Social Enterprises, Hybridity, Stakeholders, and Social Capital

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Introduction
Research on social entrepreneurship is relatively young. Many researchers consider social enterprises hybrid organisations (e.g. Battilana & Lee, 2014), leading to a legitimacy problem and tensions in the pursuit of its dual mission. Stakeholder theory, which moved the focus from a pure profit orientation to a broader consideration of interests and demands by multiple individuals and organisations, provides the necessary foundations to introduce social capital in order to answer the question:

*How can a social enterprise achieve legitimacy and overcome stakeholder tensions arising from its hybridity to reach its conflicting goals?*

To answer this question, this essay begins with an introduction into social entrepreneurship and its definition as a hybrid organisation. An analytical framework in the form of stakeholder theory is provided to evaluate in-depth the effects of social capital in the context of social enterprises. The ideas developed in this section are then discussed and put into context by applying them to the “SMS for Life” program.

Theory
In this section, the current literature about social enterprises is examined to provide a precise definition of social enterprises including challenges that such a definition might pose for both, practitioners and researchers alike. Stakeholders are introduced to enable an analysis of the concept social capital in social enterprises.

Definition of Social Entrepreneurship
There are plenty of definitions of social entrepreneurship. Some highlight the value creation and impact on the society side while others focus on the entrepreneurial side. The definition is commonly tautological, stating that social entrepreneurship is entrepreneurship with a social mission of some kind. Dees (1998b) talks about entrepreneurs with a social mission, whereas the mission is explicit and central. In is defining article (1998a), combining several researchers from different backgrounds, he concludes that:

“Social entrepreneurs play the role of change agents in the social sector, by:

- Adopting a mission to create and sustain social value (not just private value),
- Recognizing and relentlessly pursuing new opportunities to serve that mission,
- Engaging in a process of continuous innovation, adaptation, and learning,
- Acting boldly without being limited by resources currently in hand, and
- Exhibiting a heightened sense of accountability to the constituencies
  served and for the outcomes created.” (Dees, 1998a, p.4)

Other authors (Mair & Martí, 2006; Austin, Stevenson & Wei-Skillern,
2006; Peredo & McLean, 2006; Seelos & Mair, 2005) also base their
definitions on entrepreneurship and the idea of some sort of social value. This
of course always leads to a tautological definition. Some include social
change (Mair & Martí, 2006) into their definition whilst other authors only
include social value creation (Peredo & McLean, 2006; Austin et al., 2006;
Seelos & Mair, 2005) without being specific about the meaning of it. Whilst
the entrepreneurship side is well defined in most of the papers, particularly in
Dees (1998a) and Peredo and McLean (2006), the definition of the social
aspect remains unclear. This led to Santos’ (2012) efforts to redefine social
entrepreneurship as the “pursuit of sustainable solutions to neglected
problems with positive externalities” (p. 335). Relying on the economic
concept of externalities, this definition provides a good alternative of the
aforementioned tautological definitions presented in earlier stages of the
social entrepreneurship research. Nevertheless, this definition is quite broad
and a combined definition of Peredo and McLean’s (2006) elements on
entrepreneurship and Santos’ (2012) economic definition of social value
seems reasonable to fully understand the concept of social entrepreneurship
as it defines in more detail what social value consists of. Considering this, it is
suggested that a definition of social entrepreneurship could be:

Social entrepreneurship is about pursuing sustainable solutions that
either exclusively or in some prominent way aim to create positive
externalities (social side) and pursue that goal through a combination of
recognizing and exploiting opportunities to create this value, employing
innovation, tolerating risk, and declining to accept limitations in available
resources (entrepreneurial side).

Analysing those definitions, one can conclude that we are talking about
a twofold concept of social value or charity and entrepreneurship or business.
This is recognized by a number of researchers (Battilana & Lee, 2014;
Doherty, Haugh & Lyon, 2014; Pache & Santos, 2013; Moizer & Tracey,
2010; Battilana & Dorado, 2010; Kraatz & Block, 2008) by identifying social
enterprises as hybrid organisations that neither fit in the charity logic nor in
the business logic. Santos (2012) argues that social enterprises or indeed
enterprises in general always face the decision whether they should create
value or whether they should capture it. According to him this decision should
be made early on in the development to prevent unnecessary confusion
about the mission and identity of an organisation. Value capture in this
concept refers to the ability to internalise, i.e. achieve financial goals, value
created through an enterprise’s operations. Value creation on the other hand
describes the economic concept of adding to the welfare or wealth of society.

Generally, this leads to several trade-offs between economic goals, i.e.
value capture, and social goals or impact on society, i.e. value creation. This
starts with the incorporation of the enterprise as either charity (not-for-
profit) or for-profit business. Implications of this decision are clearly visible in
tax exemptions for charities but also the means of funding available (e.g.
sale of equity for for-profits) (Battilana & Lee, 2014). Such trade-offs can
lead to issues related to legitimacy among the stakeholders and their
competing goals. It is, therefore, as Dees (1998b) argues, important to balance between commercial and philanthropic activities and engage all of the relevant stakeholders in order to survive.

Pache & Santos (2013) found in a study that opposite to prior research hybrid organisations such as social enterprises do not actually compromise or decouple elements of the social and economic logic in order to be successful but rather couple intact elements of both logics. They describe that companies or entrepreneurs coming from the commercial side tend to enact a predominantly social welfare logic in order to gain legitimacy. The opposite is true for charities moving towards the commercial side, relying on their a priori legitimacy. Looking at those findings it becomes obvious that legitimacy of the enterprise and its key individuals play an important role in becoming successful. Pache & Santos (2013) highlight the importance of a strong identity in order to combine the two logics and keep or gain legitimacy from the stakeholders. This idea will be further evaluated and critiqued in the following sections by introducing stakeholder theory to provide the subject of analysis, the individuals and organisations that need to be convinced in order to achieve legitimacy, and social capital afterwards in order to evaluate the network of stakeholders, the ties with them, and the cognitions they are embedded in.

Stakeholder Theory

The stakeholder theory was most prominently introduced by Freeman (1984) in his landmark work “Strategic management: A stakeholder approach”. Opposite to the previously dominant stockholder or shareholder view it puts an emphasis on the management of multiple stakeholders with the shareholder only being one among many (Freeman, 1984). Stakeholder theory then “views the corporation as an organizational entity through which numerous and diverse participants accomplish multiple, and not entirely congruent, purposes” (Donaldson & Preston, 1995, p.70).

Donaldson and Preston (1995) criticise the lack of precision of stakeholder research and identify three research directions. First, there is the descriptive stream of research that focuses on analysing the constellation of cooperative and competitive interests and their respective intrinsic value. Second, the instrumental direction that examines the effects of stakeholder management by looking for and analysing the potential connections with various performance goals, most prominently financial goals in for-profit enterprises. In the context of social enterprises the goals are more likely to be associated with the social impact or value created. Last, the normative stakeholder research that identifies the individuals or groups with legitimate interests into an enterprise, be it its processes, impact, or any other aspects of its activities. All have in common that stakeholder theory is always managerial. This means that besides explaining it also always produces recommendations of some sort for the attitudes, structures, and practices that should be applied, which Donaldson and Preston (1995) link to John R. Commons' famous 'going concern’ idea.

Although, Donaldson and Preston (1995) provide a good framework to structure stakeholder theory, the concept ‘stakeholder’ is still quite ill-defined. An early definition from the Stanford Research Institute (SRI) definition states that stakeholders are "those groups without whose support the organization would cease to exist" (SRI, 1963; quoted in Freeman, 1984,
Freeman himself applies a broader definition by including “any group or individual who can affect or is affected by the achievement of the organization’s objectives” (1984, p.46). Generally, one has to conclude that the definition of stakeholder highly depends on the enterprise. Particularly in social enterprises, the relevant stakeholder will be more closely related to the impact an enterprise has on society rather than to its financial returns.

Mitchell, Agle and Wood (1997) provide a framework that helps defining and prioritising stakeholders. It is based on three dimensions.

First, stakeholders can be determined by looking into the power they exert over the enterprise. This dimension is closely related to the definition of stakeholders by the SRI (1963). Three types of power are identified in Mitchell et al.’s paper. Coercive power describes the ability to use physical resources of force to achieve the respective goals. An example of such force would be the government by imposing regulation (and enforce it by its law enforcement agencies). Utilitarian power on the other hand describes the power exercised through financial or material resources. A typical stakeholder possessing utilitarian power would be the shareholder. Lastly, the normative power consists of symbolic resources that some stakeholder can apply. This kind of power is available to most stakeholders regardless of their participation in the processes of the enterprise. An NGO for example can exercise a lot of power over a company by creating attention through for example demonstrations in front of a site of the company.

The second dimension to analyse stakeholders is legitimacy. This idea closely correlates with the normative stakeholder research stream. Suchman defines such legitimacy “as a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions” (1995, p.574). This dimension takes into account the societal level and the impact of an enterprise in that regard.

Third, the urgency of a stakeholder claim defines how important it is to address or consider it. The urgency is determined by two criteria. The time sensitivity of a claim is particularly important in deciding when to address or consider the claim. The importance or criticalness of the claim to the stakeholder, on the other hand, determines how much attention should be paid to this claim in general.

Typical stakeholders of a company, deriving from the classical value chain, are the suppliers, employees and customers, also called economic stakeholders (Johnson, Scholes & Whittington, 2011). Obviously, the shareholders or more generally spoken capital providers hold a large stake in every enterprise. Not necessarily directly connected to the company but commonly identified as stakeholders are the government, other political groups (e.g. NGOs), communities, and trade associations (Freeman, 1984).

Due to the nature of social entrepreneurship (chapter 2.1), stakeholders vary drastically compared to for-profit businesses. Whilst the power dimension is the most commonly used method to determine a stakeholder in for-profit companies (Johnson et al., 2011), social enterprises will be more likely to consider the legitimacy and the urgency of the claim into closer consideration. This leads to the fact that shareholders, which is one of the strongest and most powerful group among the stakeholders of a for-profit enterprise due to the utilitarian power they possess, are secondary for social enterprises. With the mission being defined as creating some sort of
social impact (see chapter 2.1) the communities and other societal organisations move to the centre of interest.

Coming back to the question posed in this essay and the tensions arising from hybridity as described above, one has to highlight the importance of addressing stakeholders of both the commercial and of the social side of the enterprise. In order to further evaluate the management of the different stakeholders of social enterprises the concept of social capital is introduced, allowing a more detailed view on the nature of the connections with the stakeholders and providing more detailed insights into how to manage such relations.

**Social Capital Theory**

Social capital as an idea dates back to the beginning of the 20th century, but the current theory is based on works of Bourdieu (1985) who provided a first definition. More influential were Coleman (1988) connecting social capital to human capital and most prominently the image of the lonely bowler put forward by Putnam (1995) that gained a lot of attention and sparked new research on the topic.

Bourdieu saw social capital as “the aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance and recognition” (1985, p.248, cited in Portes, 1998, p.3). This definition therefore defines social capital as the resources that can be accessed through the network of relationships and not as the network itself. This perception changed with later researchers considering the network itself and the relationships as the social capital. Putnam states, that “social capital refers to features of social organization such as networks, norms, and social trust that facilitate coordination and cooperation for mutual benefit” (1995, p.67). Portes as another example defines social capital as “the ability of actors to secure benefits by virtue of membership in social networks” (1998, p.6).

Three dimensions of social capital are commonly identified in the literature. First, structural capital describes the overall network of relations, including the network ties, the network configuration, and appropriable organisation (possibility to use networks for other purposes than the intended one) (Burt, 1992). Second, the relational dimension focuses on the kind and quality of the relations (Granovetter, 1974). This includes trust, norms and sanctions, obligations and expectations, and identity and identification (Nahapiet & Ghoshal, 1998). Last, the cognitive dimension is concerned with the shared codes and language, or a shared narrative (Nahapiet & Ghoshal, 1998). According to Nahapiet and Ghoshal (1998) each of these dimensions share that they establish some element of social structure and enable actors within the structure to act more easily.

Granovetter (1974) introduced the idea of the “strength of the weak ties”, referring to the fact that in trying to find new employment a network of weaker but farther reaching ties is beneficial. This leads us to the differentiation between “bonding” and “bridging” social capital, a concept originally introduced by Gittell and Vidal (1998). Whilst the former highlight the social capital available to a closed circle of people as internal resources, bridging views emphasise the importance of external resources that are available through the network outside the actual community (Maak, 2007). The latter incorporates the aforementioned weak ties and Burt’s (1992)
“structural holes”, referring to the absence of ties in which an individual can act as an information broker. Whilst some authors highlight one or the other as the better social capital, there is support for an integrative approach (Adler & Kwon, 2002; Nahapiet & Ghoshal, 1998).

Portes (1998) identifies two categories of sources of social capital. One is the consummatory source, consisting of value introjection (i.e. norms) and bounded solidarity (i.e. solidarity that is limited by the boundaries of the community). The other source is instrumental, referring to reciprocity exchanges (i.e. expecting some return in the future) and enforceable trust (i.e. knowing that return will come either through the community or be enforced by it). Besides the common perception of social capital as something positive (social control, family support, and network-mediated benefits), Portes (1998) also finds negative consequences in restricted access to opportunities, for example for ethnic minorities, restrictions on individual freedom, excessive claims (e.g. family members requesting a job despite lacking qualification), and downward levelling norms that depart from the mainstream norms.

The concept of social capital has often been linked to entrepreneurship in general, indeed, Gedajlovic et al. (2013) even consider it as the foundation theory of entrepreneurship. Whilst Nahapiet and Ghoshal (1998) argue that social capital facilitates the creation of intellectual capital thus providing an advantage to both newly founded enterprises and innovating companies alike. More specifically, Kwon, Heflin and Ruef (2013) show that social capital can act as a catalyst for self-employment, especially when the social capital derives from the membership in organisations connected to larger communities. Bauernschuster, Falck and Heblich (2010) find in their study that social capital can help overcoming resource constraints, particularly in the face of lacking venture capital. This is an interesting finding as it might be applicable to social enterprises. Because of the problems associated with hybridity, i.e. the lack of funding, the small communities probably react similar as the social enterprise environment. Thus, it can be argued that social capital can provide necessary means to secure required funding.

Since social capital can never be a one-way consumption of resources, it is important for a social enterprise to build relationships with its stakeholders that allow it to access resources embedded in such networks (Maak, 2007). This leads back to the idea of the legitimacy of a social enterprise. One important part is using the resources for mutually beneficial and responsible goals. If the cause is deemed legitimate, it is certainly easier to access the resources. Maak (2007) identifies the leadership of companies as the key to achieve beneficial social capital. The following chapter provides an insight into the combination of stakeholder theory with social capital theory and evaluate this relationship in further detail.

Discussion
This section provides an insight into the application of stakeholder theory and social capital theory to social enterprises to answer the research question of this essay. Furthermore, to conclude the discussion of the findings, they are applied to the case of “SMS for Life”.

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Maak (2007) points out that while the internal stakeholders of a company, most prominently the employees, are likely to share common norms and values, i.e. the cognitive social capital, especially external stakeholders might hold different beliefs. He argues that it is important to have similarly thinking stakeholders or to employ some bridging if that is not the case. Generally, the key task of a leader is to maintain positive stakeholder relations in order to be able to tap into the vast resources available through this network. In order to achieve this centrality a clear leader is required as its shaping the social capital enabling structures (Maak, 2007; Adler & Kwon, 2002). As the broker within the structural holes, the leader is able to build relationships with the different stakeholder and enable bridging between them.

It is important in this context to choose the stakeholders with which the enterprise is going to engage wisely in order to prevent unnecessary complications, thus a leader should only bridge holes with stakeholders that themselves have aligned interests (Maak, 2007). This leads to the idea that such connections should ultimately always create mutually beneficial outcomes.

Coming back to the initially mentioned tensions arising from the hybridity of social enterprises, one can apply social capital in terms of bonding mechanisms in order to align the internal stakeholders and mitigate such tensions. A potential danger in doing so is the cognitive lock-in which leads to organisational inertia and might prevent outside ideas and opinions from entering the enterprise (Uzzi, 1997). This is particularly problematic in the case of an enterprise that defines itself about the social embeddedness. Maak (2007) then talks about the leader as a “weaver of value networks”, connecting stakeholders that add value to the enterprise. To clarify how those two concepts work in reality, a case will be presented in the following section.

In 2001, Novartis launched a collaboration with the WHO to provide Malaria medicine without profit in Africa. The Novartis Malaria Initiative distributed Coartem, an artemisinin-based combination therapy (ACT), to the local governments and worked on improving the process in order to lower costs, to improve the treatment, and most importantly to increase the access (Novartis, 2014; Moncef, 2012). The program “SMS for Life” is a venture that was founded to tackle the distribution problem. Text messages are sent to all participating health workers once a week to request an update on the stock situation of Coartem and provide new units if required. This improved the availability of Malaria treatments significantly (Moncef, 2012).

Looking at this case (facts about the program provided by Moncef, 2012), I believe it is safe to say that Novartis or more specifically Jim Barrington (“SMS for Life” program director) acted as a broker between the different stakeholders, providing everyone with the necessary information and also creating legitimacy. Whilst the former is mostly achieved through the connection of the business contacts of Novartis, such as IBM (Peter Ward) and Vodafone (Kevin Ferriday), with anti-Malaria initiatives and Novartis’ (Barrington’s) contacts in the medical industry, the latter was achieved by closely involving local health authorities (i.e. Tanzania National Malaria Control Program in the person of Dr Alex Mwita) and international organisations, such as the WHO-run “Roll Back Malaria” (RBM) partnership. But as an internal venture from Novartis it was important that the “SMS for
Life” program was also accepted by Novartis’ internal and external stakeholders, making this a particularly interesting example. Despite working under the umbrella of Novartis, the “SMS for Life” program fulfils all the criteria of the definition provided in section 2.1 and can thus be considered social entrepreneurship.

Taking a specific look at the program and identifying the stakeholders that played a major role will provide the necessary foundation to show how they were brought together and aligned. Since “SMS for Life” as a Novartis project comes from the commercial and not the charity side, it is reasonable to start with the economic stakeholders. Being a for-profit enterprise, Novartis must report to its shareholders who appoint the board of managers. I therefore argue that the board of Novartis is the key player of providing “commercial” legitimacy to the project, i.e. initial funding (e.g. patents) and sustained support. Furthermore, partners that provide necessary resources such as Vodafone and IBM are important stakeholders mostly visible in the form of their respective project managers. Additional stakeholders are the employees of Novartis and of the program itself, other capital providers (e.g. Banks), R&D partners (i.e. Chinese medical R&D companies), and without going into too much detail most other stakeholders of Novartis. More important for the legitimacy of “SMS for Life” are the stakeholders on the social side. First, the stakeholders that are directly affected, including the patients and the health workers in the local African communities, and the government of the target country its respective (health) authorities. Second, there are the international organisations, fighting Malaria directly or indirectly, such as the WHO in the form of the RBM, Global Fund, and UNITAID, not forgetting the numerous NGOs that are engaged in fighting Malaria or illnesses in Africa in general.

After having identified the major stakeholders, that either have power (e.g. shareholders), legitimacy (e.g. WHO), or a large degree of urgency (e.g. patients), allows us to take a closer look at how “SMS for Life” was able to overcome tensions in its hybrid organisation. In order to maintain a reasonable scope of analysis the following section will focus on Jim Barrington as the key individual in enabling “SMS for Life”. Prior to his position as director of the “SMS for Life” program, he was the Chief Information Officer (CIO) of Novartis. Through his personal relationship with Silvio Gabriel, the Executive Vice President (EVP) of the Novartis Malaria Initiatives, he learned of the problems in distributing the Malaria medicine Coartem. He sent René Ziegler to Zambia to evaluate the situation. Through him, they tied first connections with the Zambian Ministry of Health and local health worker, giving them the required insights to create a new venture that solves the problem (poor IT infrastructure and no control over the distribution once in the country (Ministry of Health)). Mr Barrington’s good relationship with his superior, Novartis CFO Raymond Breu, enabled him to secure his sponsorship for the project, allowing him to resign as CIO and solely focus on “SMS for Life” and securing the support from the board. Mr Barrington and Mr Ziegler then relied on their (business) contacts to IBM and were able to convince Charlotte Newton and Jörg Sprengel for the project. With this set-up in combination with a student group they were able to design the solution which would later be known as “SMS for Life”. The social capital of Mr Barrington in the form of numerous connections in the business world helped him to gather the required telecommunications expertise from Vodafone. More importantly
he joined forces with Professor Awa Marie Coll-Seck, the executive director of the RBM Partnership. The RBM involvement provided the necessary legitimacy to gain further commercial, political, and NGO partners. In 2009, the “SMS for Life” initiative consisted of multiple business partners and more importantly was supported by numerous not-for-profit organisations. This enabled them to work with the African governments and overcome initial resentments. It also gave them direct access and allowed this project to be a success. This example shows well how social capital enabled entrepreneurship in a for-profit business that operated on a not-for-profit basis with numerous commercial and charity partners and has a huge impact on the living standard of the people in Zambia, Tanzania, and other African countries.

**Conclusion**

Arguing that social enterprises are indeed hybrid organisations that follow social and economic goals simultaneously and that this leads to tensions within the organisation, the author introduces social capital as means to manage stakeholders, to overcome the tensions, and, most importantly, to provide legitimacy. With bonding social capital providing internal guidance and bridging capital bringing external stakeholders with opposing interests together, it can be concluded that both forms play an enormously important role in overcoming tensions and providing legitimacy. The “SMS for Life” initiative provides a good example of both the facilitative role of social capital in innovation and the legitimizing role. Whilst social capital generally plays a big role in managing stakeholders and achieving an organisation’s goals, particularly social enterprises must rely on this form of capital due to the resource constraints and the conflicting nature of their identity.

**Literature**


