

Social Capital and Social Enterprise Performance in Pakistan Social Innovation as a Proposed Mediator

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Abstract: - This conceptual paper is an attempt to understand the ways through which the social enterprises sustain and perform in resource poor environment of bottom of the pyramid (BOP) market Pakistan. An effort is made to understand the relationship between the key resource mobilization strategy i.e. social capital and social enterprise performance. Social capital can be explained as a key game plan of the social enterprises who gear up to address the gaps left by market and governments failures. When surrounded by resources and institutional constraints without any political and regulatory support, the resources embedded in one's network plays a key role in achieving the double bottom line of the social ventures by introducing the novel solutions to the most pressing problem of the society. Lack of studies that treats social innovation as a mediator has led us to propose it as an important variable that can lead us to the achievement of the dual goals of profit making along with social impact of social enterprises. Therefore, social innovation plays the important role of a link in this proposed integrated model. The resource-based theory (RBT) is used as the under-pinning theory for this study. This study can give valuable insights to for profit and not for profit companies both, who are aiming to generate social impact by generating enough revenues as well, about the possible scaling up strategy.

Keywords: - Social entrepreneurship, social capital, social innovation, social impact, bottom of pyramid (BOP)

1. Introduction

Social enterprises are believed to play an important role in the bottom of the pyramid (BOP) economies, mostly developing countries, to fulfill the gap left by the market and/or government failure (London & Hart, 2004; Prahalad, 2005; Short, Todd, & Lumpkin, 2009; Zahra, Rawhouser, Bhawe, Neubaum, & Hayton, 2008). Such gaps normally exist in the core areas of education, health, sanitation, energy and financial services (Bocken, Fil, & Prabhu, 2016).

Social businesses address these needs by combining charity with the business at the core of their business by presenting innovative solutions (Gundry, Kickul, Griffiths, & Bacq, 2011a). However, aligning these conflicting objectives are a major challenge for the social enterprises as they are neither typical charity nor typical business. On one hand, they need to make sure that they don't risk their mission of social value creation i.e. mission drift, while maintaining

the hybrid nature of their business on the other (Ebrahim, Battilana, & Mair, 2014).

The field of social entrepreneurship has seen a massive increased interest (Austin, Stevenson, & Wei-Skillern, 2006; Chmelik, Musteen, & Ahsan, 2015; Day & Jean-Denis, 2016; Janssen, Fayolle, & Wuillaume, 2018) especially in the last two decades. It can be taken as an alternative theory to explain the rise and growth of nonprofits on one hand which are increasingly turning to the revenue based activities in order to support their mission (Frumkin, 2002) instead of grants or donations. While on the other hand, it satisfies the desires of the commercial businesses to allocate a part of their profits to the social cause due to the fact that either they can see valuable business opportunities in the developing markets (Dees & Anderson, 2006) or they want to improve their corporate image.

Pakistan is also not an exception which has seen a surge in the social entrepreneurship due to multiple

reasons including huge BOP population, youth bulge and government failures (Yasir et al., 2016) with prevalent resource and institutional constraints. The resource poor environment is believed to be the natural hotbed for the social enterprises (Desa, 2007) where it can be found in abundance due to its ability to solve the most pressing problems of the society through innovative solutions (Gundry, Kickul, Griffiths, & Bacq, 2011b). Despite increase in the interest in this area, there is limited understanding that how social enterprises grow and scale their businesses.

This proposed theory is based on the under pinning theory of the resource based (RBT) that states that resources and capabilities can help the firms to choose and implement the strategies that leads towards the improvement of the efficiency and effectiveness of the organizations (Barney, Ketchen, & Wright, 2011). This study presents an integrated conceptual model that sheds light on the possible antecedent of the social enterprise performance through innovative solutions of the neglected societal problems at large where social capital can be taken as one of the possible resources.

2. Literature Review

2.1 Social Enterprise Performance

The importance of performance measurement in social entrepreneurship sector has increased due to its ability to ease the social issues (Chmelik et al., 2015). However, the performance measurement of social ventures is under theorized (Ebrahim & Rangan, 2014). The task for performance measurement is not very easy in the field of social entrepreneurship and involve many complications (Murray, Caulier-Grice, & Mulgan, 2010). It is of utmost importance to quantify the performance of the social ventures in order to develop the benchmarks so as to spread the impact.

Performance measurement of the social enterprises is imperative especially in developing markets. Social enterprises experience an increased pressure from multiple stakeholders to measure their performance in order to scale their mission (Chmelik et al., 2015; Ebrahim et al., 2014). The performance of the social ventures can be assessed along the dimensions of financial performance and scaling of

the social impact both. Profit maximization is not the basic and sole objective of social enterprises (Bocken et al., 2016). However, the concept of profitability is fully consistent with the performance objectives of social ventures (Mair & Marti, 2006) in addition to the social impact it casts. But how does social enterprises make it happen, while facing the challenges of the informal economy and that too located at the BOP, is unknown (Desa & Koch, 2014).

2.2 Social Capital

The importance of the implanted resources in one' network has long been identified to play a pivotal role in the performance of the organizations (Hoang & Antoncic, 2003; Stam, Arzlanian, & Elfring, 2013). Social capital is conceptualized as actual and potential resources accessed through these networks (Bourdieu, 1986; Lin, 2001; Putnam, 1995). The benefits embedded in social networking can facilitate the outcomes of any action (Lin, 2001) through access to better human and financial capital and reduction in the overall cost (Granados & Rivera, 2017), ultimately leading to the improved performance. In resource poor environment especially, the resources are constructed socially through existing contacts that leads to superior performance (Baker, Miner, & Eesley, 2003; Bhatt & Altinay, 2013; Linaa, 2013; L. Zhao & Aram, 1995).

It is of particular importance to the social enterprises that are abundant in the resource poor environment in under developed and developing countries (E. Y. Zhao & Lounsbury, 2016). Social capital gives them access to resources including financial, human etc. and subsequently impact their performance (Alvord, Brown, & Letts, 2004; Dacin, Dacin, & Tracey, 2011; Mair & Marti, 2006). Social capital is significantly related to the non-financial and financial performance of the social enterprises (Stam et al., 2013). Therefore, it can be proposed that

P1: There is a positive relationship between social capital and social enterprise performance.

2.3 Social innovation

Social innovation is considered as highly desirable for economic growth and societal transformation

(Bhatt & Altinay, 2013). But it should be noted that not every innovation in the social sector can be deemed as social innovations unless it serves the purpose of satisfaction of social needs, empowerment and change in the social relations. Therefore, social innovation is believed to solve the existing social problems creatively especially in BOP markets (Upadhyay, Rawal, & Awasthi, 2017). This study defines social innovation as “new products, services and models that both meet social needs and create new social relationships or collaborations – they’re ‘social’ both in ends and means” (Murray et al., 2010, p. 3).

It should be differentiated from the commercial innovation on the basis of the focus of the later on profit maximization (Mulgan, 2006). Social innovation is considered to be an important and relevant concept under the field of social entrepreneurship. Its importance can be traced back to the suggestion that there is a need to theorize a social entrepreneurship related innovation separately (Short et al., 2009). Therefore, based on above multiple studies and suggestions, social innovation is integrated in this proposed study.

2.4 Social Capital and social innovation

The term social in the social innovation is to denote the implanted social relations (Ayob, Teasdale, & Fagan, 2016) which are the source of innovation. There is origination of a new type of economy i.e. ‘social economy’ that focusses on the existing relations for the development of innovations through trials (Murray et al., 2010). Though existing studies have focused on the positive contribution of networking activities and social capital on innovation long time ago (Tsai & Ghoshal, 1998; L. Zhao & Aram, 1995).

However, pre-existing relations and assets embedded in it i.e. social capital is also believed to be closely related to the innovations targeted at solving the social evils (Bhatt & Altinay, 2013; Gundry et al., 2011b) i.e. social innovation. Also there is acute shortage of the studies that can shed some light on the antecedents of the social innovation and its development in resource poor environment (Bhatt & Altinay, 2013). Therefore, it can lead us to propose that:

P2: There is a positive relationship between social capital and social innovation.

2.5 Social innovation and social enterprise performance

One of the most significant ways to tackle the social problems is by the introduction and scaling of the innovative solutions targeted at social problems (Defourny & Nyssens, 2010; Gabriel, 2014; Weber, Kröger, & Demirtas, 2015). Therefore, it is imperative to understand the role of social innovation in the growth and performance of the social enterprises as they strive to find innovative solutions to the existing problems. The existing studies have focused on the relationship between innovation and mission related improved performance of the social ventures (Dees, 1998).

It is believed that the innovation should be capable of achieving the social impact (Dees & Anderson, 2006) while making the considerable profits as well (Upadhyay et al., 2017). Therefore, it can be proposed that:

P3: There is a positive relationship between social innovation and social enterprise performance.

2.6 Social Innovation as a possible mediator

The dual performance goals, pursued by social enterprises, of financial and social value creation can be achieved through introduction of innovative solutions (Dees, 2007; Gupta, Beninger, & Ganesh, 2015; Peredo & Crisman, 2006). The societal transformation through addressing issues involves innovative solutions that require the ongoing flow of resources (Alvord et al., 2004). This ongoing flow of resources through mobilizing the existing networks can lead to the innovative outcomes that in turn can lead to the superior performance. But instead of any general innovation term, social innovation is a relevant concept in the field of social entrepreneurship.

The inconclusive empirical findings between social capital and firm performance (Busch, 2014; Wu, 2008) indicate the need to introduce a mediator. Therefore, it is proposed that social innovation mediates the relationship between social capital and social enterprise performance.

P4: The relationship between social capital and social enterprise performance is mediated by the social innovation.

Based on above mentioned propositions, the theoretical framework is presented in figure 1.



Fig. 1: Proposed theoretical framework

3. Proposed research methodology

Though it is not possible that all social enterprises fall under the two neatly defined organizational forms i.e. for profit and not for profit. However, research has shown that organization tend to opt more for the traditional and assumed legal organization forms (Santos, 2012). Based on the above-mentioned reasons along with the fact that only two legal organizational forms for social enterprises exist in Pakistan i.e. for profit and not for profit, this study will focus on the hybrid organizations straddling between the competing demands of sustainability and social mission irrespective of their legal form. Data will be collected through an adapted questionnaire from such hybrid organizations.

4. Conclusion

This paper is an attempt to address the conceptual gap identified by Ebrahim et al. (2014) to explore the broader conditions within hybrid organizations, like social enterprises, that can help them in accomplishing their dual objectives. This proposed study will contribute to the literature of how social enterprises as hybrid organizations sustain and achieve their mission in a resource poor environment. Social capital is believed to bring resource poor social enterprises out of their scarcity constraints and make them steady on their highway to sustainable performance.

This effect of social capital on social enterprise performance is proposed to be mediated by the presence of the social innovation. Some existing studies have investigated the relation of social capital and social enterprise performance (Dacin et al., 2011; Hasan, 2005). However, it is proposed that social innovation can mediate this path towards social enterprise performance (Alvord et al., 2004;

Bacq, Ofstein, Kickul, & Gundry, 2015; Dawson, Scott, Thompson, & Preece, 2011).

This study will contribute to the understanding of the social entrepreneurship performance both theoretically and practically. Though resource-based view (RBV) has extensively been used in various studies, however, it has not been the focus under the context of social enterprises by taking into consideration social capital, social innovation and social enterprise performance as the resources that can lead to the superior performance. Along with this theoretical contribution, practically this study can help the practitioners and policy makers to understand the behavior of the social enterprises especially under the resource poor environment of BOP market.

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