

The Shift to “Social”: Social and Commercial Entrepreneurship Must Meld to Meet Changing Consumer Preferences

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Social entrepreneurship has been defined in contrast to commercial entrepreneurship. This suggests that the expectations placed on a social entrepreneur are outside of the usual set of requirements for an entrepreneur. However, changes in consumer preferences suggest that this is not the case. A growing segment of consumers want to make purchases from companies that uphold values that are consistent with their own (Gerzema & D'Antonio, 2011; Ki & Kim, 2016; Noble, Haytko, & Phillips, 2009). Thus, it is important for entrepreneurs to move in the direction of “social” entrepreneurs.

INTRODUCTION

Social entrepreneurship has been defined in many ways, from altruistic entrepreneurs (Tan, Williams, & Tan, 2005) to entrepreneurship with a social purpose (Austin, Stevenson, & Wei-Skillern, 2006). Most definitions focus on the objective of leveraging resources to have a positive social impact (Dacin, Dacin, & Matear, 2010). This is an extension of commercial entrepreneurship, or leveraging resources to take advantage of a business opportunity in a unique and innovative way (Austin et al., 2006; Gartner, 1990; Martin & Osberg, 2007).

In past research, social entrepreneurship has been examined separately from commercial entrepreneurship. This suggests that the expectations placed on a social entrepreneur are outside of the set of requirements for an entrepreneur. However, recent changes in consumer preferences and purchase behavior suggest that this may no longer be the case. Actions of profit-hungry firms wreak havoc on financial structures, consumers, and communities, and a growing segment of consumers has exhibited a shift in purchase behavior away from such firms. These consumers want to make purchases from companies that are socially responsible and uphold values that are consistent with their own (Gerzema & D'Antonio, 2011; Ki & Kim, 2016; Noble, Haytko, & Phillips, 2009). Austin et al. (2006, p. 372) characterize social and commercial entrepreneurship as a continuum “ranging from purely social to purely economic,” rather than distinct types of firms. We believe that firms are shifting toward the social end of the spectrum by incorporating greater social and environmental consciousness into their business practices, in order to continue to meet the needs of the growing segment of socially conscious consumers.

SOCIAL AND COMMERCIAL ENTREPRENEURSHIP

Social entrepreneurship has been examined in extant literature, often with the objective of simply defining what it means to be a social entrepreneur. Dacin et al. (2010) accumulated thirty-seven distinct definitions of social entrepreneurship from academic papers. The majority of definitions tend to agree that social entrepreneurs identify and act on opportunities that have a positive impact on society (Dacin et al., 2010). This has been studied as a subset of entrepreneurship and research has laid out criteria to distinguish social entrepreneurship from commercial entrepreneurship. The major differences include the specific mission of the company and its metrics of success. Commercial entrepreneurs measure success using performance metrics such as sales and financial goals (Austin et al., 2006; Certo & Miller, 2008). These metrics are often varied and inconsistent between firms (Murphy, Trailer, & Hill, 1996).

Social entrepreneurs have a distinct social mission and, thus, to measure success, social impact in the sector that they are aiming to improve is examined (Arogyaswamy, 2017; Austin et al., 2006; Certo & Miller, 2008; Weerawardena & Mort, 2006). For example, Toms Shoes is a social enterprise that uses a "One for one" business model in which they donate one item for every item purchased. Toms provides shoes, medical care, and clean water to those in need around the world and donations are made to these various causes based on purchases of Toms products. For example, for each pair of shoes purchased, a pair is donated. Toms measures success for each social initiative by assessing the number of people that benefited from donations (<https://www.toms.com/about-toms>). However, social entrepreneurs also consider financial performance metrics of success. While they are not solely seeking financial gain, they need to be profitable or else they will not be able to achieve their social objectives (Emerson & Twersky, 1996; Peredo & McLean, 2006).

To simplify the variety of definitions in the literature, researchers have suggested that a solid theoretical framework of social ventures needs to be established to distinguish social entrepreneurship research from the main theoretical framework of entrepreneurship (Martin & Osberg, 2007; Ruvio, Shoham, & Brenčič, 2010). However, establishing a clear definition of the domain of social entrepreneurship should not preclude commercial entrepreneurs from considering the social impact of their businesses. Moreover, other researchers have suggested that this is unnecessary (Dacin et al., 2010, Austin et al., 2006). Austin et al. (2006) emphasize that there is not a true dichotomy in which social and commercial entrepreneurs are distinct, but rather fall on a continuum that includes both social and financial objectives. Dacin and colleagues (2010) further support this notion and call for a focus on how all entrepreneurs may learn from one another and apply the research within all domains of entrepreneurship, and, specifically, apply prior research insight to the area of social entrepreneurship.

To further blur the line between social and commercial entrepreneurship, research suggests that commercial entrepreneurs may also have a positive social impact through their innovation, market, and job growth (Venkataraman, 1997 cited in Mair & Marti, 2006; Weerawardena & Mort, 2006). Many entrepreneurs operate simultaneously within the social and business environments. Based on the definitions put forth in the literature, Toms meets the criteria of a social entrepreneur, being founded with a social mission to serve those in need of shoes. However, Toms' unique and innovative business practices to sell shoes also fits the definition of a traditional entrepreneur. Toms that can only achieve their social objectives (matching sales with donations) by achieving traditional metrics of financial success (sales).

Firms are often the greatest source of environmental damage (Schaltegger & Wagner, 2011). The impact of the business on consumers, the community and the environment need to become part of the strategic planning process for both social and commercial entrepreneurs. It is important that distinguishing social entrepreneurship does not preclude commercial entrepreneurs from their responsibility to society. This proactive approach to considering the social impact of a business is both good for the consumer, in terms of positive impact on the environment and society, and to the firm, in terms of brand image and customer loyalty. Dacin and colleagues (2010) called for research to examine social entrepreneurship within the broader construct of entrepreneurship. The present paper contends that,

as growing segments of consumers are giving their attention to the social impact that firms have, the tenets of social entrepreneurship may also extend to commercial entrepreneurship.

TRENDS IN ENTREPRENEURSHIP

The overlap between social and commercial entrepreneurs that is emphasized in the literature (Dacin et al., 2010; Austin et al., 2006) is supported by economic realities. A transition has occurred in which entrepreneurs are integrating social impact and environmental sustainability into their practices, often in the interest of increasing profits (Majid & Koe, 2012). Battilana, Lee, Walker, and Dorsey (2012) have identified a similar progression in which companies are moving to a “hybrid” business model, combining the for-profit goals with a social mission. Their model indicates that some traditional non-profits become more hybridized as there is an increase in the movement of for-profit firms to devote some or more of their profits to social causes as a way to differentiate from their competitors. The hybrid companies combine the metrics of success used by commercial and social entrepreneurs by reducing their financial profit goals and including metrics of social impact (Battilana et al., 2012). The authors also found that in 2010 and 2011, nearly 50% of the applications for funds from Echoing Green, a firm that invests in leadership initiatives for social entrepreneurs, were based on hybrid business models (Battilana et al., 2012).

Moreover, venture capital funds are recognizing the value that firms with a social impact offer. Obtaining funding is typically more difficult for social entrepreneurs, because they do not offer the return on investment that traditional entrepreneurs can offer (Certo & Miller, 2008; Weerawardena & Mort, 2006). However, the increased consumer acceptance of businesses within this category has given social entrepreneurs access to new funding sources, such as Venture Philanthropy Partners and other venture capital firms that specifically want to fund entrepreneurs with a social mission (Certo & Miller, 2008).

In some cases, it has become a legal necessity for businesses to consider their impact beyond financial performance. Governmental actions have instituted regulations on the environmental impact that firms have (Elkington, 2004). In the UK, pending legislation will amplify this need by requiring all publicly traded companies to include information about their environmental and social impact in their financial reports (Porter & Kramer, 2006). As Porter and Kramer (2006) point out, all companies have an impact on the communities in which they operate. Whether or not management has prioritized social and environmental impact does not prevent it from occurring, whether positive or negative. Importantly, some consumers are taking notice and are looking for greater transparency from firms so that they can support companies that pursue both financial and social objectives (Elkington, 2004; Emerson, 2003).

SHIFTING CONSUMER PREFERENCES

Consumers have put pressure on firms to engage in more sustainable processes. While this pressure has previously come in waves that eventually decline (Elkington, 2004), growing segments of consumers today are more likely to adopt sustainable behaviors (Bonadonna, Giachino, & Truant, 2017). These consumers are thought to be the most informed generation on issues regarding the environmental and recognize the importance of sustainable practices (Bonadonna et al., 2017). Moreover, these consumers are paying attention to the environmental and social impact of companies and utilizing this information when making their purchase decisions. They want to patronize companies that behave in a socially responsible way and align with their personal values (Bucic, Harris, & Arli, 2012; Porter & Kramer, 2006). Many of these consumers are part of generation Y, which represents a significant group of consumers that spend \$600 billion annually (Johansson, Winroth, & Julianose, 2017; Noble et al., 2009). Therefore, to attract these consumers, it is increasingly important for companies to pursue financial, social, and environmental dimensions of success, or the “triple bottom line” (Elkington, 1994; Slaper & Hall, 2011).

With the push from consumers to integrate social value into their strategic planning, entrepreneurs must still find a way to differentiate themselves from competitors. As Michael Porter suggests,

differentiation, or perceived uniqueness relative to competitors, is a source of competitive advantage (Ormanidhi & Stringa, 2008). Creating social value can be a way to differentiate from competitors (Cone, Feldman, & DaSilva, 2003; Porter & Kramer, 2006). Many consumers are taking social concerns into consideration when choosing brands from which to purchase. Specifically, research has shown that concerns such as the environment and sustainability (Bucic et al., 2012) and social values (Cone et al., 2003; Porter & Kramer, 2006) are an important factor in consumers' purchase decisions.

Therefore, it is important for an entrepreneur to understand the benefits that their consumers are seeking. These benefits may include both functional attributes of a product, such as the comfort provided by a pair of shoes, and social benefits, such as feeling good about supporting the social mission of a brand like Toms, that donates shoes for every pair purchased. Thus, an entrepreneur may not explicitly have a social mission, but they may increase their appeal to specific segments of consumers by incorporating concerns typically associated with social entrepreneurs, such as the environment, into their strategy. Commercial entrepreneurs that have not prioritized social value are increasingly finding it a necessity, as a response to outside pressures like potential customers and stakeholders (Porter & Kramer, 2006). Moreover, entrepreneurs that have incorporated social value into their strategy proactively, rather than engaging reactively, will increase their profitability (Predmore, Rovenpor, Samra, & Greene, 2010). By considering their social impact from the get-go, companies will be able to hone processes that can withstand the need for social value by providing it proactively.

Many entrepreneurs have adapted to changes in consumer behavior regarding the importance of providing social benefits. Such additional benefits include concern for the social welfare and of others in the community. Thompson and Doherty (2006) outline the history of eleven successful entrepreneurs that have benefited from their social mission, ranging from charitable organizations to financially motivated companies. Dixon and Clifford (2007) find that the strongly held social mission of the CEO of entrepreneurial organization Green-Works allowed the company to forge relationships with likeminded community and corporate partners, which largely contributed to their financial success. Similarly, entrepreneur David Yeung was able to turn his personal convictions regarding the impact of the food industry on the environment into a national "Green Monday" phenomenon in Hong Kong, and, ultimately, into a profitable vegetarian business (Zimmeroff, 2017).

CONCLUSION

Consumer preferences are evolving and a growing segment of consumers is considering the social and environmental impact of the firms that they patronize. As a result, entrepreneurs have shifted on the continuum theorized by Austin et al. (2006) toward the social end of the spectrum. Entrepreneurs need to consider the impact on all dimensions of the triple bottom line, because consumers value environmental, social, and financial success. Ignoring these changing consumer preferences will not lead to long term sustainability of the organization, due to the negative environmental and social impact, and, moreover, because consumers are demanding greater social responsibility by using their purchase power to support such firms. Successful entrepreneurship is broadening its definition toward a more comprehensive mission to obtain both economic and financial success, as seen in the growth of the "hybrid" business model (Battilana et al., 2012). We contend that the entrepreneurs will be unable to continue attracting consumers without also producing social value. In conclusion, entrepreneurial ventures need to embrace the shift toward the triple bottom line and recognize the importance of social and environmental impact in order to appeal to evolving consumer preferences.

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