress") characterizes internally cohesive regions, with all innovators working for a few large firms or universities, but with limited connections outside the region. The second type of configuration ("playing field") depicts regions that are still pretty disconnected from the national scene, but are internally diverse, with a few key brokers connecting a vibrant ecosystem of start-ups, firms and public players. The third type of configuration ("absorber") describes internally homogeneous and cohesive regions, where actors have developed several collaboration ties outside the region and rely mainly on external knowledge to develop new ventures and innovations. The last type of configuration ("multilevel brokerage") is where boundary-spanning collaboration between diverse actors occur both within.

To understand which of these configurations is better for innovation, the researchers collected data on the structure of the collaboration networks between inventors within and between United States municipal areas (MSAs) between 2000 and 2015. They studied how these structures affect regional innovation output. The results indicate that while both types of collaboration ties are beneficial, it is hard for innovators in a region to handle both types of collaboration simultaneously. Thus, "playing field" or "absorber" configurations are often more conducive to innovation than "fortress" or "multilevel brokerage".

Two reasons explain this counter-intuitive result. On the one hand, the effect may be due to the cognitive and information overload generated by multilevel brokerage. In times where attention and resources are scarce, innovators may struggle when bringing together diverse local actors while at the same time managing the demands of distant research collaborators. On the other hand, innovators who build local bridges while also engaging in external initiatives may be exposed to conflicting demands and organizational cultures. As a result, their loyalty to local or national goals may be questioned. Their motivation is going to be challenged, and such tensions are going to limit their implementation capacity.

Implications for policy

The research provides clear guidelines on how policymakers should design policies that leverage collaboration networks to encourage innovation and entrepreneurship:

1. One size doesn't fit all. Policymakers think that innovation policies derived from well-known success cases can bring homogeneous benefits when applied to other regions. For example, regulators across the globe have tried to replicate the "Silicon Valley" model by incentivizing the creation of ties between local innovators and national or international players. However, this approach can work only if the region has already developed a cohesive internal support network. If this is not the case, local regulators should focus on unifying the internal/local community: if regional innovators and entrepreneurs are not ready, distant collaborations and internationalization can even be harmful.

2. More isn't always better. Regulators should be more aware of the knowledge overload and hidden costs associated with offering too many research collaborative incentives at the same time. Rather than developing numerous grant programs that stimulate local and global connections simultaneously, policymakers should concentrate resources on a few selected incentive programs around well-defined topics of local and national importance.

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They should also provide support to help entrepreneurs and corporate innovators pick which collaborative configuration works best.

3. **Make long-term plans.** Even if it may be difficult to engage in local and distant collaborations simultaneously, both types of networks can be exploited in a longer time frame. For instance, policymakers can first foster internal brokerage by bringing together previously disconnected universities and business players in a territory. This is, for example, what France has done with the "Programme d'Investissement d'Avenir" that incentivized the creation of territorial alliances between co-located universities and research centers. Only when these local networks are in place and governance issues have been addressed should policymakers encourage nationwide and international connections.

Tips for innovators and entrepreneurs

Innovators and entrepreneurs can also derive valuable insights on how to maximize the gains from collaboration from this research:

1. **Map the innovation landscape around you. The environment can shape the type of innovations you create and their success chances.** The first step to benefit from the environment is understanding what kind of network opportunities exist around you. Are you located in a region where all actors know one another and collaborate closely? Or does your area depend strongly on other regions and foreign players? Depending on the diagnosis, you may need to engage in different types of collaboration.

2. **Create value by fostering new connections.** Depending on the analysis you performed in the first step, entrepreneurs and innovators must think about how they can create value by establishing new connections. If the regional network surrounding them is homogeneous and cohesive, they should think about making external connections. If local innovation actors are not working together yet, they should focus first on the value you can create by bringing these actors together.

3. **Don't overdo it.** Entrepreneurs and innovators should be more aware that collaboration brings advantages, but also conflicting demands and cognitive and work overload. Thus, they should learn to be highly selective in the choice of collaboration opportunities. They should also learn to handle the pressure and overload emerging from conflicting demands from multiple collaborators.

DOES INVESTOR GENDER MATTER FOR FEMALE ENTREPRENEUR SUCCESS?

__Isabelle Solal__ is an Assistant Professor of Management at ESSEC, where she teaches courses on entrepreneurship and organizational behaviour. Dr. Solal's research focuses on the mechanisms that lead to inequality in labor and financial markets. In particular, her work examines how gender shapes audience interpretations of market signals, impacting for example the allocation of investment capital to early stage entrepreneurs. Prior to joining academia, Professor Solal worked as an attorney in the areas of investment dispute resolution and sports regulation, as well as in management consulting. She holds a Ph.D. and a MBA from INSEAD.

We tend to think of women supporting women as a good thing: we're all in this together, so why not give each other a hand? This has been touted as a strategy for reducing the gender gap in many areas, including entrepreneurship, but the jury is out on whether that support might come at a cost. Isabelle Solal, assistant professor of management at ESSEC, and Kaisa Snellman (INSEAD) investigated the impact of investor gender on the success of female entrepreneurs, finding that in fact, pitches by female-backed female entrepreneurs are viewed as lower quality and the entrepreneurs as less competent, and that female founders who received funding from female venture capitalists were less likely to raise additional funding. The road to hell is paved with good intentions - and relying on female investors to support female entrepreneurs may have unintended consequences .

Women in entrepreneurship

Even in 2021, women are still underrepresented in many traditionally male-dominated fields, entrepreneurship being one such field. Policy-makers, scholars, and the press alike have developed different solutions, ranging from legal ones like affirmative action or gender-blind recruitment and selection processes. One solution that has been put forward is to encourage women who have "made it" to support other women through networking, mentoring, sponsorship, and even financial support. While same-gender support in other fields has been shown to have certain psychological benefits, we need to better understand its effects on audience perceptions, especially in a domain like entrepreneurship where perceptions play a significant role.

Recent research has examined whether the presence of female investors increases the likelihood that female founders receive funding. This may be because women and men alike tend to support their own gender, or because women are actively aiming to boost other professional women. This gender homophily has been linked to strong trust and better communication in past research. Despite these potential benefits, there could also be unexpected consequences for the female entrepreneurs who receive help from female investors. Why? Other observers might make biased inferences about the relationship, for example assuming that the female investors offered funding to the female entrepreneurs simply because of their gender and not they deserve it- a perception not applied to male investors funding male entrepreneurs. This can take a toll on how the female entrepreneurs' competence is perceived, potentially resulting in difficulty accessing resources or lower performance reviews. Dr. Solal and Dr. Snellman explored this question using experimental and field data.

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What happens when female investors support female entrepreneurs?

In the first part of the study, the researchers studied field data from early-stage startups in the United States. Since young startups need a significant amount of capital, they will seek out investments from venture capitalists who then take a minority stake in the business. This type of funding is done in rounds, depending on the firm's development stage and funds required, and so venture capitalists will not provide startups with all necessary capital in the first round due to the high failure rate of new business ventures. Using data from Crunchbase, which has a wealth of information gathered from various sources including the media, VC firms, entrepreneurs, and investors, they examined firms that received a first round of VC funding between January 2010 and April 2018, for a total of 290 female-founded firms out of a sample of 2136.

They found that female-founded firms who received first-round funding from female venture capitalists were two times less likely to receive additional funding compared to female-founded firms that received funding from men, a phenomenon that was not seen in male-founded firms.

Building on their initial findings, the researchers recruited 134 MBA students from a prestigious business school and had them watch one of four pitch videos, featuring either a male or female entrepreneur, backed by either a male or female investor. They then rated the pitch's quality and the entrepreneur's competence: the results revealed that pitches by female-backed female entrepreneurs were seen as lower quality compared to other conditions, and that these lower ratings were linked to perceptions of the entrepreneur's competence. This result was only seen for the female investor x female entrepreneur pitches - not, say, the male entrepreneur x male investor pitches.

Taken together, the results indicate that female entrepreneurs who receive funding from female investors are likely to be perceived as less competent and to be less successful in raising capital past the seed round.

What does this mean for female entrepreneurs and female investors?

While we can agree that women supporting women can be beneficial, this study highlights the fact that same-gender support can have negative consequences in some situations. In entrepreneurship, where early funding decisions hinge on how potential investors perceive the founder, female entrepreneurs who received funding from female VCs are seen as less competent since observers are less likely to believe that they received the funding due to merit. These women then go on to raise less funding.

Policy implications: inclusive investing

Female entrepreneurs may face challenges growing their business if they don't have a male investor. Additionally, female investors may be pigeon-holed if they are seen as only investing in female-led businesses. As a result, initiatives encouraging women to support women may negatively impact both parties and put undue pressure on women. New initiatives should focus on encouraging inclusive investing, where men and women work together to support female entrepreneurs.

Entrepreneurship is a male-dominated field, and while efforts to reduce the gender gender gap by encouraging women to support female entrepreneurs are well-intentioned, they may unintentionally backfire in some instances. This suggests that working toward gender equality in entrepreneurship needs to be a team effort, undertaken by men and women alike. ■

Article written with Julia Smith,
Editor-in-Chief of ESSEC Knowledge

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JUST MAKE AN EFFORT? OR JUST PLAN FOR "A GOOD TRIP"?

***Fabrice Cavarretta** is an Associate Professor in the Management Departement at ESSEC Business School, specializing in Entrepreneurship and Leadership. Coordinator of the PhD Entrepreneurship seminar, he developed various intrapreneurship programs through ongoing learning His research focuses on logic used by managers to develop new firms, and on artificial intelligence applied to people and organizations analysis. Professor Cavarretta published* Oui! La France est un paradis pour les entrepreneurs *(Plon, 2016) in which he tackles the specificity of national entrepreneurial ecosystems.*

We've been conditioned to think that hard work and success go hand in hand: think Bill Gates declaring that he never took a day off in his twenties, Malcolm Gladwell's theory that you need to spend 10,000 hours doing something to become an expert, or parents worldwide telling their children to study hard so they can do well in school and get a good job. It seems intuitive that if you make an effort, your performance will reflect that. But what does science say? In a recent paper in *Organizational Dynamics,* Fabrice Cavarretta explores the subtle relationship of effort and performance.

He shows that when it comes to the science of organizational behavior, the ability for effort is not a given, nor does it even play a central role – developing motivation should take the spotlight. It can be hard to disentangle whether effort is a cause or a consequence in a given situation: does someone put in an effort because they enjoy the work and want to work with their colleagues (effort-as-a-consequence), or is it because they're trying to achieve a certain result (effort-as-a-cause)?

Dr. Cavarretta therefore suggests an alternative perspective: we can look at effort through a feedback loop: effort—performance—pleasure—motivation – effort. If this seems familiar, it's because it's akin to the mechanisms seen in other compulsive behaviors, some that are toxic such as drug abuse, others that are desirable such as a passion for music or for a sport. Such loops are common and can explain both harmful and beneficial spirals. This conceptualization of effort matters in particular to management and education, where leaders or educators seek to improve the performance of others.

Effort-Consequence instead of Effort-Cause

It's important to avoid mixing up the causality of effort, and to refrain from popular belief linking ability for effort to strong performance. In reality, one's ability to put in an effort typically arises as a consequence of something, not as a major cause.

To accomplish something, making an effort depends more on the right time and right place, rather than being the focal point. It's also a matter of a self-fulfilling prophecy: if we believe in our abilities to accomplish something, we are more motivated, then we perform better, which feeds our belief in our abilities, and so on and so forth, leading to an ongoing cycle of effort-as-a-consequence.

In addition, exerting effort is not always something that we can do over long periods of time, as it depletes our mental resources, and our initial motivations get exhausted when we rely mostly on them. Thereafter, relying on effort-as-cause fails after a while. This phenomenon is linked to our drive for pleasure: if we can't get a reward quickly, our brains lose interest. So how can we keep up our efforts even when the reward lies in the distant future?

Keeping up the good work: Behavioral loops and pleasure

The trick is to refrain from seeing effort as a cause or as a consequence, but rather as both. By seeing it this way, we can organize performance over the long term and generate an addictive loop, meaning a drive to repeat behaviors that are pleasurable by themselves. As the term "addictive loop" may have negative connotations, Dr. Cavarretta prefers using the phrasing "planning for a good trip".

This approach counters the tendency to overestimate our ability for both making an undesired effort as well as resisting the temptation of alternative pleasurable activities. An addictive loop approach avoids those two obstacles by aiming for activities that generate pleasure, hence our desire to make an effort, hence more activities.

For example, would you say yes to being chased and beaten in the mud, on a Sunday afternoon? This is probably not desirable for most of us. Yet rugby players quite enjoy this during their weekend games with their friends. To them, it represents succeeding in something difficult and belonging to a team. Here, the effort of sustaining physical pain is a consequence – of loving rugby. By building a rich relationship with the activity, rugby players have established a performance-effort loop by which they will keep working hard to feel that enjoyment again.

To establish such a loop, one can follow a systematic approach: frame the activity so that you enjoy the process on the way to achieving your outcome, and then "enjoy the trip". Here are a few tactics to support this approach; notice that we recycle many classical self-help tricks, in order to build a performance-effort loop

Lessons for leaders

The role of leaders is to put in place a system of efforts-as-consequences, generating a spiral where outcomes get bigger and better as time goes on. Here's a non-exhaustive list of tips and tricks for leaders to motivate followers in the long term:

- **Don't neglect indirect activities** that create pleasure, like giving feedback and offering training sessions. Focusing only on the direct and painful activities can set people up to fail, since as mentioned earlier, it's hard to sustain effort over long periods of time.
- **Avoid a "no pain, no gain" mentality.** Accepting that tasks are "undesirable" focuses people on the forced aspect, so they seek

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a compensatory short-term reward elsewhere. This implies a loss of motivation, which could be avoided since most tasks can be made interesting.

- **Grant people autonomy:** When people choose and/or design their task, there's a greater chance that the effort-performance-pleasure-effort spiral will be triggered.
- **Leverage psychological drivers:** For instance, the Pygmalion effect, where people perform better just by feeling that their leader believes in them.
- **Orient discreetly through a gentle nudge.** Nudging uses subtle cognitive techniques to encourage individuals to behave in a certain way. Leaders can nudge their followers into the first round of effort, which then initiates the positive performance loops.
- **Who's in control?** You are: Each of us has an unconscious belief about how much we are in control, and it determines the actions we go on to initiate. Luckily, people can be trained to expand their sense of control to more situations.
- **Social validation.** We are social animals, so many activities emerge just because the actors got positive social, material, or financial feedback loops from their environment. Leaders should focus their followers' attention on sensing such information from the outside world: employees should pay attention to customers' feedback, students should focus on the usability of their new skill, etc.

Lessons for individuals

- **Build an identity:** Our actions tend to align with how we perceive ourselves and how others perceive us. If you declare to yourself and to others that you are an entrepreneur, you are more likely to take action to launch your project
- **Make it a habit:** Your brain is a creature of habit, and science has therefore identified habit formation as a key for success.
- **Be playful:** Pleasure and play are linked, and if we frame something as a game, it can be more engaging and less depleting. In a professional context, this amounts to structuring a task to make it challenging, with clear metrics, but not overly so, a bit like a brain teaser.
- **Break it down:** If a large, long-term project is too overwhelming, break it into smaller tasks. This helps us enjoy the process and "earn" psychological rewards along the way as we check things off our list.

A word to the wise: avoid forced effort

When considering a task that requires an effort, what is the harm of just pushing directly to get the task done, like by giving a reward or punishment? For example, can there be a downside to incentivizing – e.g., using money -- a kid to learn their times tables?
Unfortunately, the brain then perceives the task as distasteful – since one needs to be paid to do multiplications, math is not fun! Subsequently, this child is more likely to lose interest in math. Paradoxically, this tactic works in the short term, as it gets the child to learn the times tables, but results in exactly the opposite of the long term objective, which is to become good at math.
Such extrinsic motivation schemes – where effort is forced by external rewards – have been shown to lead generally to undesirable outcomes. While we can't ignore them as short term tactics, they only work in limited contexts, and only if properly inserted in a scheme balanced with intrinsic motivations.

Planning for a good trip

Even with a wealth of management and behavioral research at our fingertips, the exact role of effort had been misread due to its complex looped relationship with performance.
Our civilization cherishes effort, laying social stigma onto those who don't seem to make enough of it, and overblown praise towards those who make a lot of it. What a misunderstanding, given that many performers expend effort mostly as a pleasure-driven consequence of contextual factors!

Instead of deluding ourselves about "just making more of an effort", we should now consider performance as a long-term process built on behavioral spirals. Let us become experts at building those quasi-addictive loops where we end up appreciating every activity... even and especially those that require effort!

Article written with Julia Smith, editor-in-chief of ESSEC Knowledge

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THE ROLE OF VENTURE CAPITAL SECURITIES IN ENTREPRENEURSHIP

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For entrepreneurs to flourish, they need funding: venture capital is financial capital provided to early-stage, high-potential, high-risk, growing entrepreneurial companies. Venture capital is particularly attractive for new companies with a limited operating history that are too small to raise capital in the public markets, and have not reached the point where they are able to secure a bank loan or complete a debt offering. In exchange for the high risk that venture capitalists (VCs) shoulder by investing in smaller and less mature companies, venture capitalists usually get a significant portion of the company's ownership (and consequently their value).

Once a VC decides to invest in a venture, the involved parties need to settle on a deal structure. When negotiating the deal structure, parties need to keep a few considerations in mind:

- The deal structure needs to protect the VC against losses and should encourage entrepreneurs to work hard to make the venture a success.
- Most VC investments are illiquid, which means that unlike shares of listed companies, they cannot be sold very easily.
- Finally, most investments are characterized by asymmetric information. In general, the entrepreneur knows more about the venture than the investor.

VCs typically use convertible preferred equity to finance ventures. As the name suggests there are two important features of these securities: conversion and preferred. Investors of convertible preferred equity have the option of either holding a debt-like claim -preferred equity or converting into common equity. Converting into common equity implies sharing ownership in the venture with the entrepreneur. Preferred terms make it similar to a loan (debt), gives holders a right to interest payment (dividends) and additionally gives preference in payments over common equity. In other words, the preferred feature ensures that preferred investors are paid before common equity holders. In a typical deal, VCs would hold preferred equity and the entrepreneur common equity, thus the VC can get paid before the entrepreneur if the venture does not do well. However, if the venture succeeds and its value increases, the VC would convert the preferred equity into common equity and share the fruits of this success with the entrepreneur.

Another feature of VC investments is that they are done in stages. VCs would never provide all the capital upfront to a venture; instead, they would only provide sufficient capital to reach the next milestone. Once the capital has been used up, the entrepreneur has to raise another round of financing to reach the next milestone. The advantage of staging is that VCs can stop financing if the venture is not doing well. It can also be advantageous for the entrepreneur, as the terms can be made more favorable to them if their venture is successful. Staging also helps reconcile the aforementioned asymmetric information levels between entrepreneurs and VCs, since future investments are only made based on past outcomes.

Finally, in addition to providing capital, VCs also monitor and guide the venture. Th e structure of most deals is designed to ensure the monitoring role of VCs. While VCs do not hold the majority of shares, they would have the right to nominate members to the board of directors. These rights help the VC monitor progress and guide the venture and gives them the power to replace managers if operations are not going smoothly.

Having discussed the general features of VC investments, we will now explore details of some specific securities used in VC contracting. It must be noted that convertible preferred securities come in various flavors. Dr. Arcot analyzes one such security called participating convertible preferred security (PCP), used widely in venture capital contracts. Participating convertible preferred stock gives its holders the right to be paid first (before common shareholders generally held by the entrepreneurs) and at the same time, allows them to participate in excess earnings (i.e., the cash flow after all debt and preferred claims have been satisfied) along with the common stockholder. PCP holders thus concurrently hold both a debt-like claim (preferred equity) as well as an equity claim (participation rights). However, PCP holders lose their preferred rights if they convert this PCP stock into common stock. His research explores why venture capitalists are willing to convert their PCP stock into common equity and give up their preferred rights.

He proposes a signaling model for PCP stock based on its role in venture capital exits. The two major forms of exits observed in venture capital are the initial public offerings (IPOs) and the trade sale. IPOs are exits where shares of the venture are sold to investors and then listed on the stock market and trade sale is a transaction in which a venture is sold to another company. Typically, a PCP stake is converted into common equity during an IPO exit, but is not converted in a trade sale exit. The model shows that VCs can signal the quality of their venture in an IPO by converting their PCP stake into common equity and giving up some of their cash flow rights. By giving up something during an IPO, VCs are signaling to investors that the venture is of a high quality. Signaling is of particular importance in an IPO, because in an IPO shares are sold to new investors who do not have access to documents to analyze the venture's performance. Investors in an IPO typically have to rely on a bank to perform the due diligence and hence are thus relatively uninformed about the venture. In contrast, potential trade buyers are given access to documents, which they can analyze to reach conclusions about the venture's quality. Since trade buyers typically come from the same industry as the venture, they are likely to have industry knowledge and are better equipped to interpret the information provided.

When exit is through an IPO, the entrepreneur retains control of the firm. Thus, when the firm value is high, an IPO exit rewards the entrepreneur and should be the preferred exit route. However, the VC may be reluctant to take that route, given that investors in an IPO are less informed and the VC may not get the full value for his stake. When the firm value is high, the VCs may prefer to target investors who are more informed and get a higher value for their stake. In other words, exit through a trade sale. However, the interests of VCs and entrepreneurs are more easily aligned when the VCs convert their PCP stakes into common shares and exit through an IPO.

Venture capitalists investing in start-ups use sophisticated financial instruments to structure their investments. This article provides a rationale for the use of one such instrument, PCP stock, based on the venture capitalist's exit strategy. In doing so, it makes a connection between the exit route and entrepreneurial effort. This highlights factors that have direct implications for the incentives of venture capitalists to invest in ventures and entrepreneurs to exert effort to make them a success. ■

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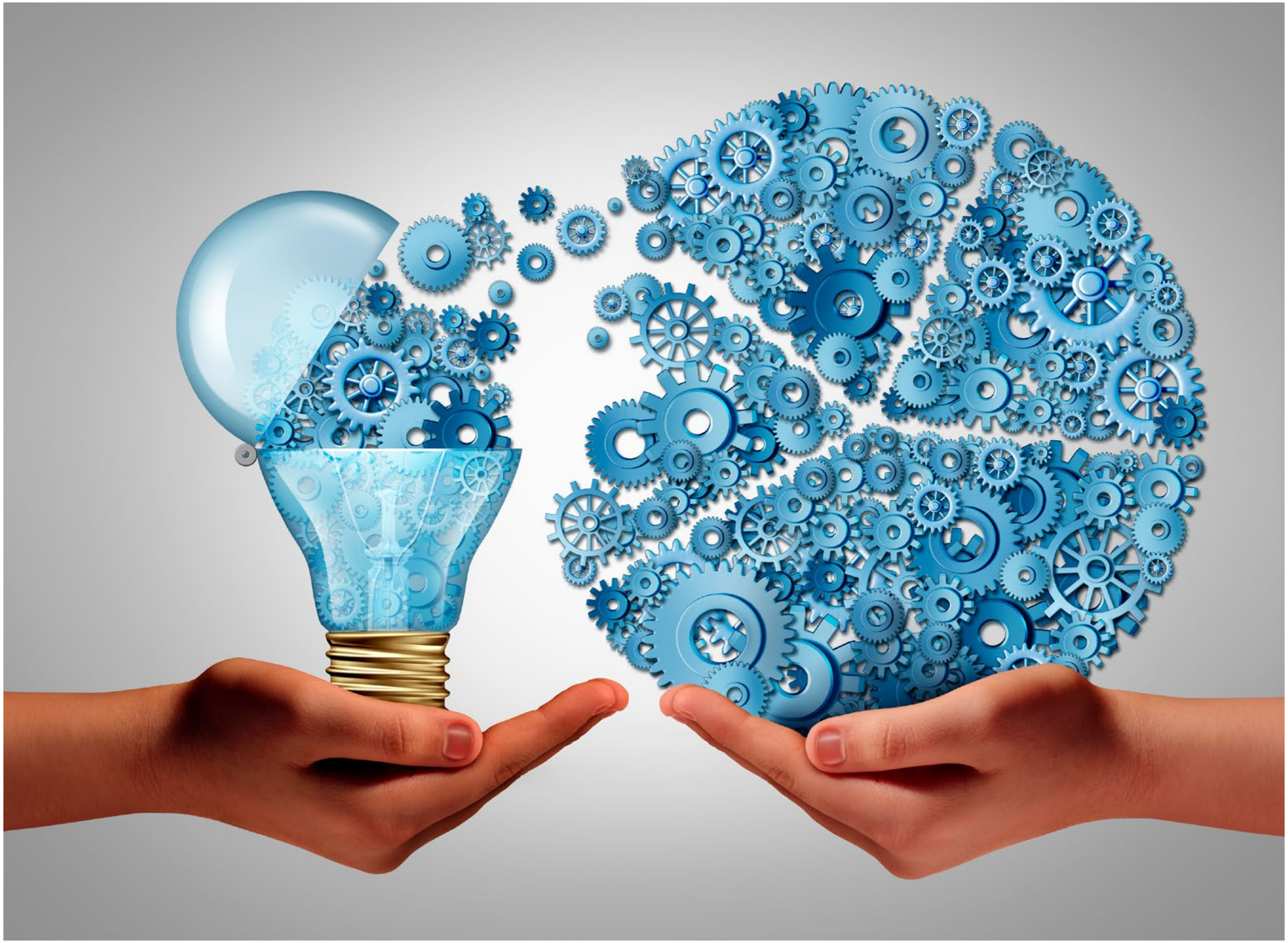


WHAT HAPPENS AFTER AN INNOVATION FAILS?

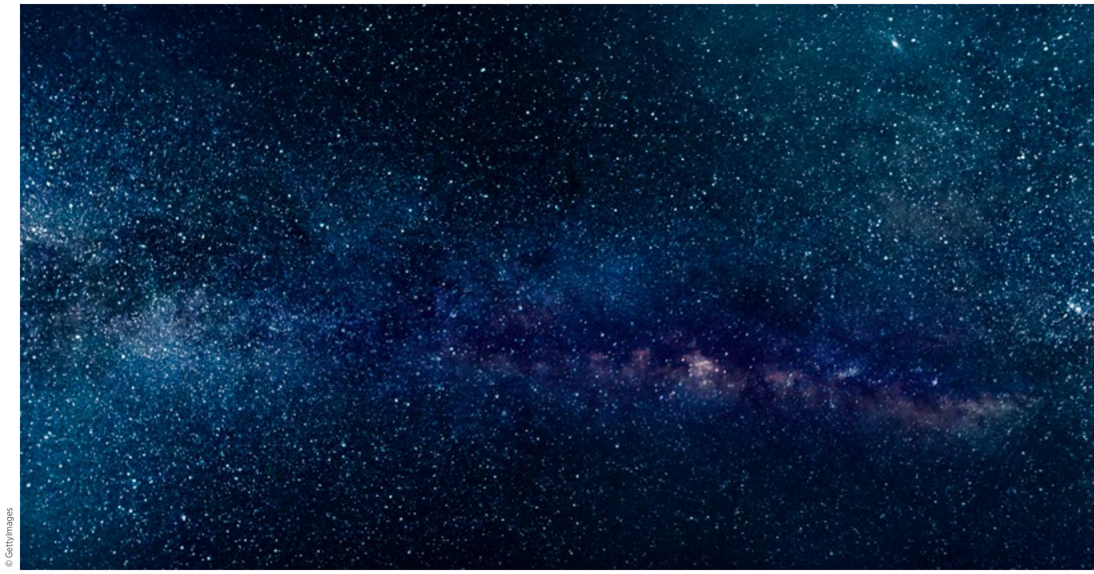
Sen Chai *is an Associate Professor of Management at ESSEC Business School. Her research examines the entire developmental course of creative innovations from idea conception to commercialization, with the goal of helping managers and policymakers avoid failures and errors, better support innovation and increase organizations' chances of creating commercially successful ideas.*

This summer saw Virgin Galactic "win" the billionaire space race, with Unity 22 launching Richard Branson and the passengers and crew into suborbital space. But before this success, there was a catastrophic failure: on October 31st, 2014, the VSS Enterprise suffered a fatal crash during a test flight. Sen Chai (ESSEC Business School), Anil R. Doshi (UCL School of Management) and Luciana Silvestri (Harvard Business School) studied how this catastrophic innovation failure impacted the perceived legitimacy of Virgin Galactic and of the commercial space industry, finding that industry members tend to either challenge or maintain the firm's legitimacy, all the while supporting the legitimacy of the industry itself.

One small step for man...

Innovation is necessary for humankind's advancement: it impacts the economy, changes how we interact with our world and each other, and gives rise to new opportunities and even new industries. These new industries, and the firms that operate within them, need to establish their legitimacy, given their unfamiliarity to investors, regulatory agencies, clients, and other stakeholders. As a result, firms will cooperate to establish both their own legitimacy and that of the industry as a whole. These efforts will often focus on making the firms seem knowledgeable, with sound practices and technologies, and by making their innovations seem beneficial to society. As the industry develops, firms will also seek to establish their own distinct identity to differentiate themselves from their competitors.

Yet since the innovation in question is so new and uncertain, these firms are vulnerable to failure. This includes small-scale failure, such as those that occur at the prototype stage and are a fairly normal part of the process, but also catastrophic innovation failure: a major failure that happens in the public eye, unexpected, costly, or is some combination of the three. Dr. Chai and her colleagues were interested in how exactly this kind of failure impacted organizational and industry legitimacy in new sectors, in this case the space industry, positing that it can cause a legitimacy jolt. They studied one case in particular: the aforementioned 2014 crash of Virgin Galactic's SpaceShipTwo, which killed one pilot, injured a second, and resulted in the loss of technology. Virgin Galactic is a major player in the nascent commercial space industry and



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specifically in space tourism, meaning it aims to send people to space for recreational purposes. In doing so, it's engaging in radical innovation, as past space races have focused on sending professional astronauts to space with technology produced by government agencies like NASA in the United States rather than by private companies. The commercial space industry also includes for-profit activities such as sending satellites into space and space mining, with other major players being SpaceX (founded by Tesla's Elon Musk) and Blue Origin (founded by Amazon's Jeff Bezos).

A study of failure

To examine how this kind of catastrophic event impacts how industry participants see the legitimacy of the firm and the industry, the researchers built a qualitative archival data set using sources that discussed the crash, such as tweets from Virgin Galactic, Richard Branson, and clients, blog posts from Richard Branson, corporate website content, press releases, media articles, and government publications. This database included data from before and after the crash, featuring information on what was said before and after the crash. It included content from a diverse array of participants, including investors, Virgin Galactic executives, space experts, the press, and government representatives. They found that while people interpreted the event in different ways, participants all still maintained the legitimacy of the industry itself- even if Virgin Galactic's legitimacy took a blow in their eyes. There were two major camps of reactions: detractors and supporters of the firm.

The first camp, the detractors, felt Virgin Galactic lost legitimacy in the wake of the crash and perceived the firm as an outsider or an illegitimate interloper. Some of them attributed the failure to flawed firm practices and poor technology. These people isolate the firm based on its perceived technological failings. Others saw the product category itself - space tourism - as the reason for the failure, believing it to be a frivolous, expensive, dangerous endeavor with little social value. They also tend to believe that the practice is not economically viable, and that participants incur significant risks. They differentiate the firm from the space industry as a whole due to its perceived lack of social value. Overall, the detractors isolate the firm, or its product category, from the industry in general.

The second camp is the supporters and the firm itself: they see their endeavors as both technologically solid and socially valuable, believing in the legitimacy of the firm and the industry alike. In reacting to the failure, they often characterized it as the result of the challenging innovation process in the commercial space industry, in a way symbolically attributing the failure to the industry as a whole and VG as a rightful member. They also likened the failure to early failures in other nascent industries, like aviation accidents and Thomas Edison repeated efforts to create the lightbulb. They have two primary tactics for maintaining the firm's legitimacy. The first is the use of commentary by the National Transportation Safety Board on the causes of the failure, i.e. human error, which offset attacks on the firm's technology and practices. The second is to align the firm's identity with the identity of the industry itself to assert itself as an approved industry member. The supporters aim to maintain that the firm is a legitimate member of the industry.

From these findings, we see that stakeholders interpret failure in different ways. In the aftermath of a catastrophic innovation failure, stakeholders tend to maintain the legitimacy of the industry itself, but not everyone will continue to see the implicated firm as legitimate. Additionally, while the firm may have previously sought to set itself apart from its industry peers, it may revert to an image more aligned with the general industry identity to reassert its legitimacy.

Ad astra per aspera: a rough road leads to the stars?

While radical innovation is necessary for human progress, its very nature means it is vulnerable to failures, ranging from small failures to catastrophic ones like the Virgin Galactic crash. Dr. Chai and her fellow researchers found that the aftermath of this catastrophic innovation failure will cause a legitimacy jolt: both detractors and supporters of the firm and the product will emerge, with both supporting the legitimacy of the industry despite differing views of the firm's legitimacy. Naysayers will attempt to classify the firm as an outsider with little technological or social value, while supporters and the firm itself will seek to realign its identity with that of the broader industry and attempt to reassign ownership of the failure using objective evidence. This study sheds light on the dynamics of a nascent industry, namely how stakeholders interpret failure differently and the factors linked to distinguishing between organizational and industry legitimacy. ■

Article written with Julia Smith, editor-in-chief of ESSEC Knowledge

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SCALING-UP YOUR SCALE-UP'S ONBOARDING PROCESS

David M. Sluss, *Ph.D. is a Professor of Management at ESSEC Business School in France. His scholarly work and executive engagement focus on 'new leader' development as well as building leader resilience in the face of adversity. He has published research in Harvard Business Review as well as leading academic journals. He educates high potential executives on how to become agile, adaptive, & analytical leaders - to influence others for high growth and organizational transformation. He works mainly with science-based organizations throughout Europe, the U.S., and Latin America. Fluent in Spanish, he has also worked in Mexico, Puerto Rico, and Colombia.*

Just like kids dream of growing up someday, many start-up leaders dream of "making it big" and scaling up to become a large and sustainable enterprise. But, just like those wide-eyed kids learn along the way, growing up – that is, scaling up – is hard. What makes it harder is that many scale-up leaders overlook (at worst) or underestimate (at best) one of the key determinants of their sustained growth: how to effectively onboard new employees.

Scale-ups onboard new employees at an exponential rate of growth. However, when you factor in the great resignation and the war for talent, you then have the perfect storm that calls for a laser-like focus on new employee onboarding as one of the most critical and strategically important scale-up processes. Yes, scale-up leaders have other concerns. Not the least of these being how to align operational capacity with growth expectations. However, scale-up leaders need to effectively on-board their new talent to accomplish this strategic alignment. Indeed, different from the start-up phase, scale-up leaders need to rely on their new talent to make critical strategic decisions to reach their KPIs. The (now) scale-up leader can't do it alone anymore.

As alluded to above, if a scale-up leader doesn't get the "onboarding" right, many of their strategic growth goals will fall flat. No wonder that 63% of scale-ups report that talent management issues are their top concern. As an active world-class investor said about the state of scale-up leader readiness in Europe: "they are now super good at understanding and executing go-to-market strategies, managing cash, managing the product, but they are lacking skill in building great and scalable organizations." Part of "building a great and scalable organization" is getting scalable onboarding right.

Years of onboarding research tell us that building scalable organizations includes attracting, onboarding, and developing scalable talent – both leaders and front-line core talent. To attract and develop top talent, scale-up organizations need to have scalable onboarding practices. There are several key evidence-based practices to help you scale-up your onboarding practices.

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To make scalable onboarding happen: Focus on what the new employee's supervisor does, NOT what the organization does

Dr. Sluss and Bryant Thompson followed 213 new employees in their first eight weeks of onboarding across 12 hyper-growth teleservices organizations[1]. These teleservices organizations – given the growth in third-party customer success initiatives – were growing at more than 30% year-on-year in both revenue and headcount (not to mention a challenging turnover environment). For years, research assumed that organizational-wide orientation programs had the most direct impact on how the new employee adjusted to their new role.

They found, however, that the new employee's supervisor had a significantly larger impact on how much the new employee identified with their job and how much the new employee felt like they fit within the organization than any learning the new employee might have obtained during their orientation training and other organization-wide practices. Interestingly, a recent study found that when new employees in a tech organization met their supervisor and had their work station ready on "day one", it promoted early and positive adjustment to the new job – indeed, these two practices were more important than any status resources provided during orientation training[2]. In short, new employees will experience a strong fit with the job and the organization when the new employee's supervisor takes the time (from day one) to provide job-focused advice, guidance, and role-modeling. As the new employees perceive they fit with the organization, they will be more likely to stay, be creative, and perform well[3]. So, what can scale-up leaders do to help the managers (who at times are new themselves) more effectively onboard new employees? Research would call for two simple evidence-based practices:

Simple tip #1 : A little (managerial advice, guidance, and role-modeling) goes a long way....

In the study, the secret to how the new employee's supervisor might create this attachment and engagement during onboarding lies in the questions they asked the new employees about their supervisors. Example questions include: "My immediate supervisor sees advising or training newcomers as one of their main job responsibilities;" "I have received guidance from my immediate supervisor on how to do my job;" "I have access to my immediate supervisor."

Interestingly, the data show that immediate supervisors just need to (somewhat simply) shift their mindset from relying on the organization to on-board the new employee to "taking on that role" themselves. Dr. Sluss adds "From my years working with new employees at organizations from Abbott Laboratories to Zilog, most new employees see a lot of symbolism in the supervisor taking (even if it just a little) time to focus on orienting and providing background on the new employee's role".

Simple tip #2 : Scale-up leaders coach the immediate supervisors to have an effective "day one" pitch

If the new employee's supervisors are onboarding the new employee, who is onboarding the immediate supervisors and coaching them on how to onboard the new employee? As this question assumes, it's likely that the immediate supervisor is just slightly less new than the new employee. Thus, the scale-up leadership team needs to also "roll up their sleeves" and actively participate in onboarding these new supervisors.

Reporting in a Harvard Business Review digital article, Dr. Sluss analyzed the content of survey responses from 278 professionals on what they desired to learn about their new leader or supervisor in their "day one" conversation[4]. Dr. Sluss notes, "I found I could categorize these direct reports into two major groups: (1) "warriors" and (2) "worriers." "Warriors" wanted to know about goals, competence, and how to move forward, whereas "worriers" wanted to know about pending changes, expectations, and how to integrate."

While warriors and worriers have different expectations, a good leader will recognize her new employees will more than likely span across both groups – with some being a mix of the two. Thus, Dr. Sluss recommends that the scale-up leaders socialize the new leaders (of new employees) to develop a "New Leader Pitch" for these "day one" conversations. A "new leader pitch" should "provide information on both competence and change, experience and expectations, and ... overall leadership approach."

In sum, scale-up leaders need to get the new employee onboarding process "right" to be able to align operational ability with their growth capacity. Instead of focusing on organizational-wide orientation programs, research suggests scale-up leaders might do better enlisting the new employee's supervisors as the main on-boarding vehicles. Then, the scale-up leaders can, in turn, focus on helping these (also new) immediate supervisors to provide a motivating and grounded "new leader pitch."

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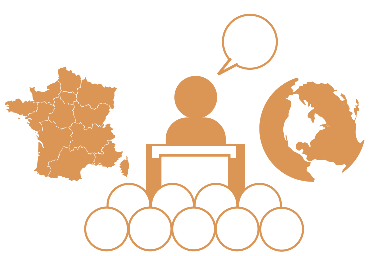

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