

The Dynamic Capabilities of Social Enterprise: Explicating the Role of Antecedents and Unobserved Linkage

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Abstract

We tried to contextualizing the dynamic capabilities of social enterprise. Though the term is still under develop, social entrepreneurship has strong indication as counterweight of capitalism which at the last point trying to distribute welfare on a fairly basis. To preserve the movement, social enterprise needed firmly-framework concerning its process towards sustainable competitive advantage. Justified as the extension of resource-based view, dynamic capabilities signaled its strong contribution for social sector. Our study depicted on two folds question: what are the antecedents of the dynamic capabilities for social enterprise and what is the appropriate model that can clearly describe the true mechanism in developing dynamic capabilities. Using Schumpeterian and Penrosian theoretical thinking, the study found leadership style, productive knowledge management and effective network management as antecedents for dynamic capabilities. We also highlighted the possible linkage to address the three antecedents to sustainable competitive advantage if the company failed in achieving dynamic capabilities. By posing continuing social improvement, we believe that our study contributed a lot on how social enterprise should gain better competitive advantage in order to compete with pure-profit business organization.

Keywords: Dynamic capabilities; Social enterprise; Leadership; Knowledge management; Network; Sustainable competitive advantage

1. Introduction

Social entrepreneurship – or commonly known as third sector of economy – believed to be developed as mechanism which served niche market with high potential growth (Ridley-Duff, 2007). Some economist assured that the rise of social entrepreneurship shows major failure in current market structure. The niche market happened because of inability in giving the best service to those who has lower economic power than average (Smith & Darko, 2014; Barraket & Anderson, 2010; Nicholls, 2010; Spear et al., 2009). Further development signaled the rise of this sector for the last thirty years. More middle-class society and even higher-class showed more interest in this sector. Therefore numbers of studies projected massive-future growth of the movement even within strong power of capitalism (Di Domenico et al., 2010; Gibson-Graham & Cameron, 2007; Harding, 2004).

This unbalanced competition has arrainging social enterprise to compete with the similar tone of strategy performed by pure-profit oriented company. As a business organization, social enterprise needs to have firmly mechanism in developing sustainable competitive advantage, dealing with cost leadership and force of innovation. Though it has not affirmed yet (Pisano, 2015), most scholars assumed that sustainable competitive advantage is the ultimate outcome from the capabilities to operate in dynamic manner (Dosi et al., 2008; Sutton, 2007; Tripsas & Giovanni, 2000; Suarez & Utterback, 1995). Accumulation of short-term capabilities might results on long-term sustainable competitive advantage.

Our study began with Pisano (2015) which focused on reversing the existing paradigm by proposing a normative theory of dynamic based on connection between strategy, know-how and competition structure. The first acceptable logic is codifying strategy as normative field, but stretching the concept up to practical level would be advantageous for social entrepreneurship considering the need for more proposed logical-thinking proof. Thus our first objective would be to extent the framework to practical terms.

Secondly regarding the three general types of competitive environment context – stable product-market rivalry, Schumpeterian entry and Penrosian dynamics – we belief that social enterprise also deal with the same structure. Therefore dynamic capabilities for social enterprise must be based upon the common basis. By addressing the

concept upon the two respective types of organizations, we have strong faith that this paper would be able to contribute to the existing body of knowledge.

While developing the theory, most former research focused on three important elements: (1) asset positions, (2) processes and (3) paths. Having conceptualized dynamic capabilities as unique-cumulative skills which are the outcome of series coordinated asset investment; most research within field of knowledge had forgotten the importance of identifying the true antecedents and departing all opinion from the origin. We argued that those view is only stressed at the 'infrastructure' level, forgoing the vital function of process in managing all acquiring asset into value-added capabilities.

Our hypothetical framework is clearly seen on social enterprise. Compare to pure-profit business entity, most social enterprise found to have less access to financial sources (Smith, 2014). For this reason, it is plausible to see the origin of their low competitive advantage. Insufficient resource had limited organizational power in asset acquisition. With improper asset-utilization, the paths of dynamic capabilities will be blurred. Up to this point, we may conclude the inappropriate direction for most former research.

In dealing with those identified phenomenon, our study had posed two portentous questions: (1) what are the antecedents of dynamic capabilities for social enterprise? And (2) what would be the appropriate model to describe the role of each antecedents. As an essay, our work comprised all case-study report regarding the practical implications of social entrepreneurship from early 2000 to 2015.

The rest of the paper is assigned as follows. Section two will describe our theoretical conjuncture in addressing pure-dynamic capabilities concept to social enterprise which pose further development paths. Section three will propose our theoretical framework while carefully associate between current knowledge and field assertions. We enclose the study with conclusion and direction for future agenda.

2. Literature Review

2.1 Revisiting dynamic capability theory

Understanding dynamic capability must first retrieved from Schumpeter (1934) which later developed by Andrew (1971), extended into innovation by Abernathy and Clark (1985), competencies by Henderson and Cockburn (1994) and the partial notion of the concept by Teece (1997). As the cornerstone, Schumpeter succeeded in creating fundamental regarding the economic structure of our society. The statement that economic environment will become so dynamic since it deals with the changing data of the static system has lead us to the importance of pioneering entrepreneur – a formal words which remind us the vital concept of short-run strategy, a basis for dynamic capability.

Moreover, Schumpeter highlighted that the dynamic of economy was actually driven by five major combinations: (1) new methods of production, (2) new products, (3) the opening of new markets, (4) new sources of supply and (5) new forms of organization. Initially, the five major combinations are the outcome of long-run comprehensive strategy, but now, it has turned into mid-term policy (Loewe & Dominiquini, 2006). Therefore organizations need strong-envisioned leadership to do the combination strategy properly (Fairholm, 2009). Strong personal leadership is not only workable in combining those five factors, but also can elevate organizational capability to be the focal player within network (Prasetyo, 2016a). The last two elements are somewhat left-over by most former research.

The seminal work was then examined on practical basis by Andrew (1971) by highlighting the needs for more attention to the patterns of objectives, purposes, major policies and plans to achieve the stated targets. This is relating to how company must be able to put the five major combinations as the true objective which then derived on a planning basis. One of the closets outcomes would be innovation spirit – as mentioned by Abernathy and Clark – that could be happened on the process-basis or product basis. Up to this point, innovation had acknowledged as vital tools to achieve long-term sustainable competitive advantage.

The common understanding of innovation has leads all players to believe in one particular strategical theme namely continuous improvement – again, this term has made strategy even shorter than before. Furthermore, innovation has become the basis competitive factors for all industries. This is the reason for Henderson and

Cockburn in justifying competences as the basis for future innovation that can provide productive combination among the five elements.

Considering that competences are mostly came from extrapolating human potential knowledge, therefore Pisano (2015) tried to examined dynamic capabilities at know-how level while proposing the concept to theoretical point of view. Due to its complexity, we cordially concluded that knowledge-management concept must be addressed carefully since it plays an important role in disseminating the existing tacit knowledge which further developed complete affirmatory know-how concept. This idea supported Easterby-Smith and Prieto (2008), Zara et al., (2006), Zott (2003), Zollo and Winter (2002).

One unique point of discussion is when relating to knowledge management, most former research already found firmly affirmation regarding its important role to competitive advantage (Meihami & Meihami, 2014; Rahimli, 2012; Danskin et al., 2005), but exploring connection between dynamic capability and competitiveness is still puzzling (Pisano, 2015; Wojcik, 2015; Ray et al., 2004). This is why our study tried to find another linkage to connect the twos.

The vital message from dynamic capabilities is relating to how company has the ability to always refresh their imperfect capabilities on ever changing environment. The focal point should lies on how we define the term 'ability'. This is the actual point of debates for the past twenty years. Some scholar addressed 'ability' to the extent to which the company has the power to acquisition the most prestigious-rare resources – the reasons to recall dynamic capability as an extension to resource based view (Cavusgil et al., 2007; Bowman & Ambrosini, 2003; Barney, 2001). Meanwhile, another group of scholar still doubted the relationship (Protogerou et al., 2008; Zahra et al., 2006; Iansiti & Clark, 1994).

Besides its doubtful-potential linkage another issue is relating to the cost of maintaining dynamic capabilities. As former research tried to underpinning the important of the concept, our study has used the major consideration for social enterprise which is cost leadership strategy – the next section will briefly discuss our complete arguments. Our proposed logical thinking is that changing capability over short-term period requires adequate capital which sometimes setting at the highest cost of financing.

2.2 Fitting up the theory with social entrepreneurship

Setting social enterprise and profit-oriented enterprise side by side had been acknowledged by many scholars (Sepuldeva, 2015; Schmidt, 2010; Knudsen & Swedberg, 2009), most of them profound their ambiguity for its sustainability. But restructuring our current economy would almost impossible since they already treated well with the spirit of capitalism. Thus, the only way is to formulate innovation strategy in dealing with such circumstances. Therefore it is possible for us to find strong linkage between social enterprise and dynamic capabilities.

As a branch from social entrepreneurship field of knowledge, social enterprise has been understood to ideally operate on two basis of strategy: (1) cost effectiveness which relates to cost leadership strategy and (2) innovation strategy as they are forced to do the differentiation as well as the pure-profit organization (Meadows & Pike, 2010; Kong, 2007; Manville, 2007; Boyer et al., 2008). At this point, addressing dynamic capability unto social enterprise is not simple since it may jeopardize the current state of art. Instead of portraying the most productive mechanism to create sustainable competitive advantage, bearing dynamic capability to social enterprise must be based on true-firmly consideration.

Let us consider the unique characteristic of social enterprise. For simplicity, we use six major indicators, combined from several published article and information as seen on table 1. Vision and mission stands for the first character since it differentiates between social enterprise and other type of business organization. Social enterprise begins the work with identifying social problem and ended it up with adequate solution to the society. For some point, solving social problem is the basis for organization, therefore setting up profit as the first criteria would dismiss the concept.

Table 1
Description to characteristics of social enterprise

Indicators	Explanations	Sources
Vision-mission	Social enterprise begin with social problem while ended with proper solutions to specific social issue	www.socialenterprise.org.uk www.ashoka.org Martin and Osberg (2007)
Organizational structure	Social enterprise has simple structure organization which guarantee that each function can performed well	www.oecd.org Grassl (2012) Zahra et al., (2009)
Human resource	Social enterprise needs voluntary-basis spirit among all staff	www.oecd.org Heinecke et al., (2014) Schoning (2008) Prabhu (1999)
Operation	Social enterprise lies its operation to produce high value added product or service with competitive price by enhancing the role of community	O'Connor et al., (2012)
Marketing	Social enterprise shared marketing dimension as entrepreneurial basis, since they need local embeddedness to pose social exclusion to potential market	Shaw (2004) Stokes (2002)
Financial aspects	Social enterprise rely on donors or any forms of simple financial instrument at the initial stage, but up to certain point, social enterprise can fully independence and achieved above average profits	Reiser and Dean (2015) Burkett (2010) Wuttune et al., (2008)

Source: develop for the study

Due to cost effectiveness policy, social enterprise needs to maintain its simple but comprehensive organizational structure. This also to inhibit organization from being too bureaucratic, therefore senses of dynamic capability may starts from the speed of decision making process.

The third character is concerning the human aspects. It is known that social enterprise must be operationalized by those who share voluntary spirit. For capitalism basis, this is not attractive since it reflected low income level. But to those who seeks personal actualization – relating to Abraham Maslow – social enterprise shared a very prestigious way of life. Therefore, as long as it is being offered to the right targets of professional, then social enterprise might have its right to compete with the traditional perspective.

Since the organization dealt with social problem, then basis of operation would be serving the targeted market properly. This is required a sharp-focused mindset in identifying the true needs of the society before serving them according to their special way. Embeddedness with local society tends to be the strongest ties in developing the organization. Therefore, each marketing policy must exploit the spirit properly.

From financial dimension, conceptually, social enterprise can be managed as the traditional type of company. Former research found the possibility for future financial reengineering (Rosengard, 2004; White & Campion, 2002). This is appointing social enterprise as the strong future player in elevating the economic level of local society.

3. Analysis and discussion

3.1 Antecedents

Before proceed with identification process on some possible antecedents, let us first define the scope of competition through the two famous theoretical grounds: (1) Schumpeterian theory of economic development and (2) Penrosian theory of the growth of the firm. Drawing back from our analysis on literature review section, Schumpeterian signaled dynamic long-term economic development pattern which should be faced by most company – including social enterprise. It was implicitly disclosed that in its development, the existing market

will occupied by customer who hardly identify their basic preference (Trautmann et al., 2008). This happened because customer is always being confronted by so many alternatives – more than what they can logically consider. Therefore, achieving a just marketing mechanism would be impossible. Company needs to initiate unique-incomparable value to all potential customers.

Compared to pure-profit oriented business organization, social enterprise shared noble values which started from the common good of the society. But considering the need for future independent especially when dealing with financial matters, social enterprise must take caution that customer contribution is not only to become donors, but as future strategic partner. Therefore, again, local embeddedness is very important. Social entrepreneur must be able to convinced market that they are willing to be strong economic player in the long-run, not just social organization. Since they are serving the society, then the term customer can be changed to stakeholder.

Having potential stakeholder as strategic partners has shared some advantages. One of them is giving insight regarding how social enterprise must combine the three out of five-former indicators: new production or methods in serving the potential market; new product development which stands beyond market expectation; duplicating current mechanism as benchmark to expand into new market; and finding potential supplier for long-term relationship. Up to this point, social enterprises should have more probability to gain higher attractiveness-power on the market.

Analyzing the previous paragraph carefully, we might found that the true catalyst of dynamic capability for social enterprise lies on the stakeholder. In the environment where acknowledgement for social movement is greater, acceptances from stakeholder would make the enterprise become more dynamic. Thus, dealing with short-turbulence from the existing market would not be the hardest thing.

The second underlying theory analyzed in this paper is Penrosian derived from Penrose (1959) theory of the growth firm. Compared to Schumpeter, Penrose great contribution is happened on micro-basis. One vital linkage between those two works was that acknowledging strong forces to operate on new product, new market with new method using new criteria of selected supplier, social enterprise – like other type of business organization – need to rethink internally. This is due to limited resources faced by most companies.

In general, Penrose contribution consists of four considered factors: (1) the creation of competitive advantage, (2) sustaining competitive advantage, (3) isolating mechanisms, and (4) competitive advantage and economic rents. Using this thinking-path, it is well-defined that the creation of competitive advantage lies mostly on firm-specific knowledge possessed by managers (Kor & Mahoney, 2004). If this is true, then protecting tacit-internal knowledge is important considering personal turn-over phenomenon within companies.

For social enterprise, sustaining competitive advantage is not easy. One plausible way is strengthening the bonding for both internal and externally. At this point, let us consider to refer to the previous point by contextualizing social enterprise as an organization which dealt with social problem. With regards to this point of thought, we might say that internal organization could perform the two functions simultaneously: operator as well as customer for each strategy and action. Thus, the dynamic process would be determined by effective leaders –as conductor – who can perform visionary direction upon the two positions.

On the external side, strong bond with all stakeholders would perform as isolating power which in turn providing means to sustainable competitive advantage. In that case, once social enterprise can develop its competitive advantage then internal bounding will act as isolating mechanism. At the same time, external forces will also act as isolator in protecting the unique competitiveness while preserving the competence over the long-run.

Moreover, social enterprise needs a lot of parties to get involved, especially for the bounding-terminology. Former research done by Brady and Haugh (2006) signaled the role of network management in providing opportunities to reach-out the spirits while attracting more attentions. The more multi-party – from stakeholder point of view – happened to join the movement, the stronger the competitive advantage. This is because network can provide cost efficiency by more adequate process of knowledge disseminations (Murdock & Bradburn, 2005).

Having considered the two theories simultaneously, we found that in order to build strong embeddedness with the stakeholder, social enterprise needs to reconfigure: (1) the leadership element (Smith et al., 2012; Thompson, 2002), (2) knowledge management (Weerawerdena & Mort, 2006; Yli-Renko et al., 2001; Van Krogh et al.,

2001) and (3) network management (Brady & Haugh, 2006; Lyon & Ramsden, 2006; Murdock & Bradburn, 2005). By holding this thought as true theoretical pathways, social enterprise will be able to implement the dynamic capabilities concept and compete with the traditional form of enterprise.

3.2 Proposed model

After careful-analysis on previous section, we propose our theoretical framework which further can be used as a benchmark (see figure 1). Our model considering four major elements such as: antecedents, dynamic capability, competitive advantage and continuing social improvement. This study acknowledged three possible antecedents for dynamic capability among social enterprise which consists of: (1) leadership style, (2) knowledge management mechanism and (3) network management. Each of the antecedents will be described further.

We do believe that if social enterprise can manage the three elements properly, then they will be able to contextualized the dynamic capabilities which ranged from creating unique-incomparable capability as well as duplicating the knowledge for internal used; perform effective mechanism that can sustain its competitiveness; protecting the most valuable knowledge resource from being copied by another player and occupying the best position – represented by high bargaining power – in order to prolong the benefit from economic rent by other parties.

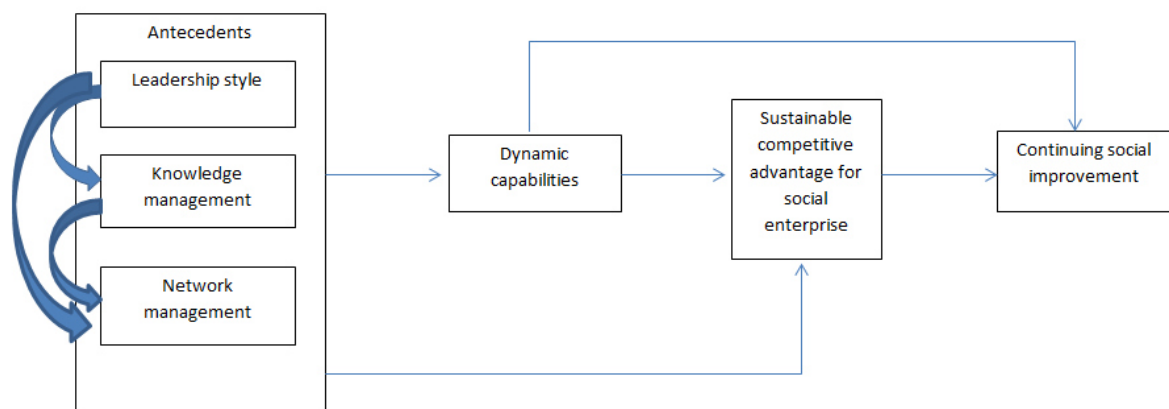


Fig. 1. Proposed model for social enterprise

Source: developed for the study

Having considered that the linkage between dynamic capabilities and sustainable competitive advantage is still under development, therefore we provide the two directions to express direct and indirect impact. Second consideration is due to the essence of social enterprise as means to create sustainable society, therefore we propose the term continuing social improvement as the ultimate goal. Each path among all possible variable will be examined further.

3.3. Possible linkage and propositions

Now, let us carefully analyze the first element namely antecedents of dynamic capabilities for social enterprise. As mentioned by Smith et al., (2012); Thompson, (2002); Blanchard et al., (1999), leadership played important role in developing the organization up to some specific-measurable goal. They should perform as astonishing conductor to create harmony, including on social enterprise. Acknowledging Schumpeterian concept, a leader must be able to combine the five new elements simultaneously. While combining with Penrosian concept, proper leadership style might share strong impact to how social enterprise managed its knowledge as basis for dynamic capabilities. If it is necessary, a leader should develop productive network as means in achieving the goal for both direct and indirectly.

Moreover, social enterprise found to be in need for productive knowledge management in order to implement the cost leadership and innovation strategy both at the same time. Considering all special character of social

enterprise which has been described on section two, there is strong signal that the enterprise still can pose the two strategies by deploying its network. This is the reason to have special path among the three antecedents.

As one independent variable named antecedents, the three elements simultaneously shared strong contribution to the creating of dynamic capabilities – codifying skills that can help social enterprise to get survive at short-term period. Using this flow of thinking as basis, we put forward the first four propositions.

Proposition 1: Leadership style has strong contribution to knowledge management in accordance with dynamic capabilities for social enterprise

Proposition 2: Leadership style has strong contribution to network management in accordance with dynamic capabilities for social enterprise

Proposition 3: Effective knowledge management has strong contribution to network management in accordance with dynamic capabilities for social enterprise

Proposition 4: All three antecedents do share strong contribution to dynamic capabilities on social enterprise

On our model, dynamic capabilities also act as mediating variable from the three antecedents to sustainable competitive advantage. This is to acknowledge the indirect impact of dynamic capabilities in dealing with the ultimate goal which is continuing social improvement.

From the literature review, it is justified that for certain reason, social enterprise might not sustain over the long run, but through their effective dynamic capabilities, they can give the best contribution to the society. Therefore, we depict the sixth proposition which specially highlighted this matter. The two propositions are as follows:

Proposition 5: Dynamic capabilities has strong contribution to competitive advantage for social enterprise

Proposition 6: Dynamic capabilities has strong contribution to continuing social improvement as the ultimate goal of social enterprise

Retrieving from our model, dynamic capabilities is the source for sustainable competitive advantage, especially for social enterprise. By having sustainable terms on company competitiveness, stakeholder might have evidence regarding the true definition of social enterprise. This is important to convince our society in order to have their great contribution upon continuing social improvement goal. Again at this point, we need to consider that stakeholder contribution is needed to create sustainable program for both the enterprise and impactful program for the society. Based on previous thoughts, we pose another proposition as follows.

Proposition 7: Sustainable competitive advantage of social enterprise share strong contribution to continuing social improvement

Lastly, in case which social enterprise failed to develop dynamic capabilities – regarding its current period of time – but still successfully create sustainable competitive advantage, we propose the final proposition as follows.

Proposition 8: Leadership, knowledge management and network management have strong contribution to social enterprise-sustainable competitive advantage that leads to continuing social improvement

Having adequate evidence for the last proposition might emphasize the definition of social enterprise as business organization that dealt with social problem.

4. Research Limitation

We acknowledged that this study shared limitation especially on defining the term leadership style and network management. Further research must identify the appropriate leadership style in conjuncture with dynamic capabilities for social enterprise. The most possible style is servant leadership and empowered leadership style. Both of them are found to explicating all human aspects which is fit with the true character of social enterprise.

Concerning our network management postulations, we emphasized the urgent need to identify the most appropriate network structure to enhance the dynamic capabilities among social enterprise. The underpinning thought is come from the basis of knowledge-management. It is well-defined that knowledge management needs strong support from the company's network. Therefore we propose to use knowledge-based network structure in analyzing the dynamic capabilities among social enterprise.

5. Conclusion

Our study succeeded in identifying the three antecedents in contextualizing dynamic capabilities to formulate sustainable competitive advantage for social enterprise. The three antecedents are leadership style, knowledge management and network management.

Relating to Schumpeterian and Penrosian theoretical underpinnings, this study propose theoretical framework for examining dynamic capabilities in achieving the ultimate goal of social enterprise which is dealing with social problem. We also highlighted the possibility of the direct pathways from the three antecedents to sustainable competitive advantage. This finding might resolve the current debates upon the linkage.

Practical implication of the study suggested that the model can be used for benchmark upon daily basis. Social enterprise must be able to be independence in terms of financial dimension without depend on donors or sponsors. Proper mechanism which resulted on strong embeddedness with stakeholder is needed to provide social enterprise with stronger impact to the society. Social entrepreneur should emphasize on appropriate leadership style, productive knowledge management and knowledge-based network to codify unique-inimitable knowledge that can pertain sustainable competitive advantage which in turn maintaining continuing social improvement – the true definition of social enterprise.

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