1.0 Introduction

In recent years, there has been a growing interest in the practice and scholarship of social entrepreneurship (Constanzo,Vurro, Foster, Servato & Perrini, 2014; Dacin, Dacin & Matear, 2010; Defourny, Hulgård, & Pestoff, 2014; Johannisson, 1990; Nicholls & Young, 2008; Perrini & Vurro, 2006; Rey-Martí, Ribeiro-Soriano & Palacios-Marqués, 2016; Short, Moss & Lumpkin, 2009; Starnawska, 2016; Thompson, Alvy, & Lees, 2000; Wallace,1999; Zahra, Rawhouser, Bhawe, Neubaum & Hayton, 2008). Because of the growing interest in the practice of social entrepreneurship and the growth of new social entrepreneurial firms in the United States and other countries, there is increasing interest in the success factors for social entrepreneurship (Wronka, 2014)

However, the growth of social entrepreneurship scholarship pales in comparison to the growth in the practice of social entrepreneurship (Starnawska, 2016). The criticisms of the social entrepreneurship literature include: (1) being overly preoccupied with definitional debates about who the social entrepreneur is or what elements constitute the boundaries of social entrepreneurship (Starnawska, 2016) (2) a predominance of case studies and conceptual papers to the neglect of empirical articles (Starnawska, 2016). The prolonged debates have hindered the advancement of solid theory building and consequently prevented the achievement of a unifying framework for social entrepreneurship researchers (Nicolopolou, 2014). Similarly, the social entrepreneurship literature being too phenomenon-driven results in a research field which is unfocused, fragmented and which is described as still in its infancy (Dacin, Dacin & Tracy, 2011; Nicolopolou, 2014; Short, Moss, & Lumpkin, 2009; Starnawska, 2016).

It has been noted that there is tremendous opportunity to research social entrepreneurship using a multidisciplinary lens since social entrepreneurship research embraces common interests of management, entrepreneurship, sociology, political science, marketing, and psychology scholars (Dacin, Dacin & Matear, 2010; Starnawska, 2016). Social entrepreneurship literature may benefit from incorporating existing theories from these fields into the social entrepreneurship domain or re-contextualizing them for the purposes of social entrepreneurship (Dacin et al., 2010). In social entrepreneurship, much work remains to be done, particularly with respect to the empirical verification of causal relationships and especially in relation to performance outcomes (Dacin et al., 2010).

To this end, our purpose in this paper is to incorporate theories of entrepreneurial cognition and opportunity recognition into the study of social entrepreneurship, and through this process, uncover factors that affect the performance of social entrepreneurs. Entrepreneurial cognition research concerns itself with the entrepreneurs’ processes of interpretation or construction of information as well as how entrepreneurs think or how they organize their knowledge structures (Arend, Cao, Grego-Nagel, Im, Yang, & Canavati, 2016; Baron & Ward, 2004; Grégoire, Corbett, & McMullen, 2011; Matthews, 2016;, Mitchell, Smith, Seawright, & Morse, 2000; Oyson & Whittaker, 2015; Shaver & Scott, 1991). Entrepreneurial cognition research also explores how entrepreneurs bring these cognitive processes to bear in their entrepreneurial purposes or activities (Oyson & Whittaker, 2015). The entrepreneurial cognition literature has sought to explain the cognitive factors associated with performance for entrepreneurs, e.g. research on overconfidence (Singh, 2008), alertness, pattern recognition, meta-cognition, and expert scripts. (Dew, Grichnik, Mayer-Haug, Read & Brinckmann, 2015). The entrepreneurial cognition literature has also explored the relationships between cognitive processes and opportunity recognition, opportunity creation, and opportunity discovery processes in entrepreneurs (Oyson & Whittaker, 2015).

We discuss cognitive moral development (CMD) (Kohlberg, 1969), as an important cognitive factor that influences the opportunity recognition process of social entrepreneurs thereby influencing their successes as social entrepreneurs. CMD not only impacts the motivations of social entrepreneurs but influences how social entrepreneurs view social issues and thus, their processes of recognizing needs in the society. CMD in individuals also explains why some individuals and not others display superior cognitive capabilities at recognizing possible contingencies arising from complex relationships with different stakeholders with respect to alternative choices of action (Goolsby & Hunt, 1992). CMD is described as the cognitive process that motivates an individual to help others in search of a common good (Mair & Noboa, 2006).

2.0 The Opportunity Recognition Process

Opportunity recognition is regarded as a central concept in the entrepreneurship literature (Bygrave, 1989a, 1989b; Christensen, Madsen, & Peterson, 1994; Hills, 1995; Shane, 2000; Shane & Venkataraman, 2000; Singh, 2000; Stevenson and Jarillo-Mossi, 1986). To cite but one example, Bygrave and Hofer (1991) define the entrepreneur as “someone who perceives an opportunity and creates an organization to pursue it” (p. 14). Opportunities may arise in the environment due to changes in technology, government, or other social factors (Baron, 2004). Studies in traditional entrepreneurship suggest that the opportunity recognition process of the entrepreneur may be influenced by factors including, but not limited to, prior knowledge or experience (Shane, 2000), the use or non-use of social networks (Hills et al., 1997) or as a result of more developed cognition, such as alertness, counterfactual thinking, and the ability to draw on prototypes/exemplars stored in memory (Baron, 2004; Gaglio & Katz, 2001). These cognitive factors help the entrepreneur to make sense of changes occurring in the environment, see, and seize arising opportunities.

The literature suggests that different entrepreneurs may engage in different processes of opportunity recognition (Bhave, 2004; Sarasvathy, 2001). Thus, divergent theoretical approaches have been uncovered with respect to opportunity recognition such as: effectuation vs. rational/economic processes (Sarasvathy, 2001), systematic search vs gut-feel or the “eureka moment” (Bhave, 1994; Cyert & March, 1963; Long & McMullan, 1984; Stevenson, Roberts, & Groesbeck, 1989; Timmons, 1990; Vesper, 1996) solo vs. network modes of opportunity recognition (Hills et al., 1997), and internally vs. externally-stimulated opportunity recognition processes (Bhave, 2004; Cyert & March, 1963; Singh, 2003). However, relatively few scholars have explored the process of opportunity recognition outside the commercial entrepreneurship domain and it is essential that the opportunity recognition process be explored in the domain of social entrepreneurship seeing as mentioned above, the importance of the construct to this evolving field.

This paper is therefore grounded in Bhave’s (2004) internally vs externally-stimulated opportunity recognition framework in order to uncover antecedents of the opportunity recognition process and to highlight thow the oppoertunity recognition process of the social entrepreneurs impacts their financial and social performance

### 2.1 Internally-stimulated vs externally-stimulated opportunity recognition processes

Building on Cyert and March’s (1963) earlier typology, Bhave (1994) proposed a process model of venture creation wherein he categorized opportunity recognition into two processes: externally-stimulated and internally-stimulated opportunity recognition. According to Bhave (1994), in the process of creating a venture, some entrepreneurs first decide that they want to create some kind of venture and thereafter engage in process of searching for opportunities. They refine or fine-tune these opportunities several times and eventually kick off their venture. This is regarded as the externally-stimulated opportunity recognition process.

On the other hand, in the case of the internally-stimulated opportunity recognition process, the entrepreneur discovers a need to fulfil in the market and because he is motivated by the high prospects of this opportunity, creates a venture to pursue that opportunity (Singh & Hills, 2003). Thus, it follows that in the case of externally-stimulated recognition, the decision to start a venture precedes the recognition of the opportunity upon which the venture is founded, while in the case of an internally-stimulated opportunity recognition, the opportunity shows up first and, in an effort to capitalize on that opportunity, the entrepreneur creates a venture to pursue it (Singh & Hills, 2003).

Extensive study on these divergent opportunity recognition processes have uncovered salient differences for entrepreneurs in terms of performance, motivation, educational background, proposed firm size and other characteristics (Hills & Singh, 2004; Singh & Gibbs, 2013; Singh & Hills, 2003; Singh et al., 2008). For example, Singh and Hills (2003), employing data from a survey administered to a sample of almost 400 entrepreneurs through the Panel Study of Entrepreneurial Dynamics (PSED) project, found that: (1) entrepreneurs who recognized externally-stimulated opportunities were more likely to have engaged in a systematic search for opportunities while those who recognized internally-stimulated opportunities did not necessarily do so, (2) entrepreneurs pursuing internally-stimulated opportunities were more likely to be more educated than those who pursued externally-stimulated opportunities, (3) the motivations for starting their ventures were also found to differ; compared with entrepreneurs pursuing internally-stimulated opportunities, entrepreneurs pursuing externally-stimulated opportunities were more likely to indicate that their motivation was grounded in the need to achieve a higher position in society, earn more money, or enjoy greater flexibility, and (4) entrepreneurs pursuing internally-stimulated opportunities planned to have larger firms than those pursuing externally-stimulated opportunities.

Clearly, differences exist in terms of motivation and outcomes for entrepreneurs depending on whether they are pursuing internally-stimulated or externally-stimulated opportunities. The motivational and performance implications of this dichotomy have been employed as a lens to examining the lagging rate of black entrepreneurship as compared to their white counterparts (Singh et al., 2008). For example, Singh et al. (2008) suggest that the reason why black entrepreneurship may have lagged may be because blacks were more likely to primarily pursue externally-stimulated opportunity recognition processes (Singh et al., 2008). This culminated in the observation that white entrepreneurs are more likely to pursue more lucrative opportunities than black entrepreneurs. In a recent study comparing black entrepreneurs, Singh and Gibbs (2013) found that entrepreneurs who founded their firms based on internally-stimulated opportunities were more successful than those who founded firms based on externally-stimulated opportunities (Singh & Gibbs, 2013).

### 2.2 Motivations for pursuing internally-stimulated vs externally-stimulated opportunity recognition processes

It has been suggested that there is a relationship between an entrepreneur’s motivational factors and whether he or she pursues internally-stimulated or externally-stimulated opportunities. As mentioned earlier, Singh et al. (2008) noted that entrepreneurs pursuing externally-stimulated opportunities indicated motivations grounded in the need to achieve a higher position in society, earn more money, or enjoy greater flexibility. As opposed to being primarily motivated by ambition, entrepreneurs pursuing externally-stimulated opportunities are primarily motivated by a quest to meet an identified need. This suggests that differences in social entrepreneurs in terms of motivations may be associated with differences in terms of whether they engage in internally-stimulated opportunity recognition or externally-stimulated opportunity recognition processes. In our view, social entrepreneurs that are primarily motivated by a sense of selflessness, sacrifice, empathy, and compassion are likely to engage in different cognitive processes than those motivated primarily such factors as self-interest, ambition, recognition, heroism or economic gains.

In summary, internally-stimulated and externally-stimulated opportunity recognition processes have been presented as divergent and cognitively different paths to the recognition of opportunities in the literature and differences in terms of motivation for pursuing each of these processes have also been discussed.

For the purposes of this paper, social entrepreneurs are described as those entrepreneurs who engage in the simultaneous pursuit of both social goals and economic goals. Boschee and McClurg (2003) describe social entrepreneurs as those who pursue the double bottom line, i.e., a blend of financial and social returns. This means that social entrepreneurship accommodates the simultaneous pursuit of economic goals and social goals. Defining social entrepreneurship this way means that for social entrepreneurs, the indicators of performance will be measured in two ways, i.e. in terms of financial performance and social performance, also called social impact.

3.0 Motivation for becoming a Social Entrepreneurs

The literature suggests that social entrepreneurs also may be motivated to engage in social entrepreneurship for different reasons. While some social entrepreneurs may be primarily motivated by a sense of selflessness, sacrifice, empathy, and compassion, (Mair & Noboa, 2003; Miller, Grimes, Mcmullen & Vogus 2012) others may be primarily motivated by other factors, such as self-interest, i.e., a primary focus on economic gains (Dacin et al., 2010). Social entrepreneurship clearly accommodates the simultaneous pursuit of social self-interest and social interest (Tracey & Phillips, 2007). As earlier discussed, social entrepreneurs display different degrees of altruism (Tan et al., 2005): social entrepreneurs may oscillate between a focus on the pursuit of self-interest and a focus on pursuit of social interests, and they may even subordinate one of these goals to the other if they so wish.

The quest for heroism may become a strong motivation for social entrepreneurs. Characterization of the “heroic social entrepreneur” can be seen across the social entrepreneurship literature. Short et al. (2009) noted less enthusiastically that much of the research on social entrepreneurship has focused on the heroic individual social entrepreneur. Dacin et al. (2010) emphasize that a focus on heroic characterizations of social entrepreneurs uncovers a bias in terms of motives and mission of social entrepreneurs. Nicholls (2010) suggests that some social entrepreneurs are drawn into social entrepreneurship due to a quest for heroism. As noted by Martens et al. (2007), individuals identified as social entrepreneurs provide the platform for rich and powerful narratives. These individuals get noticed and celebrated.

According to Nicholls (2010), the social entrepreneurship discourse has proceeded on two narrative logics: the social entrepreneur hero narrative which presents the hero social entrepreneur as central (Alvord et al., 2004, Lounsbury & Strang, 2009, Seelos & Mair, 2005) and the community engagement/empowerment narrative (e.g. Barnes, 1999). The social hero narrative relies on myths, narratives and logics from commercial entrepreneurship, which ascribes success to individual qualities, while the community empowerment/engagement narrative focuses more on creation of social value for the community as well as bottom-up solutions. According to Nicholls (2010), the activities of foundations and fellowship organizations have given precedence to the hero entrepreneur narrative. In a quest for higher levels of legitimation for social entrepreneurs, foundations supporting social entrepreneurship portray social entrepreneurship with a business venture approach. Accordingly, “this venture approach legitimates grants as investments that demand a maximum ‘return’ on capital” (Nicholls, 2010, p. 622), leading to a heavy focus on success stories of social entrepreneurs, e.g. successful social entrepreneurs from Silicon Valley). In the end, social entrepreneurship becomes a philanthropic model predicated on maximizing return on investment and the goal/expectation shifts from a focus on providing social service to a focus on maximizing monetary gains.

Similarly, fellowship organizations, like foundations, also espouse the hero social entrepreneur narrative and suggest that social entrepreneurs have a lot to gain from connections with private-sector actors (Nicholls, 2010). Television and film series put together by the media in partnership with several foundations and fellowship organizations, such as Jeff Skoll’s *New Heroes*, Al Gore’s *An Inconvenient Truth*, as well as similar efforts by Schwab Foundation, have served to promote the hero entrepreneur narrative (Nicholls, 2010).

Following the above discussions, it will not be out of place for individuals to be drawn to social entrepreneurship through an appeal for heroism, celebration, recognition and fame. Seelos & Mair (2005) contrast the group of social entrepreneurs who are motivated by heroism, the hope of award, fame or recognition with those whose passion for social causes overshadows other motivations. They state that most often, the latter do not even see themselves as social entrepreneurs “until they receive an award or some form of recognition” (Seelos & Mair, 2005, p. 244b). Mair & Noboa (2006) identified moral development as predictor of becoming a social entrepreneur. In my view, this indicates that social entrepreneurs that are primarily motivated by a sense of selflessness, sacrifice, empathy, and compassion are likely to engage in different cognitive processes than those motivated primarily such factors as self-interest, ambition, recognition, heroism or economic gains. First, I discuss moral development in detail and discuss the opportunity recognition process afterwards.

4.0 Cognitive moral development

The discussion above shows that different entrepreneurs may have different motivations for becoming social entrepreneurs. Mair & Noboa (2006) highlighted moral development as an important factor in becoming a social entrepreneur. This paper proposes that cognitive moral development (CMD) as a cognitive factor which may influence the processes by which entrepreneurs recognize needs in the society. The process of need recognition in turn influence their performance as social entrepreneurs. CMD theory (Kohlberg, 1969) states that in individuals, moral development proceeds through a cognitive developmental process. CMD in individuals explains why some individuals and not others display superior cognitive capabilities at recognizing possible contingencies arising from complex relationships with different stakeholders with respect to alternative choices of action (Goolsby & Hunt, 1992). This paper therefore suggests that CMD influences social entrepreneurs’ opportunity recognition processes. CMD is the cognitive process that motivates an individual to help others in search of a common good (Mair & Noboa, 2006). Consequently, CMD explains why some individuals are primarily motivated by self-interest in their decision making and why other individuals take other peoples’ interests into account and consideration when making decisions.

The CMD theory developed by Kohlberg (1969) states that in individuals, moral development proceeds through a cognitive developmental process. Kohlberg’s (1969) theory builds on the seminal works of Piaget (1965, 1970). According to Kohlberg, for individuals, an increasingly accurate understanding of the nature of moral obligations in complex social systems is a developmental process and it is acquired over time (Kohlberg, 1969). Those moral reasoning processes develop concomitantly with the individual’s reasoning abilities pertaining to social arrangements (Goolsby & Hunt, 1992). Kohlberg (1969) proposes that every individual occupies one of six stages of moral development. The stage an individual belongs to would guide reasoning and decision-making in situations involving moral issues. An individual’s moral reasoning becomes cognitively more complex in each stage as he/she uses increasingly elaborate algorithms for setting priorities and distributing justice (Goolsby & Hunt, 1992). The ability to recognize and analyze the complex relationships among all the elements involved, and to recognize all the possible contingencies and consequences that might result from taking a particular course of action, depends on the CMD stage of the individual (Kohlberg, 1969). Therefore, according to Goolsby & Hunt (1992) in decisions having a moral dimension, persons with poorly developed logical reasoning abilities are incapable of assimilating the rightful needs of all parties into a judgment satisfying a moral ideal (Goolsby & Hunt, 1992).

In summary, individuals low in CMD will focus more on realizing their own self-interests and do not take others into consideration as much as they focus on their own ends. In contrast, individuals at higher stages of moral development do consider other stakeholder’s interests and do not focus on the “what’s-in -it for me” only. The level of CMD is determined in part by the cognitive ability to integrate the legitimate interests of many distant, diverse publics. Individuals high in CMD could be expected to recognize the “social contract,” the importance of “multiple stakeholders,” and socially responsible behavior in organizations (Goolsby & Hunt, 1992, p.58).

The CMD theory fits squarely into the study of social entrepreneurship because social entrepreneurs often need to assimilate the social needs of diverse publics. For social entrepreneurs, accountability and responsibility is not limited to traditional market, economic actors or stockholders, but responsibility and accountability often extend to a broader range of stakeholders, including social actors and society. The CMD theory also fits squarely because researchers have emphasized that “tensions often exist between social and economic goals” (Andre´, 2012) and that the pursuit of social goals is an added “cost” to business. Social entrepreneurs often find themselves having to make decisions with respect to either of these two alternatives.

The social entrepreneur often finds him/herself in situations involving the need to resolve conflicting claims from each of these ends (Andre´, 2012; Crane, Palazzo, Spence & Matten, 2014). When in situations in which moral claims conflict, understanding of the nature of moral obligations in complex social systems becomes important (Rest, 1979), particularly for social entrepreneurs.

Thus far, we have discussed CMD and presented it as a cognitive process which influences how individuals interpret social issues in society. In summary, CMD determines whether individuals are motivated by the desire to help others or a desire to fulfil their own ends. CMD also determines how sensitive individuals are to the needs of a broader stakeholder base and whether they will be able to display superior cognitive capabilities at recognizing possible contingencies arising from complex relationships with different stakeholders. Since differences in terms of outcomes and motivations has been traced to an entrepreneur’s pursuit of either internally or externally-stimulated opportunity recognition processes (e.g. Singh, Knox & Crump, 2008), CMD is employed to predict whether a social entrepreneur would pursue internally-stimulated or externally-stimulated opportunities.

In the hypothesis in next section, we hope to uncover the relationship between the CMD and opportunity recognition process of the social entrepreneur and hope to explain how the CMD of social entrepreneurs influences whether they will pursue internally-stimulated opportunities or externally-stimulated opportunities.

5.0 Hypotheses

5.1 CMD and Internal/External Opportunity Recognition Processes

Kohlberg’s (1969) moral development theory has salient implications for social entrepreneurs in terms of whether they pursue externally or internally-stimulated opportunity recognition processes. As discussed earlier, higher levels of CMD predisposes individuals to considering and incorporating the interests of others (or “diverse publics”) in arriving at decisions. Individuals at higher levels of CMD display superior cognitive capabilities at recognizing possible contingencies arising from complex relationships with different stakeholders (Goolsby & Hunt, 1992). Individuals at higher stages of moral development are more concerned about others than individuals at lower stages of moral development (Logsdon & Yuthas, 1997).

Therefore, individuals at higher stages of moral development are better able than individuals at lower stages of CMD to recognize consequences that might arise with different choices of courses of action. The implication of this is that individuals at higher stages of CMD are likely to be predisposed to seeing the needs of others around them. Because of their concern for others, individuals at higher stages of moral development are likely to be apt to recognize social needs, i.e., the needs of people, society, local community and the environment, and to quickly see opportunities to add value or increase social wealth/well-being in society (Porter & Kramer, 2011). In other words, they are more alert to seeing social opportunities. Their higher cognitive capacity explains why they and not others with less cognitive ability are able to quickly recognize interconnectedness and discern patterns in the environment which result in opportunities to create social value (Baron, 2004). And because individuals at higher stages of CMD display higher cognitive capacities at recognizing possible contingencies arising from complex interconnections in society, they are likely to be able to create greater happiness for a greater number of people or a wider stakeholder base.

In contrast, individuals at low stages of CMD do not take others into consideration as much as they do themselves (Logsdon & Yuthas, 1997). When they take others into consideration, they do so not because of a primary focus on adding value to others but because of the likelihood of realizing personal gain from these activities even if their actions lead to negative consequences for others in the long run. It therefore will not be hard to see individuals at lower stages of CMD engage in a systematic search to find those opportunities which they think will result in the most lucrative outcomes for themselves. As a result of lesser sensitivity to others, they are less likely than those at higher stages of CMD to recognize opportunities to meet social needs and add social value.

Zahra et al. (2008) state that social entrepreneurs’ different motives and goals might lead them to recognize opportunities differently. Since differing motivations draw different individuals to social entrepreneurship, there is a likelihood that their mode of opportunity recognition in terms of whether they engage in internally-stimulated or externally-stimulated opportunity recognition processes will differ. We thus argue that individuals motivated by a primary desire to help others or serve society are more likely to take others’ interests into account and are thereby more likely to see ways of solving social needs more easily than individuals motivated by other reasons such as fame, awards and recognition.

Since entrepreneurs who follow the internally-stimulated opportunity recognition process are those who first see the need to be met or the opportunity to be addressed and are subsequently drawn into entrepreneurship by the motivation to fulfill that need or opportunity, it follows that social entrepreneurs who are more predisposed to seeing the needs in society or the needs of a broader base of stakeholders or diverse publics will be apt to follow the internally-stimulated opportunity recognition process. It has been suggested that individuals at higher levels of CMD are adept at recognizing the needs of others or “diverse publics” (Goolsby & Hunt, 1992). They are more sensitive to the needs of a broader stakeholder base (Logsdon &Yuthas, 2007). Therefore, I propose a relationship between CMD and internally-stimulated opportunity recognition processes and hypothesize that social entrepreneurs at higher stages of CMD are more likely to pursue internally-stimulated opportunities.

On the other hand, low CMD predisposes individuals to focusing primarily on realizing personal interest. Individuals at lower CMD stages are more likely to be less sensitive to the needs of others, they are likely to less easily see the needs of society and stakeholders than those at higher stages of CMD (Goolsby & Hunt, 1992). They are therefore more likely than individuals at higher CMD stages to engage in a systematic search for social opportunities that are more likely to better serve their personal ends. Singh et al. (2003) also noted that entrepreneurs pursuing externally-stimulated opportunities indicated motivations grounded in the need to achieve a higher position in society, earn more money, or enjoy greater flexibility. These motivations, in our view, suggest a primacy of self-interest. Thus, we propose a relationship between CMD and externally-stimulated opportunity recognition and suggest that entrepreneurs at lower stages of CMD are more likely to pursue externally-stimulated opportunities. More formally stated:

Hypothesis 1a: *Social entrepreneurs at higher levels of CMD are*

*more likely to pursue internally-stimulated opportunity*

*recognition than those at lower levels of CMD.*

Hypothesis 1b: *Social entrepreneurs at lower levels of CMD are*

*more likely to pursue externally-stimulated opportunity*

*recognition than those at higher levels of CMD.*

## 5.2 Performance Implications of Internally-Stimulated vs. Externally-Stimulated Opportunity Recognition Processes

Whether an entrepreneur engages internally-stimulated opportunity recognition or externally-stimulated opportunity recognition processes has been suggested to have performance implications. For example, Singh & Hills (2003) found that entrepreneurs who engaged internally-stimulated opportunity recognition processes pursued more lucrative opportunities than those who engaged externally-stimulated opportunity recognition processes. Those that engaged internally-stimulated opportunity recognition processes projected higher revenues for their ventures than their counterparts who engaged externally-stimulated opportunity recognition processes.

The likelihood of recording higher performance and performance by entrepreneurs who engage internally-stimulated opportunity recognition processes, according to Singh & Hills (2003), may be predicated upon their ability to more effectively apply their analytical skills along with an ability to recognize market needs. Furthermore, according to them, it is more likely for an entrepreneur who sees an unmet market need to quickly find ways of exploiting this opportunity before another entrepreneur realizes that needs and fills it. This first mover advantage may be very significant for achieving profitability, building brand recognition, developing network ties, achieving legitimacy and gaining customer loyalty, which are important for getting head of other entrepreneurs in the game. For social entrepreneurs, the relationship between the ability to meet fundamental social needs and profitability has been suggested (Porter & Kramer, 2011). Stated formally:

Hypothesis 2: *Social entrepreneurs who engage in internally-stimulated*

*opportunity recognition processes will record higher financial performance than social entrepreneurs who engage in externally-stimulated opportunity recognition processes.*

As was earlier discussed, social entrepreneurship is based on finding ways to add social value, increase social wealth, or improving the well-being of stakeholders (which include: people, communities, the environment, etc.). It is our view that entrepreneurs who find ways to meet fundamental social needs are likely to make more impact in society than those who are less predisposed to recognizing society’s unmet needs. More importantly, those entrepreneurs who are motivated primarily by a focus to fulfil their own personal goals are less likely to be able to impact society as those motivated by the unmet need which they have recognized. Therefore, formally stated:

Hypothesis 3: *Social entrepreneurs who engage in internally-stimulated*

*opportunity recognition processes will record higher social*

*impact than social entrepreneurs who engage in externally-*

*stimulated opportunity recognition processes.*

Research Model

**Figure 5-1: Relationships between of CMD, Opportunity Recognition, and Performance in Social Entrepreneurship**

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| |  | | --- | |  |   **Cognitive Moral Development** |  |  |  | **Opportunity Recognition Process**:  •Internally stimulated  •Externally stimulated |  |  |  |  |  |  |
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|  |  |  |  |  |  |  | H2 & H3 |  |  |  |
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6.0 Discussion and Future Research Directions

Longitudinal study will be useful in the future for examining the impact of moral development and opportunity recognition on the successes of social entrepreneurs over time. It will be interesting and groundbreaking to see if or how moral development progresses overtime for social entrepreneurs (especially since some researchers argue that moral development does not regress) and to observe changes in social impact and financial impact change for social entrepreneurs with changes in moral development.

This study is one of the first to uncover the relationship between cognitive moral development and opportunity recognition in social entrepreneurship, a fruitful line of future research would be for researchers study the relationship between CMD and divergent opportunity recognition processes such as solo vs. network modes of entrepreneurship. It may well that motivations of self-interest vs the motivations of social interest may be influential in the amount of social network resources that employees use in their process of identifying opportunities. CMD can also be studied with respect to effectuation vs. rational economic modes of opportunity recognition since CMD has been associated with sensitivity to social needs.

This study suggests that although high CMD is necessary for success in social entrepreneurship, pursuing internally-stimulated opportunities is an equally important factor. Therefore, future research should investigate the mediational or moderational effects of internally/externally-stimulated opportunity recognition process on the relationship between CMD and performance in social entrepreneurship.

## 6.1 Implications for Entrepreneurial Practice

The overall direction of the propositions in this paper suggest that moral development – the cognitive process that motivates an individual to help others in search of a common good (Mair & Noboa, 2006) – is necessary for success in social entrepreneurship. This is accentuated by its relationship with the opportunity recognition process, which is an important construct for success in entrepreneurship. All things being equal, for social entrepreneurs, higher levels of moral development are associated with a superior opportunity recognition process.

Since exposure to social experiences which make an individual to deal with the needs, values, and viewpoints of others, affects the level of moral development (Comunian & Gielen, 1995), it will be helpful in the teaching of entrepreneurship to introduce students to practical ways of relating with stakeholders in the unique contexts in which these stakeholders live and to help students to develop skills aimed at identifying and proffering solutions to fundamental needs in the neighborhood, local community, society, and the global community. These will help students to develop the “moral imagination” and “giving faces to places” popularized by Calton et al., (2013) and Werhane (2012) and which have been suggested as necessary mental models to be adopted by social entrepreneurs in order to be successful.

A CMD approach to ethics training has been found to be superior to traditional ethics courses which mostly focus on exhortations of “doing the right thing” or of obeying some stipulated rules of conduct (Trevino, 1986). A CMD approach to ethics training helps develop students’ reasoning patterns so as to be better able to integrate the legitimate interests of a broader stakeholder base into their decisions (Baxter & Rarick, 1987; Goolsby & Hunt, 1992).

The CMD framework has implications for connecting business ethics to social entrepreneurship studies. It has been noted that present day ethics education is inadequate in terms of transferability to business contexts (Goolsby & Hunt, 1992). Overall, CMD education is useful in providing students with intellectual capacity to make more sound judgment calls when faced with “ethically troublesome situations” (Goolsby & Hunt, 1992, p. 65)

The importance of the opportunity recognition construct in entrepreneurship and venture creation cannot be overemphasized. Therefore, as suggested by Singh & Gibbs (2013), for entrepreneurship educators, teaching and helping students to hone their market analyses/orientation skills may help to improve the odds of these would be entrepreneurs in identifying internally- stimulated opportunities.

Finally, this research may be useful in uncovering the reasons for social entrepreneurship failure. Entrepreneurship failure has received paramount attention in the entrepreneurship literature, with researchers trying to uncover factors that cause entrepreneurs to fail. For example, Singh (2008) suggests that overconfidence may be a cognitive defect that causes entrepreneurship failure. Although, further studies are required in order to make generalizations, the findings of this study may well be a first step in suggesting that low cognitive moral development may be a paramount factor in social entrepreneurship failure.

# 7.0 Concluding Remarks

The current state of the social entrepreneurship literature has been criticized as lacking in empirical rigor, being overly phenomenon-driven, and essentially fragmented (Dacin, Dacin & Tracy, 2011; Nicolopolou, 2014; Short, Moss, & Lumpkin, 2009; Starnawska, 2016). This study contributes to the social entrepreneurship literature by providing theoretical and empirical backing for factors that contribute to success for social entrepreneurs. The benefits of studying social entrepreneurship through a multi-disciplinary lens has been highlighted (Dacin et al., 2010; Starnawska, 2016). Thus, this study fulfils this goal by incorporating mainstream constructs and theories from ethics, psychology, and traditional entrepreneurship, to the study of social entrepreneurship. Cognitive moral development is presented to be related to the opportunity recognition process of the social entrepreneur and to social impact and financial performance respectively.

This study breaks new ground and contributes to the literature on opportunity recognition by highlighting moral development as a predictor for internally-stimulated/externally-stimulated opportunity recognition processes. Prior literature has provided no predictors for these divergent opportunity recognition paths. In this way, this study has added empirical results which focus on Bhave’s (1994) model.

In the present day and following the recent recession wherein businesses continue to struggle to regain legitimacy, uncovering factors that lead to successful social entrepreneurship become important for building successful businesses who give back to society thereby regaining society’s trust.

Overall, this study provides the foundation to begin to move away from definitional debates to unearthing sound theoretical relationships and conducting empirical verifications.

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