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SOCIAL ENTREPRENEURSHIP AS A TOOL FOR CREATING COMPETITIVE ADVANTAGE: A THEORETICAL APPROACH*

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ABSTRACT

Social entrepreneurship has been subject to so many studies examining a field of study that covers a number of domains, including entrepreneurial studies, social innovation, and non-profit management in literature. This paper aims to present the current state of social entrepreneurship literature in creating competitive advantage by providing an overview of social entrepreneurship, making reference to existing literature. This paper also aims to extend existing research about social entrepreneurship through examining this phenomenon and discuss implications for future research and identify a research agenda for developing knowledge about social entrepreneurship and creating competitive advantage.

Keywords: *Entrepreneurship, Social Entrepreneurship, Competitive Advantage, Strategic Management, Corporate Social Responsibility*

REKABET AVANTAJI YARATMADA ARAÇ OLARAK SOSYAL GİRİŞİMCİLİK: TEORİK BİR YAKLAŞIM

ÖZ

Sosyal girişimcilik, literatürde girişimcilik, sosyal inovasyon ve kar amacı gütmeyen kuruluşların yönetimi gibi birçok uzmanlık dalından oluşan geniş bir alanı kapsayan çalışmalara konu olmuştur. Bu makalenin amacı sosyal girişimciliğin rekabet avantajı yaratmadaki durumunu literatüre atfen ortaya koymaktır. Bu makale ayrıca, sosyal girişimciliğin var olan araştırma alanını ileride yapılacak olan çalışmalara tavsiyeler vererek ve bilgi üretimi ile rekabet avantajı yaratma konularında araştırma takvimi oluşturarak genişletmeyi hedeflemektedir.

Anahtar Kelimeler: *Girişimcilik, Sosyal Girişimcilik, Rekabet Avantajı, Stratejik Yönetim, Kurumsal Sosyal Sorumluluk*

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1. INTRODUCTION

Governments due to their scarce resources cannot fully provide social coverage and reach the developmental goals like economic prosperity, employment and welfare of citizens mainly in the developing countries. Thus, by the end of twentieth century, to enhance the social wealth by addressing basic human needs or by solving local problems (Santos, 2012), social entrepreneurship emerged as a complementary part of commercial entrepreneurship and governmental entrepreneurship (Salarzahi, et. al., 2010).

It is assumed that big social changes require substantial resources and investments. However there are large-scale and durable social changes that have been introduced by individuals who initially have little resources other than their social passion, creativity, and entrepreneurial frame of mind. Those individuals are social entrepreneurs that create “something out of nothing”.

Social entrepreneurship has grown into a global movement that is bringing solutions to many of the world’s problems and transforming the way we think about social change. Michael Porter suggests that “social entrepreneurship is an important transitional vehicle toward the creation of shared value and a capitalist system in which meeting social needs is not just a peripheral activity but a core aspect of every business” (Driver, 2012). The increasing recognition of the contribution made by social entrepreneurs to a nation’s social, economic, cultural and environmental wealth yielded social entrepreneurship to be identified as an innovative way of tackling unmet socioeconomic needs (Shaw & Carter, 2007).

This paper aims to extend existing research about social entrepreneurship through examining this phenomenon and discuss implications for future research and identify a research agenda for developing knowledge about social entrepreneurship and creating competitive advantage.

2. THEORETICAL FRAMEWORK

2.1. DEFINING SOCIAL ENTREPRENEURSHIP

Social entrepreneurship could be defined as “a simple term with a complex range of meanings” (Trexler, 2008). The lack of a unified definition of the concept is one of the most important constraints to the research development

on the subject. Different definitions have emerged from different disciplines as economics, accounting and entrepreneurship (Lepoutre, et al., 2013).

Social entrepreneurship, commonly characterized as “entrepreneurial activity with an embedded social purpose”, has become an important economic phenomenon at a global scale. Social entrepreneurship has also been called “the simultaneous pursuit of economic, social and environmental goals by enterprising ventures”. Social entrepreneurship could be defined as a process of bringing resources together in an innovative way for to fulfill the social needs or stir up social change (Mair & Marti, 2006).

Defining social entrepreneurship by individual-level characteristics and activities could create more discussion about what these characteristics should be, because it is hard to apply a definitive set of characteristics to all kinds of social entrepreneurial activity across all contexts (Dacin, et al., 2011).

Dees (1998) describes social entrepreneurs as “change agents” that design the social change and take action by adopting a mission to create and sustain social value, pursuing new opportunities to serve that mission, engaging in a process of innovation, adaptation, and learning, taking actions without being limited by resources, and showing a heightened sense of accountability to the constituencies served and for the outcomes created (Weerawardena & Sullivan-Mort, 2001). In other words, social entrepreneurship is defined “as the generation of the earned income by ventures in the pursuit of social outcomes; whereas it is not defined by legal form and can exist in nonprofit, business, or governmental sectors” (Austin, Stevenson, & Wei-Skillern, 2006).

Social entrepreneurship could be described as “innovative, social value creating activity that can occur within or across the nonprofit, business, and public sectors” (Austin, Stevenson, & Wei-Skillern, 2006). According to the description, the first key element to emphasize is innovation. Entrepreneurship is a creative process that pursues an opportunity to produce something new or to bring an important new dimension or element. The second key element which differentiates social entrepreneurship from commercial entrepreneurship is social value creation because the generation of social value is the explicit, main purpose of social entrepreneurship. The third key element is the loci that social entrepreneurship transcends sectors and organizational forms by occurring in all the fields and their collaborative interactions (Austin, 2006).

Two streams of practice have resulted in two main schools of thought about the nature of social entrepreneurship, that the first school of thought is focused on the generation of earned-income to serve a social mission; whereas the second school of thought is focused on establishing new and better ways to address social problems or meet social needs. Though these schools reflect different perspectives and priorities, they contributed for the growth of the field of social entrepreneurship (Dees & Anderson, 2006). While the classic economic theory is based on the assumptions of self-interested economic actors and developing sustainable competitive advantage, social entrepreneurship often involves cooperative behavior. Thus, social entrepreneurship is seen as "a hybrid that combines elements of commercial entrepreneurship and social sector organization". Social entrepreneurship is related to or embedded in different ways of entrepreneurship; however it also has some unique dimensions that make it an important context for exploring entrepreneurial activity more generally (Dacin, et al., 2011).

2.2. COMPETITIVE ADVANTAGE

Barney (1991) defined the competitive advantage as "*the ability of a business to derive greater profits in a competitive industry based on a value-creating strategy not simultaneously implemented by any current or future competitor*". As Porter (1985) has suggested, competitive advantage process and innovation are interconnected; to create superior customer value and achieve competitive advantage, companies conceive new ways to conduct activities, which is in itself an act of innovation.

Since companies achieve competitive advantage by delivering superior value to its customers, it is important to discern value creating activities in the organization from the ones which do not. This concept can be used in modelling the value generation in the organization. Thus, Porter (1985) introduced the value-chain framework suggesting that a company's activities can be divided into two main group; primary activities and support activities. Primary activities are practices which are related to the flow of the product to customer whereas the support activities merely support them. A close inspection of individual value activities will lead to a better understanding of the organization's strengths and weaknesses. And it could be proposed that the key source of competitive

advantage for a company is the positive differentiation of its value chains (Porter, 1985).

Although the ability of driving greater profits for a company depends upon the attractiveness of its industry and its establishment of competitive advantage over rivals, most studies show that differences in profitability within industries are much greater than differences between industries (Grant, 1991). Another approach to the competitive advantage, Resource Based Theory (RBT) argues that the primary source of profit differentials between companies' being their respective competitive advantage, capabilities (capacity of resources to perform a task) are the main source of competitive advantage.

According to RBT, in achieving and sustaining competitive advantage, internal resources of a company are more important than external factors and the organizational performance is primarily determined by the internal resources. According to Barney (2002), for a sustainable competitive advantage, a company should devise strategies to develop competencies (cross-functional integration and coordination of capabilities) which are valuable, rare, and difficult to imitate and fit to the organization.

The capability-based theory suggests that strategic leadership is the driving force of competitive advantage. Social entrepreneurs are different businesses in terms of their social mission (Dees, 1998).

3. CREATING COMPETITIVE ADVANTAGE WITH SOCIAL ENTREPRENEURSHIP

Classic economic theory suggests that economic actors will always pursue their own self-interest leading the economy to a Pareto optimal outcome where the resources are put to best possible use and where in turn the welfare will be maximized.

Since economic actors may abuse their position to maximize their profits by ignoring the unfavorable impact of their practices on others and hence reducing the value for the society, the governments have to carry regulatory functions to guarantee that the competitive market conditions are maintained. Governments also assume a redistributive function through social coverage; they strive to improve the individual welfare of every individual in society above a minimum accepted level. Yet, governments, due to their scarce resources can't always

perform these functions efficiently. Thus, corporations may apply self-regulating mechanisms. In this context Santos (2012) argued that "*corporate social responsibility (CSR) represents the duty of profit oriented corporations in accounting for the full cost of their activities to society, even beyond existing legal requirements*".

From this perspective, Porter (2002) claims that corporations can launch social entrepreneurship programs to improve the standards of the business climate in the locations where they function. This brings social and economic objectives into alignment and improves company's long-term commercial potentials. Social entrepreneurs conceiving social impact creation an integral part of their overall business strategy use Strategic Corporate Social Responsibility as their most effective tool. The term of Strategic Corporate Social Responsibility is first used by Baron (2001) as the use of Corporate Social Responsibility to acquire value for the company, in other words to achieve sustainable competitive advantage.

A widely practiced form of CSR is cash donations by the business to charities or to local civic causes in order to generate goodwill and publicity among customers, employees and the community. Those contributions are often reflections of personal beliefs and values of the executives and employees rather than having specific business or social objectives. That form of CSR is publicity oriented and has neither a social nor a competitive impact for the business. However companies can also use their philanthropic efforts to improve the quality of the business climate in the locations where they function. Since the competition depends heavily on the circumstances of the localities where the companies function, improving the local conditions, such as the education level of the local workforce, may affect their competition as well (Porter & Kramer, 2002). That form of context focused strategic CSR may generate both social benefits for the local community and economic gain for the company.

Furthermore, the company can also use the value chain framework to perceive the social outcomes of its activities. The company then should endeavor to remove the adverse value-chain social impacts and work on the opportunities which offer social and strategic distinction (Porter & Kramer, 2006). That will enable the company to transform its activities both to benefit the society and to achieve competitive advantage. Such value-chain innovation is a powerful tool

of creating social and economic value, making every aspect of the value-chain a reinforcement of the CSR activities which are difficult to distinguish from the day-to-day operations of the company. This framework will separate the company from its competitors empowering the delivery of superior customer value.

Referring the model of McWilliams and Siegel (2001) who used the RBT framework, it could be claimed that a company can add an extra "social" attribute or feature to a product, which is valued and demanded by some consumers and if the marginal cost of satisfying this demand is less than its marginal return, investing in this particular CSR will increase the profits of the company. Thus, social entrepreneurs aiming to achieve and sustain competitive advantage may formulate CSR strategies accordingly. The main challenge of this approach lies of course in determining how much value a particular CSR attribute adds to the company and to the society. While the costs of furnishing a product with CSR attributes may be easy to determine, the benefits may not be so because the furnished CSR attributes may form only a certain percentage of all significant attributes of the product. For example, a certain product may have the "eco-friendly" characteristic as its CSR attribute, with some other significant attributes, such as brand name, packaging and technology which makes it difficult to separate out the value for that particular CSR attribute (McWilliams & Siegel, 2011).

Similarly, we can define Corporate Social Responsibility (CSR) as situations where the company goes beyond conformity and engages in "actions that appear to further some social good, beyond the interests of the company and that which is required by law" (McWilliams, Siegel, & Wright, 2005). As the authors advocate, CSR activities may include integrating social features into products or processes such as using environmentally-friendly technologies or embracing advanced human resource management practices such as fostering employee empowerment or helping community organizations. Thus, social entrepreneurs, focusing on creating social value as core mission, embed corporate social responsibility into their startup business model and aims beyond owner wealth creation to net-positive gains for the society.

Thus, CSR activities can provide valuable resources to the company such as positive reputation, increased brand value and "free" advertisement provided by

the media. From this perspective, Mc Williams & Siegel (2011) considers CSR as a resource in the RBT sense and claims that "*a CSR strategy can be a valuable (in the RBT sense) complement to a differentiation strategy, enhancing the value of the reputation and/or the brand of the company".*

4. CONCLUSION

Social problems that emerge in almost all countries have increased the importance of social entrepreneurship as a way to solve these problems, generate social value and enhance human life on the whole. A very effective method of addressing today's problems is to mobilize businesses in ways that is beneficial both to the society and the company. There is no inherent contradiction between creating social value for the betterment of the society and individual wealth creation. If pursued correctly, social entrepreneurship can provide a valuable set of tools to create competitive advantage and can also be a very efficient tool to make the world a better place to live.

In this paper we tried to clarify how social entrepreneurship, entrepreneurial activity with an embedded social purpose, can be a tool for creating competitive advantage. To elucidate this, we defined competitive advantage from two perspectives; value chain approach and RBT approach. We discussed that context focused strategic CSR activities will improve value-chain of the organization leading to differentiation and delivery of the superior customer value. We also pointed out that properly applied CSR activities can also turn into RBT competencies also resulting to the differentiation of the company's products and services.

Social entrepreneurship is an effective avenue for social change. We believe that conducting research in the area of social entrepreneurship will have practical implications that may influence the outcomes of social entrepreneurs and those that support or fund them. We hope that this has an impact on the fulfillment of social entrepreneurship as a driving force for positive social change.

Finally, this research does have some limitations to be noted. First, the aim of the study was to present the current state of social entrepreneurship literature in creating competitive advantage by providing an overview of social entrepreneurship, making reference to existing literature. Second, we have

especially focused on extending research about social entrepreneurship through examining this phenomenon and discuss implications for future research, but we have included neither an empirical research nor a mixed method of research. We believe that the study presented here might provide a starting point for future research aimed at identifying a research agenda for developing knowledge about social entrepreneurship and creating competitive advantage in different contexts.

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