

# APPLICATION OF EXTERNAL FACTORS INFLUENCING COMPETITIVE ADVANTAGES OF SOCIAL ENTERPRISES

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## **Abstract**

This study determined external factors of social enterprises that can be applied to achieve a competitive advantage. Literature reviews and a case study through the participant observation method at the Cabbages & Condoms restaurant were used in this study. Twenty representatives from various related and selected social enterprises, including academic and business management persons, were interviewed in-depth. These interviews were also utilized to consider the qualifications of information providers. It clarified that a social enterprise's competitive advantage differs from that of other businesses, in particular, profits management and social impact business. This study found that the external factors that had an influence for gaining a competitive advantage consisted of the following: (a) social capital, (b) awareness of the importance of consumers, (c) knowledge of local wisdom, (d) social networking, and (e) government support. All of these factors were applied in the following ways: (a) replacing monetary capital with social capital, (b) being aware of the importance of consumers for creating market share, (c) using knowledge of local wisdom to reduce costs, and (d) using social networking to expand marketing channels. This study can be useful in the development of a social enterprise's competitive advantage and for other sectors to be acknowledged in social enterprises.

**Keywords:** Competitive advantages; social enterprises; external factors

## **Introduction**

The development trend of social enterprises is continually increasing. This can be seen in the increasing amount of social enterprises and related studies. Social enterprises are different from other businesses (Boyer, 2005). They focus on producing and trading goods and services with stakeholders. In addition, they emphasize the value of economic, social, and environmental sustainability. They aim not only to make a profit but also to solve social problems (Tugan-Baranowsky, 2000). Social enterprise customers are product and service users as well as those who receive social benefits from products and services both directly and indirectly (Solis, 2015). The social enterprise process is considered efficient in terms of social participation and business operations (Hackett, 2016). The development of social enterprises involves understanding problems, recognizing their causes, and innovating to solve those problems. Such social enterprise differences cause problems for the operation of social enterprises. The following are some examples:

- (a) Problems in cost are due to the fact that social enterprises are businesses that help society. The process of social assistance creates higher costs. In addition, operating profits are returned to society (Kerlin, 2006).
- (b) Problems in funding arise because helping society results in higher operating costs for the organization. In the view of investors, social enterprises have higher risks than general businesses, resulting in difficulty accessing the bank loan system. They also require a higher value of collateral securities than general businesses (Conway, 2008).
- (c) Problems with product and business development occur because social enterprises have limited funds, and most funds come from profits, some of which are used to help society. This results in insufficient funds to buy new technology in product development; therefore, there is a lack of innovation in terms of modern technology (Hynes, 2009).

- (d) There are limitations with knowledge and skills in business operations. Social entrepreneurs are not business entrepreneurs. They are mostly community leaders or community developers who have ideas for operating businesses to help society (Kerlin, 2006).

To solve these problems, most social entrepreneurs focus on the development of social enterprises based on internal factors. For example, they borrow funds from financial institutions to invest in machinery to produce products more quickly (Conway, 2008), or they invest in public relations advertising to create a competitive advantage, which is not consistent with the concept of social enterprises. Moreover, general businesses have more capital and can still gain more competitive advantages. This leads to some social enterprises experiencing losses or having to close their businesses. Mulgan (2006) said that the competitive advantage of social enterprises does not only result from internal factors but can also result from external factors. Additionally, Roy and Karna (2015) studied the advantages of social enterprises in India and found that social enterprises can gain competitive advantages from external factors. Based on such information, it is important to answer the question, “What are the external factors that create a competitive advantage for social enterprises, and how can they be applied?” Currently, social enterprise operators still primarily rely on internal resources. However, they still do not know of some of the external factors that are unique and can affect their competitive advantage (Picciotti, 2017). It is also useful to provide knowledge for various sectors in a country by applying research results as a guideline to support social enterprises.

### **Research Objectives**

The research objectives are to explore significant external factors that have an influence in creating a competitive advantage for social enterprises and to investigate how to apply these factors in order to create a competitive advantage for social enterprises.

## **Literature Reviews**

### **The Concept of Social Enterprises**

Social enterprises have been studied and discussed for quite a long time. Nevertheless, the definition of a social enterprise still varies according to different sources and academics. The concept of social enterprises is divided into two schools of thought (Hoogendoorn et al., 2010). The first is the social innovation school of thought and the second is the social enterprise school of thought. The social innovation school of thought refers to private organizations dedicated to addressing social problems in the form of business by focusing on business innovation. This can be done by using ability, resources, and brainstorming for social enterprises to manage in a way similar to other businesses, but at the same time, social problems can be solved sustainably (Alter, 2004; Alvord et al., 2004; Talbot and Harrison, 2002). On the other hand, the social enterprise school of thought refers to private organizations dedicated to solving social issues with business income (Helen, 2005; Kerlin, 2006).

Social enterprises can be defined according to three main facts. Firstly, social enterprises are established because of problems. This means there is a clear goal to address social and environmental issues. Moreover, solving problems is the driving force behind the founding of social enterprises (Hynes, 2009; Defourny and Nyssens, 2008). Secondly, social enterprises focus on development. The concept of sustainable business development reflects the important role of business. It can not only help in economic growth but also support society and the environment to develop in a balanced way (Smith, 2007; Gitler et al., 2017). Finally, social enterprises involve profit sharing. Profit sharing is the need to give back to society (Raghda El, 2013).

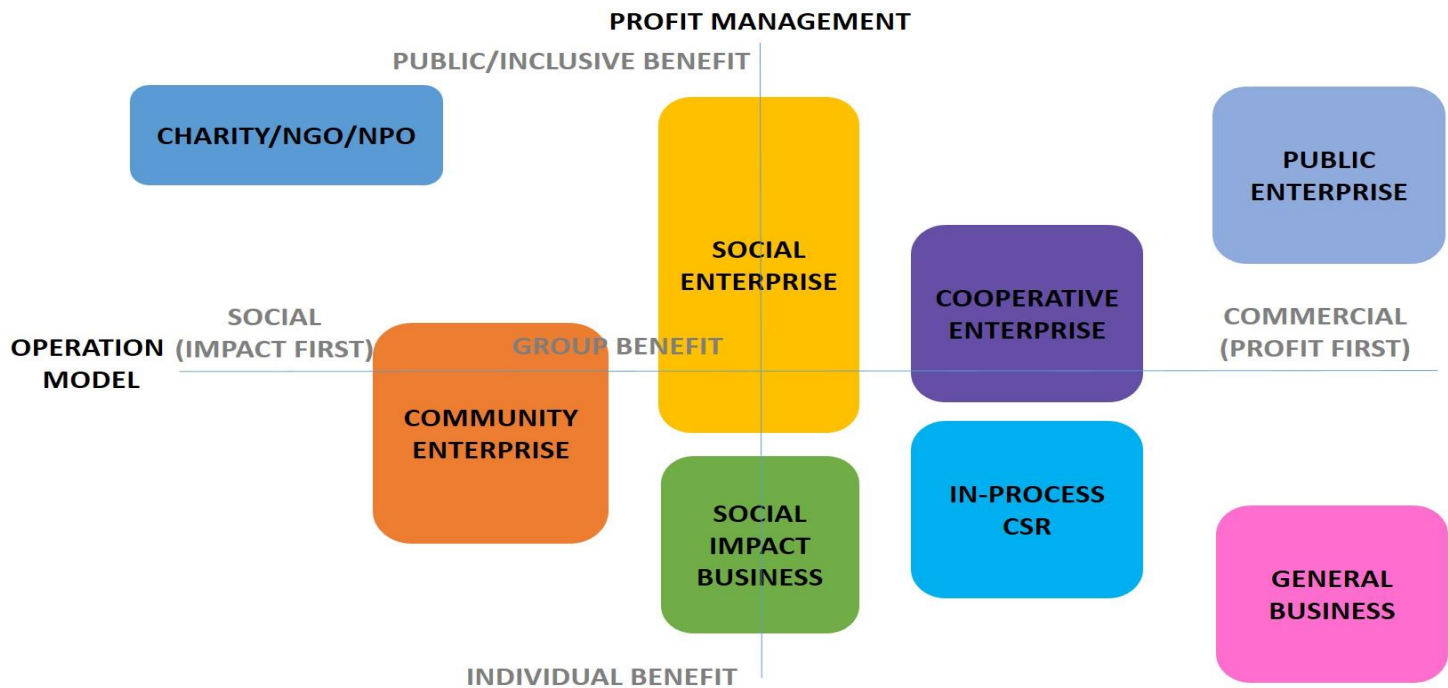
In terms of establishment, social enterprises can be divided into five categories. Firstly, social enterprises can be established by community organizations. They also can solve social and environmental problems. Entrepreneurs are people in the community; thus, they understand the real conditions and problems in the community. They can also create jobs and generate income for the community (Finlayson and Roy, 2018). Secondly, social enterprises can be established by non-governmental organizations that generate income for organizational activities without requiring any donations from external sources. Therefore, this type of business operates individually for

profit (Schwenger et al., 2014). Thirdly, social enterprises can be established by government and state enterprises. Social enterprises are an important tool for decentralizing policies to the local level. This is the distribution of public services of government agencies to the community (Jeong, 2015). Fourthly, social enterprises can be established by new entrepreneurs. Currently, the trend of being a social entrepreneur is increasing, especially regarding new people who want to have their own business to generate profits and solve social and environmental problems as well (Thompson, 2004). Fifthly, social enterprises can be established by private businesses. This type of social enterprise is based on activities that show social responsibility, which is called corporate social responsibility (Palakshappa and Grant, 2018).

### **Differences Between Social Enterprises and Other Socially Responsible Organizations**

The meaning mentioned above is still ambiguous. In particular, when comparing social enterprises with other socially responsible organizations, one should consider the profit management and sharing for inclusive benefits or individual benefits and the operational model that makes a social impact or commercial impact. However, the differences can be seen clearly in Figure 1, where the operational model is provided along the horizontal axis and profit management along the vertical axis.

The vertical axis of Figure 1, profit management, shows that social enterprises bring a lot of profit back to society. The horizontal axis shows that social enterprises maintain a balance between business and social operations. In addition, social enterprises have features distinctive from those of other businesses in the following ways: (a) social enterprises do not just return finances to the company but also return profit to society and the environment (Dees, 1998; Roy and Karna, 2015), (b) social enterprise customers are consumers and people who receive benefits from products and services in both direct and indirect ways, and (c) the process of social enterprises merges the value-added approach with profitability. The core resources and expertise of the business are utilized to create economic and social value. This reflects the fact that the management of social enterprises is different from that of general businesses.



**Figure 1:** Differences Between Social Enterprises and Socially Responsible Organizations  
Source: “Special Reform Agenda 1: Social Enterprise,” by the National Reform Council, 2015.

## **Materials and Methods**

We employed the qualitative research methodology to study the operation of social enterprises by commencing with a literature review from secondary data and a pilot study using participant observation. This was also utilized to consider the qualifications of information providers. The in-depth interviews were conducted with 20 social entrepreneurs to obtain the data. Then, the validity was examined using triangulation. We conducted a pilot study by observing participants to gather data from the Cabbages & Condoms restaurant, which is a successful social enterprise. We defined the criteria for selecting the social enterprises that provided information in the following ways: (a) social enterprises that have a competitive advantage, (b) social enterprises that develop external factors to support the inside business process, and (c) social enterprises that perfectly support tackling social problems and meeting the needs of society. The data were collected during the in-depth interviews using a semi-structured interview form. This was done by asking questions based on the main points from the literature review and participant observation. Questions were classified into two points; namely, what external factors create a competitive advantage for social enterprises and how to apply those factors. We examined the validity of information by using triangulation as a tool to examine the information from three sources: (a) theory data from secondary theories, which were gathered from social enterprises; (b) in-depth interviews with experienced people, who were concerned with social enterprises; and (c) theory and experience in research topics from five university lecturers specializing in income-munity enterprises and fifteen from business management teams.

## **Results and Discussion**

From the interviews, we found that the significant external factors influencing competitive advantages of social enterprises consisted of the following:

1. Social capital is crucial for competitive advantages, which forms the concept of gathering social and cultural resources. Social capital is overlooked in the capitalist economy (Bertotti et al., 2012). Social capital means the structure of the relationship between two or more people who show and

contribute to the activities that have been done. Therefore, social capital is an advantage of people or communities. This is because social capital can arise from the good deeds of people or groups of people who have sympathy and a mutual desire to move forward (Bourdieu, 1993). According to in-depth interviews, the operation of social enterprises arises from mutual desires to help solve social problems. Therefore, social enterprises can have social capital to increase the efficiency of operations in many parts. For example, social capital from community can reduce the process of production that results in reducing production costs. Additionally, local wisdom can be applied to create products that meet customer needs. This action can link social capital to supporting the economic capital of the organization. This results in maximum efficiency, which can give social enterprises a competitive advantage.

2. Awareness of the importance of consumers can affect the operations of social enterprises. The purchasing decisions of consumers of social enterprise products are different from those of general business consumers. Consumer purchasing decisions about social enterprise products arise from personal consumption needs and recognition of the importance of the benefits that society receives from product consumption (Hartmann et al., 2013). Awareness of the problem happens when consumers perceive the current social condition. This, therefore, makes the buyer want to participate in solving social problems. According to group discussions with consumers of social enterprise products, consumer awareness of social enterprises can arise from: (a) knowledge and understanding of problems in society, which results in the desire to help social enterprises; (b) preference in consuming a product from a social enterprise because it can help to solve social problems; and (c) the level of seriousness and importance of the problem. If the problem is not very important, the awareness of its significance will be minimal (Hartmann et al., 2013). For example, consumers need to consider the quality of the product and the benefits that they can receive from the product of the social enterprise. When consumers are aware of the importance of the problem, it results in higher demand for consumption, which in turn results in social enterprises gaining a competitive advantage.

3. Social enterprises are concerned with the knowledge of local wisdom. Knowledge of local wisdom is one of the important factors for competitive advantage (Evelina, 2016). Local wisdom can be applied to operate



a business, to replace and reduce the use of funds, or to reduce the production process. Local wisdom is a local intellectual resource that arises from attitudes, ideas, beliefs, and principles of the collective, including knowledge from the folk arts and occupations in each locality (Suswandari, 2017). According to in-depth interviews, the knowledge of folk wisdom is used in the business process by combining old knowledge with new knowledge and knowledge suitable for modern times. For example, the Cabbages & Condoms restaurant has an herbal menu created from local wisdom to add product identity to meet the needs of consumers.

4. Social enterprise networks are an important external factor. They can help increase work efficiency. Social enterprise networks refer to formal and informal relationships between businesses. Networks play an important role in enterprises because they are important resources. Additionally, networks can be used to seek business opportunities (Seanor and Meaton, 2008). According to in-depth interviews, social enterprises can expand their marketing scope through the help of members in the network, resulting in operational efficiency, which can create a competitive advantage over social enterprises that operate alone. For example, a social enterprise can distribute the product through its network. Therefore, it is able to increase distribution channels for distribution.

5. Government support is an external factor that helps create a competitive advantage. Many developed countries have successfully established social enterprises because of government support. It can help to create competitive advantages because the funding for social enterprise is normally limited and funding providers are not interested. According to in-depth interviews, business infrastructure and funding from government support can help businesses be ready to compete and satisfy the needs of the consumers. For example, government support reduces operating costs and creates a competitive advantage resulting in increased profits.

### **How to Apply Factors of Competitive Advantages Suited for Social Enterprises**

According to the in-depth interviews, the significant four external factors consisted of social capital, awareness of consumers, knowledge of local wisdom, and social networks influencing competitive advantages for social

enterprises. Therefore, the application of these factors can be transformed as follows:

1. Replacing monetary capital with social capital. Monetary capital is one of the important factors for social enterprise operations because activities to help society mainly require funding. For example, social enterprises purchase raw materials at a higher price than the market to help farmers who suffer from failing agricultural products. This results in higher operating costs for social enterprises. Therefore, social capital can be used to replace and reduce the use of funds; for example, social capital from volunteers who help or work willingly without accepting compensation because they want to be part of creating benefits for society (Huvila et al., 2010). This can reduce the cost of employment for social enterprises. According to the in-depth interviews, social enterprises bring local resources to reduce costs. Bringing in social capital to replace capital results in lower production costs per unit and thus higher profits. This enables social enterprises to help consumers by setting prices cheaper than those of competitors while gaining the same profits. Therefore, it is a competitive advantage for social enterprises.

2. Awareness of the importance of consumers to create market share. Marketing is an important factor in business operations, which results in problems that social enterprises face. This is because social enterprises are small businesses and therefore have a small market share. However, the demand for social enterprise products does not arise from marketing alone; it arises from recognizing the importance of the benefits that society receives from consuming social enterprise products (Hartmann et al., 2013). Therefore, awareness of the importance of consumers can be applied to create market share. This can be done by creating awareness of problems and situations that occur in society. Creating awareness of social values can create more demand for products and therefore a competitive advantage. For instance, a restaurant can create awareness of the AIDS problem by publicizing it through the restaurant's logo as in the case of the Cabbages & Condoms restaurant. This is done to make consumers realize the importance of using condoms and recognize the problem, which urgently needs a solution. As a result, consumers want to buy products from social enterprises because they want to be part of making changes. Therefore, social enterprises can compete for market share without paying for

public relations or product price reduction and can therefore gain a competitive advantage.

3. Knowledge of local wisdom to reduce costs and processes. The production process is a factor that should be given priority because a good process should be developed for work procedures, using new knowledge and technology to save time. Moreover, the production process can be easily monitored. However, social enterprises lack funds to use technology in the production process, resulting in a slow process with a high cost. As a result, local wisdom can be applied to reduce costs and processes. According to interviews with social enterprises, they applied local wisdom about food preservation to substitute the use of chemicals. This can extend the shelf life of food products and decrease the cost of raw materials and the production process. This results in faster production of products; thus, it gives social enterprises a competitive advantage.

4. Networks to expand distribution channels. Distribution channels are an important factor in business operations because they are a means to transfer products from manufacturers to consumers. Social enterprises face problems with fewer distribution channels due to less profit from sales. Therefore, social enterprise networks can be applied to expand distribution channels. Through social enterprise networks, organizations help each other through exchanging knowledge, exchanging resources, and expanding marketing scope (Klerk and Kroon, 2008). For example, social enterprises create networks by gathering other social enterprises from different areas to expand distribution channels and exchange resources. More distribution channels result in more product sales. Therefore, networks can create a competitive advantage over social enterprises that operate alone (Seanor and Meaton, 2008).

## **Conclusion**

Social enterprises are different from general businesses because social enterprises can gain competitive advantages from external factors. However, it needs to rely on the skills, knowledge, and abilities of managers and staff members in order to apply external factors to create competitive advantages. Each type of social enterprise is different in operation, but it is similar in terms

of having competitive advantages from social capital, awareness of the importance of consumers, knowledge of local wisdom, social enterprise networks, and government support.

However, as mentioned before, there are four unique features of external factors that create a competitive advantage for social enterprises: (a) business value, which means that the external factor is valuable and useful in creating a competitive advantage for social enterprises; (b) difficulty to find, which means that the external factor is derived from the rarity or scarcity of the factors in other organizations, thus creating a competitive advantage for social enterprises; (c) high imitation cost, which refers to a competitive advantage gained from having unique characteristics that competitors cannot completely imitate or that have a high cost to imitate; and (d) irreplaceability, which refers to a competitive advantage gained from a rare resource that cannot be substituted (Barney, 1986).

These factors can be applied to create a competitive advantage, as mentioned above. Social enterprises can gain a competitive advantage in the following three manners: (a) the competitive advantage of products and services can make buyers want to use the products and be willing to pay a higher price for those products and services due to recognizing the importance of social enterprises; (b) the competitive advantage can be gained from costs, for example, if social enterprises produce products at a lower cost due to applying folk wisdom to reduce costs and processes (Anwar, 2016); and (c) the competitive advantage can be gained through providing fast customer response. Social enterprises can increase the speed of product development and administrative decision-making due to organizations helping each other through exchanging knowledge, exchanging resources, and expanding marketing scope. This study cannot specify the priority level of each factor. Therefore, the suggestion for further research is to also use quantitative research in order to specify different levels of priority.

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