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Social Entrepreneurial Success in Resource Constrained Ecosystem

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Abstract

Social entrepreneurs operate in resource scarce environments and need to secure all that they can get in order to keep their enterprises up and running. This study focuses on developing an understanding of the most critical resources for success of a social enterprise. This research employed quantitative techniques to determine the most important resources while qualitative techniques to understand how the resources were acquired and managed. The researchers conducted semi structured interviews with 22 For-profit social enterprises operating in the most poor states of India. Correlation analysis was used to determine the relation between the various resources and success. Social capital is strongly related to human capital, knowledge and financial capital suggesting how networks and partnerships can help social enterprises access these three resources effectively.

Keywords- Resource based View, Social enterprises, social capital

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Introduction

Schumpeter described Entrepreneurs as individuals who have the skills to combine factors of production in new ways. The new ways could be development of new products, new ways of production or creation of new markets. For organizations resources and their offerings whether a product or a service are two faces of the same coin. As most of the resources are required to create a product or deliver a service so, by looking at the resources one might suggest the value being captured by the firm and vice versa by looking at the product one may suggest which resources might have gone in the development of the designated product. (Wernerfelt, 1984).

These ideas highlight the importance of resources for an entrepreneur but necessarily do not address the resource scarce environments that the 21st century entrepreneurs are operating in. The new generation entrepreneurs' ability and skills to mobilize resources strongly determine the firm's success. (Baeyertz, 2010) Resources are scarce in developing economies and as the social enterprises operate with dual value proposition they lack investor's trust hence, it becomes very important to understand that who are the resource providers and how the social entrepreneurs acquire resources from the ecosystem.

The social entrepreneurs just like their counterparts in commercial ventures, try to create value through bundling of unique set of resources in order to fully utilize an opportunity. (Morris et al., 2006)

Research has revealed that resources are acquired and managed in entirely different ways for the commercial and non Profits. (Kong, 2008). Extensive research is available on how the commercial enterprises acquire resources but very little information is available for social enterprises. (Dacin et al., 2010) . When it comes to For-Profit social enterprises, it is an area which is highly unexplored. As they lie somewhere in between the commercial and the Non profits, it becomes very important to understand how they do it. Social entrepreneurs operate in resource scarce environment; they try to utilize the presently available assets of the clients in order to achieve their objectives. (Alvord et al., 2004)Lack of this capital may hinder the social enterprise in the startup stage. (**Sharir & Lerner, 2006**)

As these resources are critical for success of an enterprise a lot of efforts go in acquiring and managing these resources. The possession or absence of any of the resources can be critical to a firm's success. The aim of this research paper is to explore and understand that how For-profit social enterprises acquire the required resources and manage them to their advantage.

1.1 Social Entrepreneurship

These are private organizations that work with the aim of solving social problems, service the disadvantaged sections of the society by providing services or goods /fulfilling needs that were not sufficiently being provided by the government agencies or private enterprises. In short they intend to fill the market gap created by the government and other private entities.

This study is based on For-profit social enterprises which can be defined as “For-profit organizations are legally incorporated as for-profit entities with a business model that serves a social purpose while generating profit. The profit makes the enterprise sustainable of carrying on its social operation, without having to look out for grants from government or other private entities.”

1.2 The Resource based View

One of the first proponents of the resource based view was Edith Penrose, (1959) who recognized the importance of resources for an organization’s performance. It was argued that the way certain resources are used by an organization leads to creation of services or products. Similar resources when used for a different purpose may lead to creation of different services or products. The resources can also be used individually or in combination with other resources to meet the desired product or service creation need. The resource based view of the firm considers all the internal resources of the organization, which can help in creating a competitive advantage leading to value creation. The resources can be source of superior firm performance. (Ray et al., 2004)

The Resource based view of the firm states that the competitive advantage of a firm lies in the tangible and intangible resources available to the firm. (Barney, 1991).The competitive advantage is achieved when these resources are not imitable or substitutable.

The resource based view has been used extensively in order to understand the strategic management but it has been critiqued a lot for its validity. It is highly criticized for its ignorance about the fact that resources may change overtime for any organization. It has been criticized for its assumption of resources being static and ignoring different situations.(Priem & Butler, 2001).

They have also argued that in order to be useful for the organizations the RBV needs to be more detailed, which it is not in its current form. This makes it not practical to implement for the organization. They further stated that the theory is tautological and vague in concept.

1.3 The Resource based view for social entrepreneurs

The resources are used in order to gain profit by developing an edge over the competition. Similarly, in case of social enterprises proper resource management and usage leads to gaining sustainability. Although a lot many environmental factors are involved in determining the profitability of a firm but the resources and capabilities of the firm are very important for growth and sustainability (Warnerfelt, 1989)

The resources in case of social enterprises have been divided into four types i.e social , Financial, Human and political capital (Bloom & Smith, 2010) Presence all these capitals is important for the enterprise as they help in scaling the business through giving a competitive edge over other organizations. It is critical to understand how the capital is created, acquired and retained by the enterprise. Social Capital is associated with the organizations capability to communicate; it refers to all the resources that are made available for the organization through its networks. (Sørensen

&Torfing, 2003). Social capital has key role in the growth and development of the firm. (Hoang & Antoncic, 2003)

Political capital majorly refers to the resources that are made available through the political process. It majorly constitutes of the social enterprises ability to form alliances and partnerships which lead to acquiring of capital which is used for scaling the impact of the social enterprise.

Financial capital refers to the generated earnings and capital investments attracted by the social enterprise. A high value of financial capital would mean that the organization is successful at creating market for its product or services; it would also mean in case of startups that they are able to attract investors through their effective business plan. (Bloom & Chatterji, 2009). The human capital refers to the recruiting, training and retaining qualified staff. Organizations that are well equipped with the ability to manage human capital show promising results for scaling the business.

Initially the organization begins with human and financial capital and attains social and political capital further leading to creation of more financial worth and capturing the value in the process. The social value is created by the social and human capital while the economic value is created by the financial and political capital.

From the literature review till date, it was felt that there is need for more detailed study of the resources. Previous studies focused on majorly four kinds of resources that make understanding and sub categorization inefficient. Hence, for the purpose of this study the Resources are divided into six categories

1. Financial
2. Human capital
3. Physical capital
4. Social capital
5. Knowledge capital
6. Technological capital

Till date the research in Social entrepreneurship has been revolving around the Entrepreneur, not about the internal processes of the Social enterprise. (Corner & Ho, 2010)

This research moves on with the aim to understand how social enterprises in the For-profit domain acquire the above resources? Which are the resources that they consider most critical for the social enterprise's sustainability?

Research Method

The research focused on two of the most poor, resource deprived states of India i.e Uttar Pradesh and Bihar and the For-Profit social enterprises operating in these states. The resources being scarce need efficient ways of acquiring and managing them so that the impact can be created with limited resources. This research employed quantitative techniques to determine the most important resources while qualitative aspects to understand how the resources were acquired and managed. The

researchers conducted semi structured interviews with 20 For-profit social enterprises operating in these states. They were also asked about the financial status of the organization i.e how the organizations have been performing in the last financial year. As For-profit social enterprises do not generate huge profits, even organizations who have been able to break even have been considered as successful.

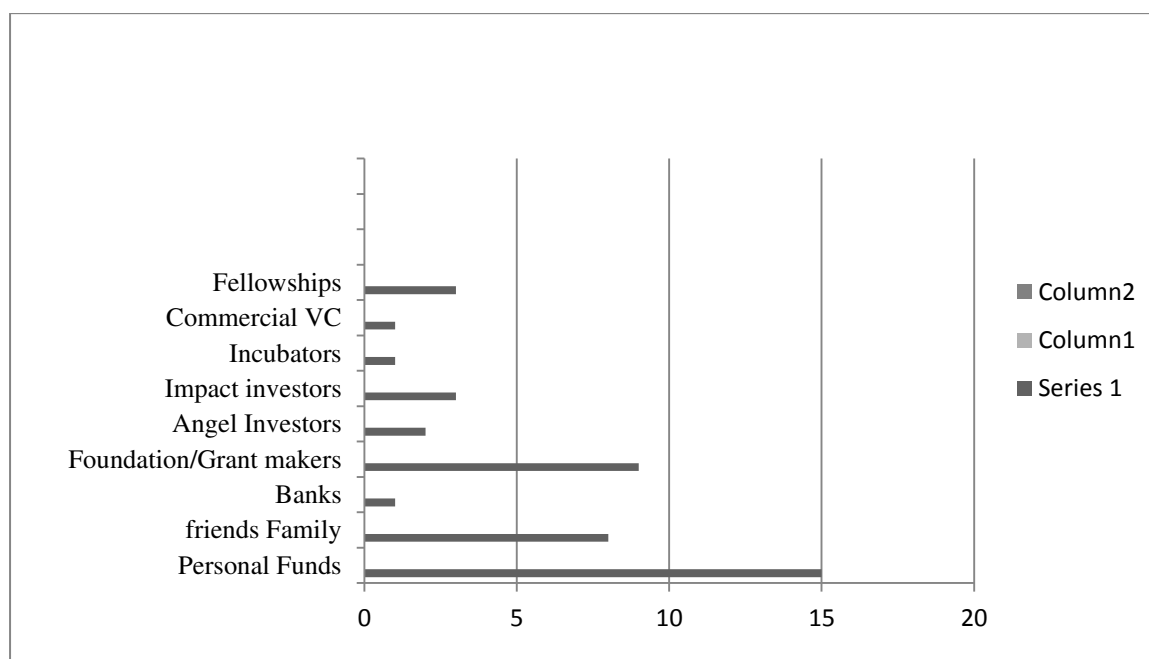
For the purpose of understanding how the resources are acquired and managed case study method was used, judgmental sampling was used. We reached a state of conclusion on examining 4 cases. All the considered enterprises were committed to creating social impact but their business models varied. Instead of testing hypothesis, more emphasis was laid on developing propositions.

Financial Resources

Generating funds has been one of the most crucial task for any entrepreneur but when it is the case of Social Enterprises operating in one of the most resource deprived areas and operating in BOP markets, investors barge on investing.

“Provisions should be made to divert CSR Funds into social enterprises, as right now only NGOs are eligible for the CSR funds. “

“Swayambhu received a collaborative grant from Government of Singapore, which helped it kickstart the project.It’s disappointing that clean energy does not find many takers when it comes to investments. But I will plough on, nevertheless,”



Through the quantitative research it could be seen that Personal funds and Foundation grants were some of the major ways of initial funding that the SEs began with.

Physical capital

The for-profit social enterprises operating in these states mostly begin with in house offices and production units. Most of the physical capital is leased. The social entrepreneurs emphasized for need of a common space where they could meet likeminded individuals, share knowledge, get mentorship support and get help in accessing the resources.

“Most of the solar energy products like solar lanterns, solar plates etc. are exported so, we do not need much space for production. We work as distributors and marketers of the products “ – Sanjay Bharti , VP Simpa Technologies

Human Resources

“We are working with the youth employing youth and want to expand our network in coming years but there is lack of skills. We need to train human resources based on our needs.”

“People are migrating from these villages at an alarming rate. No youngster wants to spend time in the village and outsiders don’t want to come to the village. We focus on women as they are less likely to migrate and train them according to our needs. “– D.E.S.I Power

Training the staff is integral part of any For-profit social enterprises resource story. The locals who are also the customers of the SE’s product or service become a very efficient work force for them. They train and employ the local population for conducting the operations. Apart from this as these enterprises focus on the creating a state when the client could be part of solving his own problem. Many energy companies like D.E.S.I power engage in promotion of local livelihood generation so that there is demand for their energy and people become capable of paying for their electricity bills. It has its own advantages as it helps the enterprise gain access to the local community; understand the issues with the product/service, better assess their needs.

Social Capital–Social capital comprises of networks, these networks are used by the social entrepreneurs for promotion, scaling up the business, getting useful resources and finding new opportunities. The networks are an ecosystem of support and knowledge essential for value creation (Austin et al.). The enterprises under study do not do any advertising; the entire promotion is achieved via word of mouth of their network. D.E.S.I Power has strong networking support of Rockefeller foundation and is running project SPEED in collaboration with them.

Knowledge capital- It comes in the form of the skills and knowledge of the founder and the staff at the top levels of management. Their understanding and life experiences are a major asset for acquiring other resources that are required by the enterprise for operating. This intangible resource helps the social enterprise in creation of unique processes or structures that help in making the enterprise a success story. In all the three cases examined under this research, the founders and top managers of the SE had formal training in management of social enterprises or prior experience in the field. The Founder of Swayambhu Innovative solutions indicated that how her education in field of social entrepreneurship and previous experience with tribal villages facing issues of power helped her think and manage the bio fuel initiative.

Technological capital – Technology plays very crucial role in case of Social enterprises .In order to reach the far flung areas and due to lack of trained efficient human resources, technology comes handy. New ways of using technology to fulfill the required needs have been developed. Technology is being used to innovate the processes;SIMPA patented its prepaid metering technology for easing the process. The villagers can buy top up from the local agents as and when required.

Farms n farmer uses its DEHAAT app for mobilizing the farmers and disseminating information. They have also developed DEHAAT commerce app for farmers who need to buy the farming inputs like seeds and fertilizers.

Variables of the study

Financial capital refers to the different funding sources available to the social enterprise like Fellowships, commercial venture capital, incubator support, impact investments, angel investors, Foundations, grant, banks, family, Personal funds.

Physical capital refers to various indicators of physical infrastructure available for operations of the social enterprise i.e. Office building, machinery, production unit.

Social capital refers to the presence of number of networks for these social enterprises. Partner included entities like Government, NGOs, other social enterprises, funding organizations, corporates and individuals. Each of these variables were assigned a code, the maximum no. of partners possible for any organization was six while the minimum could be zero. These partners were the organizations with whom the social enterprise collaborated in order to have access to resources and fulfill the goal of both organizations.

Human Resource capital refers to the no. of qualified and trained staff available in the organization. It was calculated based on the Education, Training, motivation, willingness and proactiveness. The maximum value can be 5 as some organizations may have all 5 traits in their human resources.

Knowledge capital- It refers to the prior experiences and training of the founders and top managers coded as Social welfareeducation ,Social entrepreneurial experience and leadership.

Technological Capital refers to the number of ways in which technology is being applied in the social venture like using technology for production, technology for maintenance , technology for process modification , technology for communication and technology for training.

Fig 1- Variable details

Variable	Type of Variables	Value
Success of the SE	Dichotomous	0- No 1 – Yes
Financial funding sources	Index	0 to 6
Fellowships	Dichotomous	0-No , 1-Yes
commercial venture capital	Dichotomous	0-No , 1-Yes
impact investments	Dichotomous	0-No , 1-Yes
angel investors, Foundations	Dichotomous	0-No , 1-Yes
/Grants	Dichotomous	0-No , 1-Yes
banks loan,	Dichotomous	0-No , 1-Yes
family	Dichotomous	0-No , 1-Yes
Personal funds	Dichotomous	0-No , 1-Yes
Physical Capital	Index	0 to 3
Office building	Dichotomous	0-No , 1-Yes
Machinery	Dichotomous	0-No , 1-Yes
production unit.	Dichotomous	0-No , 1-Yes
Social Capital	Index	0 to 6
Government	Dichotomous	0-No , 1-Yes
NGOs	Dichotomous	0-No , 1-Yes
other social enterprises	Dichotomous	0-No , 1-Yes
funding organizations	Dichotomous	0-No , 1-Yes
corporate	Dichotomous	0-No , 1-Yes
individuals	Dichotomous	0-No , 1-Yes
Knowledge Capital	Index	0 to 3
Education or training in social entrepreneurship	Dichotomous	0-No , 1-Yes
Past experience in social enterprise operation	Dichotomous	0-No , 1-Yes
Leadership skills	Dichotomous	0-No , 1-Yes
Patents	Dichotomous	0-No , 1-Yes

Human Resource Capital	Index	0 to 5
Education	Dichotomous	0-No , 1-Yes
Training	Dichotomous	0-No , 1-Yes
Willingness	Dichotomous	0-No , 1-Yes
Motivation	Dichotomous	0-No , 1-Yes
Proactiveness	Dichotomous	0-No , 1-Yes
Technological capital	Index	0 to 5
Technology for production	Dichotomous	0-No , 1-Yes
Technology for maintenance	Dichotomous	0-No , 1-Yes
Technology for process modification ,	Dichotomous	0-No , 1-Yes
Technology for communication	Dichotomous	0-No , 1-Yes
Technology for training.	Dichotomous	0-No , 1-Yes

Fig2 : Correlation model of the measured variables

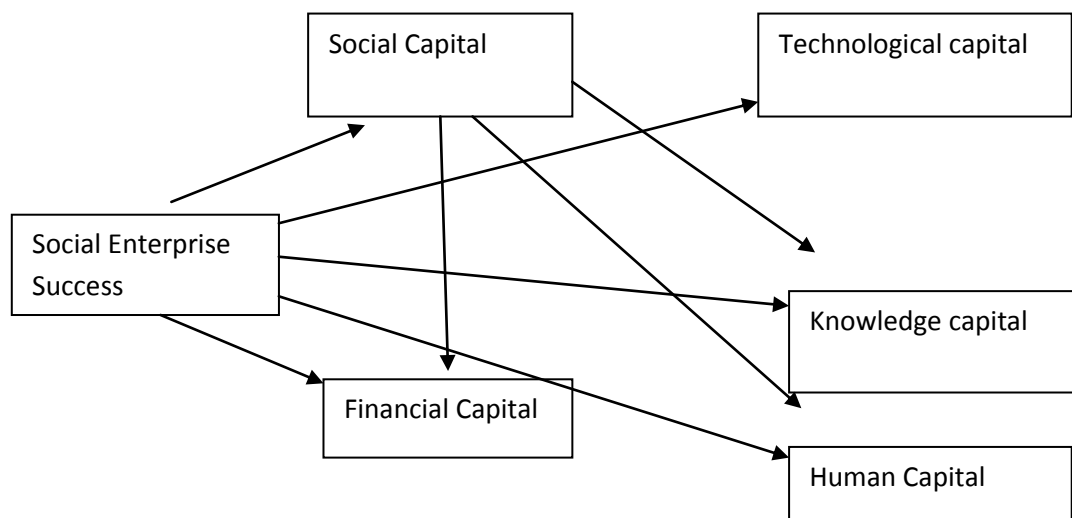


Table 1 : Correlation

		Correlations						
		Success	KC	HC	PC	TC	SC	FC
Success	Pearson	1	.640**	.840**	.000	.809**	.859**	.873**
	Correlation							
	Sig. (2-tailed)		.002	.000	1.000	.000	.000	.000
KC	N	20	20	20	20	20	20	20
	Pearson	.640**	1	.556*	-.256	.288	.532*	.530*
	Correlation							
KC	Sig. (2-tailed)	.002		.011	.276	.218	.016	.016
	N	20	20	20	20	20	20	20
	Pearson	.840**	.556*	1	.098	.740**	.739**	.882**
HC	Correlation							
	Sig. (2-tailed)	.000	.011		.682	.000	.000	.000
	N	20	20	20	20	20	20	20
PC	Pearson	.000	-.256	.098	1	.244	.181	.022
	Correlation							
	Sig. (2-tailed)	1.000	.276	.682		.299	.446	.927
PC	N	20	20	20	20	20	20	20
	Pearson	.809**	.288	.740**	.244	1	.762**	.677**
	Correlation							
TC	Sig. (2-tailed)	.000	.218	.000	.299		.000	.001
	N	20	20	20	20	20	20	20
	Pearson	.859**	.532*	.739**	.181	.762**	1	.758**
SC	Correlation							
	Sig. (2-tailed)	.000	.016	.000	.446	.000		.000
	N	20	20	20	20	20	20	20
FC	Pearson	.873**	.530*	.882**	.022	.677**	.758**	1
	Correlation							
	Sig. (2-tailed)	.000	.016	.000	.927	.001	.000	
FC	N	20	20	20	20	20	20	20

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

The findings of the study suggest that Physical capital does not play significant role in case of social enterprises. Many of the social enterprises do not own physical assets, most of the new generation social entrepreneurs are operating from their home offices, do not produce the goods but merely act as marketers of the product.

Social capital on the other hand has been found to be most relevant of all forms of capital as it not only significantly affects success but also has strong influence on achievement of other capitals. Social capital is strongly related to human capital, knowledge and financial capital suggesting how networks and partnerships can help social enterprises access these three resources effectively.

Conclusion

Social enterprises owe their origin to market failure and government failure so, lack of resources is inherent to the nature of these enterprises. The problem aggravates further due to their hybrid structure, making them skeptical for funders and resource holders. bricolage strategies i.e using whatever resources they have available at hand is an quintessential trait of these enterprises. The start up financial capital is being arranged through family and friends, while they are training their own human resources, use very little physical resources majority of which is leased in most cases. Networking emerges as one of the most essential way through which all resources are managed. This research has practical implication for practitioners.

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