

Chapter 7

Creating Competitive Advantage With Social Entrepreneurship

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ABSTRACT

This chapter probes ways of creating competitive advantage with social entrepreneurship by determining the instruments that social enterprises can apply to achieve competitive advantage. The chapter first develops the concepts of social entrepreneurship and competitive advantage within their common framework by examining the relevant literature. Then, it proposes shared value, social intrapreneurship, strategic partnership, differentiation, and recruiting talents as instruments for social entrepreneurs to achieve competitive advantage and mentions various cases as examples. The chapter concludes by proposing a measurement framework that focuses on the interaction between business and social results.

INTRODUCTION

What is the purpose of an entrepreneurial activity? For decades the applicable view was that the enterprises belonged to their shareholders and the purpose of an enterprise was to maximize shareholder wealth. Today this view is no longer uniformly accepted. Many believe that shareholders do not own enterprises, enterprises are legal entities owning themselves. A shareholder is an important stakeholder of an enterprise, but only one of many. Furthermore, the enterprises are to be run to the best interests of, not only the shareholders but a broader range of constituents, customers, suppliers, employees etc. society as a whole (Chandler, 2015). Increasingly more companies have started responding to the interests of all stakeholders and generating the most value for the society.

If an enterprise continues to exist and to make profit for a long term, it most probably means that the enterprise was able to create value, economic value and social value. Economic value is created when the enterprise makes profit. Social value is the net social and environmental benefits and values generated by the enterprise to the society. As these definitions indicate, both terms are connected; for example, employee wages are related both to economic value (cost of production) and social value (income distribution).

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In this chapter, we define social enterprise as an organization with the core purpose of creating social value, an organization who applies business principles to solving social problems. It can be a nonprofit or for-profit organization whilst the primary motive is social change respectively well-being (Volkman, Tokarski, & Ernst, 2012). Social entrepreneurs are change-makers in the society, they are agents of social and economic progress. The innovative approach of social entrepreneurs brings a positive change to the society and most of the times to the economy as well, especially in the underdeveloped areas.

Social entrepreneurship, already a big topic for decades, received increased attention after 2006 due to Muhammad Yunus winning the Nobel Peace Prize with the Grameen Bank microcredit model. The rising economic inequality throughout the world and crisis in environment, health and financial systems contributed to the concept of sustainable organizations dealing with social problems. In this sense, social enterprises target social needs unmet by government or by conventional business and where traditional nonprofit organizations did not live up to expectations.

Social enterprises target unfulfilled social needs by creating social value with sustainable solutions. A sustainable solution requires creating both economic and social value. Social entrepreneurship, can be carried out by nonprofit or for-profit enterprises. For nonprofits the benefit is only needed for the sustainability of the operations. In the second case, the profit is sought but the central core of the enterprise is social commitment. For both cases, the sustainability relies on its ability to develop a competitive advantage. To achieve and maintain competitive advantage i.e. to achieve sustainable competitive advantage, enterprises should generate more value, both economic and social, than competitors.

This chapter explores ways of creating competitive advantage with social entrepreneurship. As the relevant literature suggests, social enterprises possess some peculiar characteristics which do not exist in conventional business. Those characteristics can be exploited by the social enterprise as unique resources to devise strategies that lead to achieve competitive advantage. Or a social enterprise may also reach competitive advantage by positioning itself within its industry. The chapter develops the concepts of social entrepreneurship and competitive advantage within their common framework and determines the instruments that social entrepreneurs can utilize to build competitive advantage; namely shared value, social intrapreneurship, strategic partnership, differentiation and recruiting talents. Each instrument is theoretically elaborated and illustrated with field examples. This chapter will help both practitioners and academicians to understand how to achieve competitive advantage in social enterprises.

BACKGROUND

Social enterprises have emerged as significant organizational players in market economies. More market driven than traditional nonprofit ventures, and with the capacity to be financially self-sustaining, the term “social enterprise” has been coined by government and other stakeholders to denote socially-driven businesses (Di Domenico, Tracey, & Haugh, 2010). Social enterprises, a hybrid model of business organization, finance social purpose through commercial activity ensuring that the social outcome and economic performance are integral. Since they usually emerge in communities with limited access to resources, they are obliged to find innovative ways of achieving competitive advantage.

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