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## Added Complexity of Social Entrepreneurship: A Knowledge-Based Approach

Ugur Uygur

*Loyola University Chicago, uuygur@luc.edu*

Alexei M. Marcoux

*Loyola University Chicago, amarcou@luc.edu*

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# **The Added Complexity of Social Entrepreneurship: A Knowledge-Based Approach**

Uğur Uygur

Assistant Professor of Entrepreneurship

*Management Department, Loyola University Chicago, Chicago, USA*

1 East Pearson Street (424)

Chicago, Illinois 60611

Tel: 312-915-6077

Email: uuygur@luc.edu

Alexei M Marcoux

Associate Professor of Business Ethics

*Management Department, Loyola University Chicago, Chicago, USA*

1 East Pearson Street (430)

Chicago, Illinois 60611

Tel: 312-914-5096

Email: amarcou@luc.edu

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# **The Added Complexity of Social Entrepreneurship: A Knowledge-Based Approach**

ABSTRACT Social entrepreneurship evades easy definition and conceptualization. In this paper we attempt to advance social entrepreneurship theoretically by examining it conceptually, from a theory of the firm perspective. If social entrepreneurship entails pursuit of a double bottom line (Dees 1998), the added complexity of the social entrepreneurial venture identified by Tracey and Phillips (2007) should be discoverable from a theory of the firm perspective. Applying the knowledge-based theory of the firm to social entrepreneurship, we aver that social entrepreneurship's added complexity is manifest when social entrepreneurial ventures make decisions about protecting their knowledge. Social entrepreneurial ventures manifest this added complexity in all three ways Tracey and Phillips (2007) identify: managing accountability, managing identity, and managing the double bottom line. In contrast to ordinary entrepreneurial ventures, social entrepreneurial ventures have to balance two incommensurable objectives when they make decisions about protection of their knowledge.

Keywords: social entrepreneurship; knowledge-based; double bottom-line; social mission; sharing; theory of the firm

## **Introduction**

Social entrepreneurship evades easy definition and conceptualization. This is seen readily in the diverging characterizations of it offered by scholars who study social entrepreneurship as their principal occupation (Dacin et al. 2010; Nicholls, 2010; Short, Moss, & Lumpkin, 2009). A significant dispute apparent in the emerging literature is one over whether social entrepreneurship differs meaningfully from ordinary entrepreneurship. Some scholars and commentators maintain that social entrepreneurship is a distinctive phenomenon (see, e.g., Austin, Stevenson & Weiskillern 2006); others maintain that “all entrepreneurship is social” (see, e.g., Schramm 2010).

As a phenomenon and an idea, social entrepreneurship appears to be what Gallie (1956) calls an “essentially contested concept.” Social entrepreneurship is contested on at least two fronts, encapsulated in two questions:

1. What, if anything, distinguishes the social entrepreneurial venture from the ordinary charitable or philanthropic organization?
2. What, if anything, distinguishes the social entrepreneurial venture from the ordinary entrepreneurial venture?

In this paper, we attempt to answer the second question. In other words, we attempt to identify what distinguishes, e.g., Toms Shoes from Target. We do not attempt to identify what distinguishes, e.g., Toms Shoes from the Susan G. Komen Foundation.

We seek to advance social entrepreneurship theoretically by examining it conceptually, from a theory of the firm perspective. Applying the lens of the knowledge-based theory of the firm, we advance three basic propositions about how social entrepreneurship differs meaningfully from ordinary entrepreneurship. Our inquiry builds on the idea that the social entrepreneur, as compared to the ordinary entrepreneur, encounters “added complexity” in managing her enterprise (Tracey & Phillips 2007). In this understanding, social entrepreneurship is more complex than ordinary entrepreneurship because it entails balancing both social (non-pecuniary, other-regarding) and economic (pecuniary, owner-regarding) objectives in pursuit of a “double bottom line” (Dees 1998).

If social entrepreneurship entails pursuit of a double bottom line, the added complexity of the social entrepreneurial venture should be discoverable from a theory of the firm perspective. Examining social entrepreneurship conceptually through the knowledge-based theory’s lens, the tension identified by Tracey and Phillips (2007)

both (i) is evident and (ii) distinguishes social entrepreneurial ventures from ordinary entrepreneurial ventures conceptually in ways that can be tested empirically.

We proceed as follows: First, we survey characterizations of social entrepreneurship in the literature. We observe that the only commonality emerging from the surveyed definitions is the idea that social entrepreneurial ventures have a social mission. However, this is not enough to define social entrepreneurship because it counts almost every entrepreneurial venture as a social one (Martin & Osberg 2007). We observe that even paradigm examples of ordinary business ventures qualify as social enterprises when applying that criterion.

Second, we consider the idea that social entrepreneurship is characterized by the persistent need to manage the tension between the venture's social and economic missions (Tracey & Phillips 2007). We suggest that if this need is a distinguishing feature of social entrepreneurial ventures, then from a theory of the firm perspective this feature should manifest itself organizationally. That is, social entrepreneurial ventures should differ organizationally in predictable ways from ordinary entrepreneurial ventures. Although when viewed through the lens of the resource based theory there appear to be no significant organizational differences between social and ordinary entrepreneurial ventures (Meyskens, Robb-Post, et al 2010), we suggest that significant differences emerge when viewing ventures through the lens of the knowledge-based theory of the firm.

Third, we characterize the knowledge based theory of the firm. Although resource-based and knowledge-based theories share certain commonalities,<sup>1</sup> they do not

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<sup>1</sup> There is some disagreement over the conceptual relationship between the resource-based theory and the knowledge-based theory. Although some conceive of the knowledge-based theory as an outgrowth of the resource-based theory (see, e.g., Grant 1996), others see the knowledge-based theory as a derivation from

view knowledge the same way. The knowledge-based theory is animated by the conviction that knowledge is a qualitatively different input to the firm's activities. That is so, in part, because unlike most other inputs knowledge is not diminished by use. Instead, the specialized knowledge of the individuals is integrated within the firm organization which allows efficient replication within the firm boundaries.

Fourth, we identify the differences in the management of knowledge between ordinary and social entrepreneurial ventures that the knowledge based theory of the firm predicts. In particular, social entrepreneurship differs from ordinary entrepreneurship in the considerations informing decision-making over the protection or sharing of knowledge.

Fifth and finally, we conclude by identifying the implications of the knowledge-based approach to social entrepreneurship and directions for further research.

### **Social Entrepreneurship in the Literature**

Explicit attempts to identify or define the social entrepreneurship concept have mostly catalogued the differing ways in which scholars in the field have used the term 'social entrepreneurship'. Dacin et al. (2010), for example, collect thirty-seven characterizations of 'social entrepreneurship' en route to concluding that "[m]ost definitions of social entrepreneurship refer to an ability to leverage resources that address social problems, although there is little consensus beyond this generalization" (p. 38). In other words, although overlapping at a small point, conceptions of social entrepreneurship diverge. This is perhaps unsurprising. The term 'social

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a separate branch of economic thought (for further discussion, see Eisenhardt & Santos 2002). For example, knowledge-based theorists draw heavily upon concepts developed in evolutionary economics, whereas resource-based theorists do not (see, e.g., Kogut & Zander 1992 and 1996, Spender 1996; cf. Barney 1991).

entrepreneurship' is inherently contrastive; it identifies a *deviation* from a regular or expected form of activity. One reason conceptions of social entrepreneurship diverge is that the background activity understood to be regular or expected is different for the various scholars employing the term.

### ***Mission-Focused Conceptions of Social Entrepreneurship***

Some commentators use 'social entrepreneurship' to refer to a deviation from ordinary business enterprise. In this understanding, the adjective 'social' is the contrastive element. It denotes a deviation in *mission* from the ordinary form (Defourney & Nyssens 2010; Mueller et al 2011). Sullivan Mort, Weerawardena, and Carnegie (2003, p. 78) say it plainly: "social entrepreneurs differ from business entrepreneurs in terms of their mission." Thus, some for-profit firms are organized or operate for other-regarding, philanthropic purposes in addition to or instead of the generation of financial returns for owners (Dees & Elias, 1998, p. 166; Spear, 2006, p. 400). Some theorists suggest that in social entrepreneurship the social mission must be exclusive or primary (see, e.g., Dees & Elias, 1998; Peredo & McLean, 2006; Prahbu, 1999, p. 140; Shaw & Carter, 2007; Thompson, 2002; Vega & Kidwell, 2007). Others, by contrast, see the presence of a social mission as sufficient to make an entrepreneurial venture a social one. This deviant mission makes an entrepreneur a social entrepreneur and her business venture a social entrepreneurial venture (Shaw & Carter, 2007, p. 419).

Tracey and Phillips (2007) understand social entrepreneurship as the balancing of social and economic objectives and see the tensions between those two objectives as the central dynamic of social entrepreneurship. Thus, for them, social entrepreneurship is the consequence of pursuing what Dees (1998) calls a "double bottom line." Vega and Kidwell (2007) focus on the motivations of the entrepreneur, emphasizing that social entrepreneurs are driven by passion rather than profit, seeking a social return on

investment rather than a financial return on investment (see also Bhowmick 2011). Ridley-Duff (2007, p. 384) summarizes this conception of social entrepreneurship well, averring that

[a] social enterprise is not defined by its legal status but by its nature: its social aims and outcomes; the basis on which its social mission is embedded in its structure and governance; and the way it uses the profits it generates through trading activities.

### ***Method-Focused Conceptions of Social Entrepreneurship***

By contrast, other scholars use ‘social entrepreneurship’ to refer to a deviation from the ordinary pursuit of philanthropic endeavors characterizing charities, not-for-profits,<sup>2</sup> and some government agencies (Diochon & Anderson, 2009). In this understanding, the noun ‘entrepreneurship’ is the contrastive element. It denotes a deviation in *method* from the ordinary form. Thus, charities and not-for-profits pursuing their philanthropic endeavors in a “business-like” way (see, e.g., Zeitlow 2001) are said to engage in social entrepreneurship. Social entrepreneurship in this understanding is adverbial. It is pursuing other-regarding, philanthropic ends *entrepreneurially*. Thus, Thompson (2002, p. 413) understands many social entrepreneurs to be “people with the qualities and behaviours we associate with the business entrepreneur but who operate in the community” (see also Certo & Miller, 2008, p. 267; Chamlee-Wright, 2008, p. 45; Thompson & Doherty, 2006, p. 362). Roberts and Woods (2005, p. 45) understand social entrepreneurship as “the application of entrepreneurship in the social sphere.”

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<sup>2</sup> The distinction between for-profit and not-for-profit organizations is one of legal form. Following Ridley-Duff (2007), the account of social entrepreneurship advanced in this paper does not depend upon legal form. Social entrepreneurial ventures may and do choose either form. For a discussion of that choice see Townsend and Hart (2008). Our knowledge-based analysis applies to either form, so long as the venture relies on earned income, as opposed to gifts and donations, to sustain the enterprise.

In a more Schumpeterian vein, some theorists emphasize the use of innovative means in pursuit of social ends (Light, 2006, p. 50; Pozen, 2008, p. 283; Prahu, 1999, p. 40; Tan, Williams, and Tan, 2005, p. 359). Austin et al. (2006, p. 2) define “social entrepreneurship as innovative, social value creating activity that can occur within or across the nonprofit, business, or government sectors.” In a more formal attempt to define social entrepreneurship, Peredo and McLean (2006, p. 56) offer a fivefold characterization emphasizing the methods by which social ends are pursued:

[S]ocial entrepreneurship is exercised where some person or persons (1) aim either exclusively or in some prominent way to create social value of some kind, and pursue that goal through some combination of (2) recognizing and exploiting opportunities to create this value, (3) employing innovation, (4) tolerating risk and (5) declining to accept limitations in available resources.

### ***Other Conceptions***

Still other scholars conceive of social entrepreneurship in ways that refer to both mission and method, but do not embrace a unique emphasis on one or the other. Seelos and Mair (2005), for example, use the term ‘social entrepreneurship’ to refer to

the rapidly growing number of organizations that have created models for efficiently catering to basic human needs that existing markets and institutions have failed to satisfy. Social entrepreneurship combines the resourcefulness of traditional entrepreneurship with a mission to change society. (p. 241)

Nwankwo, Phillips, and Tracey (2007, p. 97) identify social entrepreneurship as the activity of “trading for a social purpose”—a characterization that could be used to emphasize either aspect (‘trading for a social purpose’ versus ‘trading for a *social* purpose’; see also Parkinson & Howorth 2008, p. 291).

In a different vein, some social entrepreneurship scholars actively resist definition of the field’s subject matter. For example, Parkinson and Howorth (2008,

citations omitted) write: “With others, we feel the need to prevent ‘premature terminological closure’” (p. 287). The desire to avoid definition of the social entrepreneurship concept may perhaps be explained in Kuhnian terms as a result of the field’s pre-paradigmatic phase of development (Nicholls, 2010).

### ***What Entrepreneurship Isn’t Social?***

Distinguishing social entrepreneurial ventures from ordinary charitable organizations is relatively straightforward. That is because social entrepreneurs engage in commerce, relying on earned income as the principal means of sustaining their enterprises. In contrast, ordinary charitable organizations rely typically upon grants and gifts to sustain theirs (Dacin, Dacin & Matear 2010).

Within the set of earned-income-seeking ventures, however, distinguishing social entrepreneurial ventures from ordinary entrepreneurial ventures is more difficult. Recognizing the sources of difficulty, some entrepreneurship thinkers maintain that there is nothing to distinguish; that “all entrepreneurship is social” (Schramm 2010). That is because almost all profit-making commercial enterprises create social value also (Peredo & McLean, 2006). At the very least, they make the lives of their customers better (Austin, Stevenson, & Wei-Skillern, 2006). Dacin, Dacin and Matear (2010) remind us that:

Mair (2006), for example, suggested that because all successful enterprises generate some social value—either directly, by solving a social problem, or indirectly, by generating tax revenues and creating employment—there is an argument for defining all entrepreneurial forms as social. (p. 42)

These thinkers make the point that creating social value is not the sole province of those whose principal aim is to create social value. In this, they reprise an observation dating

at least to Adam Smith (1776). However, in treating the creation of social value as the sole criterion by which to classify entrepreneurial ventures as social, they run the risk of obscuring the distinction between those who create social value *collaterally*, as a by-product of their pursuit of other ends, and those who create social value *teleologically*, as their aimed-for end and benchmark for success. It is this distinction that the term ‘social entrepreneurship’ is often intended to emphasize. It is this distinction that a well-constructed definition of social entrepreneurship should capture.

Martin and Osberg (2007) summarize the current state of understanding well, observing that “the definition of social entrepreneurship today is anything but clear. As a result, [the term] has become so inclusive that it now has an immense tent into which all manner of socially beneficial activities fit” (p. 30). This is a problem because a useful concept is like a good map—it helps us locate the object of inquiry in relation to other things. If social entrepreneurship is to be a useful concept, denoting a distinct phenomenon, then a conception emphasizing what is *distinctive* about it is needed. Figure 1 illustrates the focus of our inquiry. We seek the features making social entrepreneurship a distinct form of enterprise from ordinary entrepreneurship.

*“Insert Figure 1 here”*

The only consistent theme emerging from our survey is the idea that social entrepreneurial ventures have a social (non-pecuniary, other-regarding) mission. This is simultaneously too obvious and too thin a criterion by which to distinguish social entrepreneurial ventures from ordinary entrepreneurial ventures whose founders foresee and hope for social benefits flowing from their ventures.

### ***Social Mission***

The terms ‘social mission’ and ‘economic mission’ are frequently employed unselfconsciously, as if their meaning and referents are self-evident. Here, we wish to

be explicit: by social mission, we mean the intention to pursue a foreseeable and hoped for beneficial consequence for a group external to the organization.<sup>3</sup> In contrast, by economic mission, we mean the intention to pursue the foreseeable and hoped for consequence of sustaining the organization financially, providing financial returns to equity owners, or both.

We agree with the existing social entrepreneurship literature that a social mission is *necessary* for an entrepreneurial venture to be a social one. An enterprise cannot be a *social* enterprise without a social mission. Although necessary, we maintain that a social mission is not *sufficient* to make an enterprise a social one. As the sole criterion for social entrepreneurship, it leads to counter-intuitive conclusions—ones that drain social entrepreneurship of its meaning and significance.

Consider, for example, eBay. According to Jeff Skoll, its first president and first employee, eBay had a social mission “from the very start.” eBay’s founders intended to facilitate otherwise unable people in making a living, such as stay-at-home moms or the physically disabled (Dearlove, 2004). Removing barriers to others making a living is a paradigm example of a social mission. It is the widely-recognized social mission of, e.g., Grameen Bank. If a social mission is all that is necessary to make a firm a social enterprise, then eBay is a social enterprise. However, few of us would call eBay a social enterprise for mere fact that among the intentions of its founders was to provide a social benefit. eBay’s operations are not in any significant way distinguishable from those of an ordinary business venture or the online auction sites and online marketplaces with which it competes. Consequently, it is counterintuitive to count eBay as a social

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<sup>3</sup> Some commentators on social entrepreneurship emphasize the idea that the object of the social mission must be a group that is underprivileged, underserved, powerless, or some combination of these (see, e.g., Parkinson & Howorth 2008, Florin & Schmidt 2011).

enterprise. eBay is not what people have in mind when they talk about social enterprises and social entrepreneurship.

Consider also Rolex. Luxury wristwatch manufacturer Rolex is wholly owned by the Hans Wilsdorf Charitable Foundation, a foundation set up by the company's founder to pursue philanthropic giving. Consequently, Rolex's dividends go entirely to promote social benefits and causes. Increases in the owner equity of Rolex are direct increases to the assets of the Hans Wilsdorf Charitable Foundation. Generating and employing earned income to finance philanthropic ends is a paradigm example of a social mission. It is the widely recognized social mission of, e.g., Toms Shoes. If generating money to finance social goals is sufficient to make a firm a social enterprise, then Rolex counts as a social enterprise. However, few of us would call Rolex a social enterprise for the mere fact that its dividends go wholly to financing social ends and its owner equity is an asset of a charitable foundation. Rolex's operations are not in any significant way distinguishable from those of an ordinary business venture or any of the watch manufacturers with whom it competes. Consequently, it is counterintuitive to count Rolex as a social enterprise. Rolex is not what people have in mind when they talk about social enterprises and social entrepreneurship.

Consider finally Target. Retailer Target is well known for the company's pledge to donate 5% of its income to community programs, particularly those promoting reading and literacy. Tackling illiteracy is a paradigm example of a social mission. It is the widely recognized social mission of, e.g., Reading Is Fundamental. If a social mission is all that is necessary to make a firm a social enterprise, then Target counts as a social enterprise—or at least, a 5% social enterprise. However, few of us would call Target a social enterprise for the mere fact that it donates 5% of its income to promote social ends like reading and literacy. Target's operations are not in any significant way

distinguishable from those of an ordinary business venture or any of the retailers with whom they compete. Consequently, it is counterintuitive to count Target as a social enterprise. Target is not what people have in mind when they talk about social enterprises and social entrepreneurship.

If a social mission is all that is necessary to make a firm a social enterprise, then eBay, Rolex, Target, and many more seemingly ordinary companies count as social enterprises (Schramm 2010). What began as an interesting deviation from ordinary business enterprise comes to characterize almost all of it. To restore the concept of social entrepreneurship to relevance, something more than a social mission is needed.

### **The “Added Complexity” of Social Entrepreneurship and the Theory of the Firm**

Tracey and Phillips (2007) identify a characteristic of potential importance to understanding what distinguishes social entrepreneurial ventures from ordinary ones. Entrepreneurs whose ventures are formed to serve both an economic and a social mission encounter tension between the missions. The economic mission and the social mission may demand diverging and mutually incompatible decisions over the same subject matter. Resolving the tension in a particular instance may require prioritizing one mission over the other, even though in another instance the missions may be prioritized differently. By clear implication, Tracey and Phillips (2007) suggest that the tension they identify does not emerge in ordinary entrepreneurial ventures: “Social entrepreneurs therefore encounter the same challenges as more traditional entrepreneurs—opportunity recognition, the marshalling of resources, and the creation of the new venture—with *the added complexity* of defining, building support for, and achieving social outcomes” (p. 266, emphasis added, citation omitted). They classify the added complexity under three headings: managing accountability, managing the double

bottom line, and managing identity. Each has its roots in the dual mission nature of the social entrepreneurial venture.

### ***The Theory of the Firm***

A theory of the firm aims to explain why firms exist, why their boundaries emerge, why their organizational features (e.g., hierarchy) emerge, and why they are heterogeneous (Coase 1937; Foss 1996; Hansmann 1996; Kogut & Zander 1992). A firm is a support structure for an activity (Chandler, 1962). People have ends they hope to achieve; they create firms as means of reaching those ends. Because they create firms to achieve their ends, it follows that they will be better able to reach them if the firm they create is fitted to their ends. The organization of the firm should reflect its orientation to the ends it was created to serve. The firm grows in line with the vision of its leaders and managers (Penrose, 1959).

The social entrepreneurial venture differs from its ordinary counterpart by virtue of its double bottom line (Dees, 1998). Another way to say this is that a social entrepreneurial venture is different from an ordinary entrepreneurial venture, at least in part, because of its ends. From a theory of the firm perspective, we should expect that social entrepreneurial ventures will differ organizationally from ordinary entrepreneurial ventures.

As if taking up the challenge implied by Tracey and Phillips (2007), Meyskens, Robb-Post, Stamp, Carsrud, and Reynolds (2010) apply the resource-based theory of the firm to discover whether social entrepreneurship differs meaningfully from ordinary entrepreneurship. They conclude that “social entrepreneurs, when viewed through a resource-based lens, demonstrate similar internal operational processes in utilizing resource bundles as commercial entrepreneurs” (p. 661). In other words, social entrepreneurship is more similar to ordinary entrepreneurship than not—suggesting that

social entrepreneurship is not an interestingly different phenomenon. Their study shows that if there is a meaningful difference between social entrepreneurship and ordinary entrepreneurship, then that difference is not revealed by the resource-based theory. However, Meyskens et al.'s (2010) approach does not focus on the *relationship* between the mission and the operational processes.

If the firm is organized to support or implement a mission, then there must be a relationship between the mission and the operational processes. That relationship is governed by the knowledge of the founders. Their knowledge informs their decision to form *this* firm in *this* particular way. Following Tracey and Phillips (2007), if the social entrepreneurial venture is marked by tension between its dual missions that the ordinary entrepreneurial venture does not have, that difference may be revealed in the knowledge reposed in the social entrepreneurial venture and the manner in which it is deployed. This, in turn, suggests that the knowledge-based theory of the firm may illuminate the organizational difference implied by the idea that social entrepreneurship is marked by added complexity.

### **Knowledge-Based Theory of the Firm**

According to the knowledge-based theory, the firm exists because it provides an efficient structure for integrating the specialized knowledge of individuals and groups. The firm permits improved coordination of specialized knowledge by offering a common infrastructure based on a shared identity (Kogut & Zander, 1996). Within the boundaries of the firm, individuals share knowledge and learn from each other to carry on the operations of the firm efficiently (Kogut & Zander, 1992). The consequent collective organizational knowledge is what separates a firm from others. The knowledge-based theory of the firm points to the knowledge that resides within the firm as its most important source of competitive advantage (Grant, 1996). If the firm is a

reservoir of knowledge (Spender & Grant, 1996), does the concept of a firm differ in the case of social entrepreneurial ventures? Is knowledge as the source of competitive advantage treated differently in the case of a social entrepreneurial venture compared to an ordinary entrepreneurial venture?<sup>4</sup>

The strategic management and entrepreneurship literatures regard the proprietary knowledge assets claimed by the entrepreneurial firm as one of the most critical sources of competitive advantage and future profitability (Spender & Grant, 1996). One of the most significant components of a feasibility analysis – which one undertakes before exploiting an entrepreneurial opportunity – is the possession of some unique knowledge (Haynie, Shepherd, Mosakowski, & Earley, 2010). An entrepreneurial idea typically contains an element of innovation, or a novel way of doing business (Schumpeter, 1936; Shane & Venkataraman, 2000). The knowledge underpinning that innovation justifies the founding of a new firm and also serves as the starting point of its profit potential. For example, the business model of Netflix and its new movie recommendation algorithm are frequently referred to as the reasons for the venture's success in displacing established movie rental giants such as Blockbuster. Similarly, the knowledge of online sales, and, in later periods, the brand loyalty enjoyed by the venture, are shown to be the most significant assets of Amazon.com. Carefully designed and implemented marketing practices are among the most important assets of Rolex.

Since the unique knowledge possessed by the venture is the source of its competitive advantage, entrepreneurial ventures have a *protective bias* toward their

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<sup>4</sup> A related research question is to examine if social ventures differ from ordinary ventures in how they integrate specialized knowledge. In this paper, we focus on the role of knowledge as the source of competitive advantage and how social and ordinary entrepreneurs make decisions about its protection and sharing.

knowledge. They take great pains to discover how to protect and defend it from imitation by other firms (Alvarez & Busenitz, 2001; Kogut & Zander, 1996). The appropriation of the value created by the new knowledge is always a cause for concern, not only for the entrepreneur but also the potential investors in the venture. If it is reasonable to believe that the entrepreneurial venture will create economic value, then the question becomes how best the firm can appropriate the value created and preclude competitors from appropriating it. Before starting the venture, the entrepreneur needs to identify how she will protect the unique knowledge that is the source of that value creation. That problem is persistent throughout the lifetime of the enterprise. For example, after Jeff Bezos founded Amazon.com, its management spent considerable time and effort to protect its invention from imitation by others. Similarly, Netflix applied for patents and worked vigorously to maintain its trade secrets in order to defend its knowledge assets.

According to the knowledge-based theory of the firm, the *tradeoff* between the ease of use of the firm's knowledge for its own benefit and the imitation by competitors is the major determinant of the firm's boundaries and sustainability (Szulanski, 1996). Since the firm exists as a knowledge repository, the main function of the firm hierarchy is to manage the replication of its knowledge over place and time (Szulanski, 1996; Winter & Szulanski, 2001). Before the firm is founded, the entrepreneur possesses this unique knowledge. The firm is established based on the belief that the replication of this knowledge will create economic value (Alvarez & Busenitz, 2001). If the knowledge is easy to replicate, it will be easy to manage and grow the firm. However, it will also be relatively easy for the competitors to replicate the knowledge, as well (Szulanski & Jensen, 2006). The entrepreneur patrols this fence, trying to increase efficiencies within the venture while aiming to preclude imitation by others.

The entrepreneur can defend her proprietary knowledge both passively and actively. A specific form of knowledge, know-how, is usually the most valuable asset of the firm (Kogut & Zander, 1992). Because it may be tacit or causally ambiguous (Simonin, 1996), know-how is “sticky” and difficult for others to replicate (Szulanski, 1996). The entrepreneur relies passively on know-how’s tacitness (Polanyi, 1958) to keep others from replicating it.

Actively, the entrepreneur can employ tools of intellectual property protection such as patents, copyrights, and trademarks. The entrepreneur can also maintain trade secrets (Hormiga, Batista-Canino, & Sánchez-Medina, 2011). For instance, Rolex relies heavily on trademarks and trade secrets to sustain its business. Similarly, Netflix uses patents and copyrights to protect its knowledge assets. In general, it is expected by all stakeholders, including competitors, that an entrepreneurial venture will and must take great pains to prevent replication of its unique knowledge by other organizations. This yields the following proposition:

**Proposition 1.** *Ordinary entrepreneurial ventures consider the fulfillment of their economic mission when they make decisions about protection of their knowledge. The economic mission is a reason favoring protection of knowledge.*

Social entrepreneurial ventures have an economic mission in addition to the social mission (Dees, 1998). Since achieving the social mission requires activities that are costly, social entrepreneurial ventures engage in commerce as a way of generating revenues and sustaining the organization.<sup>5</sup> In some cases, the activities supporting the

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<sup>5</sup> As mentioned above, some social entrepreneurial ventures operate as charities, in the sense that they sustain their activities primarily on gifts and donations. These ventures are outside the scope of our analysis since they are not relevant to our research question: Among firms relying on earned income to sustain themselves, how is social entrepreneurship different than ordinary entrepreneurship?

social mission and those supporting the economic mission are related. In others, the activities are separate—revenue-generating activities serve as a financing mechanism for activities supporting the social mission. In either case, as long as the venture is engaged in commerce and relies on earned income, it will be subject to competition. If the operations of the venture do not yield a surplus there will not be earned income to fund the activities that support the social mission. This yields the following proposition:

**Proposition 2a.** *Social entrepreneurial ventures consider the fulfillment of their economic mission when they make decisions about protection of their knowledge. The economic mission is a reason favoring protection of knowledge.*

### **Social Mission and Knowledge Replication**

In the case of social entrepreneurship, the considerations about knowledge are not as straightforward as explained in the knowledge-based theory above. The social entrepreneur starts the venture to accomplish a social mission (Austin et al., 2006). In the case of highly innovative social ventures, the entrepreneur comes up with a novel way to alleviate a social ill or serve a social need (Chamlee-Wright, 2008; Prabhu, 1999). According to the knowledge based theory, this solution is the knowledge that justifies the existence of the firm (Kogut & Zander, 1992). Replication of the knowledge underpinning the venture creates economic and social value in the case of successful social ventures (Bloom & Chatterji, 2009; Bloom & Smith, 2011). The intended beneficiaries of the social value compose a new set of stakeholders for the social venture. Moreover, there will be other advocacy groups in the community at large that will be incorporated in the strategic decision making of the venture. Consulting, attending to, and responding to these stakeholders makes *managing accountability* in the social entrepreneurial venture more difficult. Managing accountability to these stakeholders is one form of added complexity to which Tracey and Phillips (2007) refer,

and one which ordinary ventures do not encounter. This form of added complexity is manifest in the knowledge protection decisions of the social entrepreneurial venture. *In order to pursue fully the social mission, some stakeholders may expect that the firm's knowledge will be shared for replication by other organizations.* This expectation was articulated by former U.S. President Bill Clinton: “Nearly every problem has been solved by someone, somewhere. The frustration is that we can’t seem to replicate [those solutions] anywhere else” (quoted in Olson 1994, p. 29).

Ordinary enterprises rely on significant impediments to replication by others (e.g., tacitness, causal ambiguity, knowledge stickiness). In contrast to ordinary entrepreneurs, social entrepreneurs are sometimes expected not to protect their unique knowledge from imitation. When another organization attempts to replicate the knowledge in order to alleviate the same social ill or serve the same social need, the social entrepreneur may even be expected to cooperate with that effort to imitate. Social entrepreneurs identify key success factors and share their lessons with other organizations carrying out a similar mission. Examples of cooperative knowledge sharing behavior by social enterprises – or indifference to knowledge protection by funders of social entrepreneurial ventures – abound:

- In the healthcare industry a social enterprise helped a competitor choose a computer system for its pharmacies. The social enterprise did not “keep secrets from [the competitors]” (McDonald, 2007, p. 264).
- In addition to possessing a social mission to “eliminate avoidable blindness,” Aravind Eye Clinic teaches its techniques to eye physicians and other health care professionals to “take home the principles to replicate the success of Aravind” (Aravind Eye Care System, 2011; Dacin, et al., 2010).

- Founded by Nobel Peace Laureate Muhammad Yunus in 2006, Grameen Bank is a provider of credit, making loans to “the poorest of the poor in rural Bangladesh, without any collateral” (Grameen Foundation). In addition to possessing the social mission of providing access to credit for those who are among the least creditworthy in traditional banking terms, Grameen Bank “organizes basic training programs for replicators of the Grameen model in different countries to impart training on the credit delivery-recovery mechanism of Grameen. The basic training program includes rules, accounting, and monitoring systems of Grameen Bank” (Grameen Foundation).
- Social Venture Partners (SVP) is a venture capital fund for social ventures. They hold investment rounds with significant resources to allocate. When evaluating an idea, SVP does not consider the venture’s ability to protect its knowledge assets (Brainerd, 1999).
- Skoll Foundation does not consider the ability to protect an idea when funding a social venture. They look mainly at the innovativeness of the idea and its potential for systemic change (Dearlove, 2004).
- Ashoka Fellows actively search for social entrepreneurs who promise “the ability to replicate the knowledge created by the entrepreneur” (Meyskens, et al., 2010, p. 665).

This Ashoka Fellows example is especially noteworthy. It would be absurd to hear the quoted objective articulated by a venture capitalist who was considering funding an ordinary entrepreneurial venture.

Social entrepreneurship presents a puzzle because a social entrepreneurial

venture's *proprietary* interest is in recurrent conflict with the spirit of its social mission. It would be strange for a social entrepreneur to say, "This is an important social problem to solve—but only if *I* can solve it." Assuming a proprietary stance toward the social mission – aiming to prevent others from alleviating the same social ill or serving the same social need – would create dissonance within and outside the organization regarding the identity of the social venture (Tracey & Phillips, 2007). Managing the identity of the social venture is a second form of added complexity to which Tracey and Phillips (2007) refer, and one which ordinary ventures do not encounter. This form of added complexity is manifest in the knowledge protection decisions of the social entrepreneurial venture. Therefore, we expect social enterprises and ordinary business enterprises to make decisions about their know-how differently. eBay, Rolex, and Target all possess significant know-how that affords each competitive advantage. They each take steps to protect that know-how from replication by others. That protective bias toward their knowledge is consistent with their identity as ordinary business enterprises. On the other hand, we expect social enterprises to be mindful of the possibility that the social impact can be improved by replication of their knowledge by others elsewhere (Mueller, Nazarkina, Volkmann & Blank, 2011). As Kickul and Lyons (2012) observe, "[t]he simplest and fastest way to scale a social venture is via dissemination" (p. 208). The willingness to share knowledge with others pursuing the same social mission may be an example of what Levander (2012) calls a social enterprise's moral legitimacy. This observation yields the following proposition:

**Proposition 2b.** *Social entrepreneurial ventures consider the fulfillment of their social mission when they make decision about protection of their knowledge. The social mission is a reason disfavoring protection of knowledge.*

The activities of the social enterprises recounted above look familiar from this

perspective. Consider once more Grameen Bank, which shares willingly and teaches its operating principles and procedures to others for the purpose of replication. Its social mission, *coupled with this non-protective position toward its know-how*, identifies Grameen as a model social enterprise. Consider, again, Aravind Eye Clinic, which teaches willingly its techniques to others for the purpose of replication. Its social mission, *coupled with this non-protective position toward its know-how*, identifies Aravind as another model social enterprise.

In many cases, the difference between ordinary and social enterprises can be observed not in the resulting *behavior* of the ventures but in the *decision logic* each type of entrepreneur employs when making decisions about their know-how. As explained in the knowledge-based theory discussion above, the ordinary entrepreneur patrols the fence separating his venture from his competitors, seeking to ease replication of knowledge within his own firm while impeding imitation by competitors. The ordinary entrepreneur's objective is clear and therefore her problem is relatively well-defined: choose the course of action promising to maximize returns from the unique knowledge the firm possesses. For example, the entrepreneur can engage in activities such as codification of tacit knowledge in order to reduce causal ambiguity. Knowledge will be easier for the entrepreneur to replicate within the firm. However, the codification may also make the knowledge easier for the competitors to imitate. Consequently, the entrepreneur risks appropriation of the returns from the knowledge by others. This presents a tradeoff as there are conflicting incentives both for making the knowledge available for replication and also for impeding any replication efforts. The entrepreneur's decision problem is to find the mixture of opacity and transparency of knowledge that maximizes his returns, such that the marginal return of an additional increment of knowledge transparency (or knowledge opacity) is equal to zero. At least

in concept, there is such a mixture and the ordinary entrepreneur's decision problem is to find it, using the expected returns of alternative courses of action as his guide.

When pursuing her economic mission the social entrepreneur, like the ordinary entrepreneur, patrols the fence separating her venture from others, seeking to capture the economic value of her knowledge within her firm while impeding competitors from replicating her knowledge and appropriating its economic value. However, her social mission presents an added complexity—one not soluble by reference to the marginal economic returns of alternative courses of action. The objectives associated with her economic mission and her social mission are incommensurable. Consequently, her choice problem is ill-defined. On one hand, she aims to maximize economic returns as guided by the economic mission. This suggests a similar decision problem to that of the ordinary entrepreneur. In order to maximize the returns from the knowledge her firm possesses, she needs to find the right mixture of opacity and transparency of knowledge to ease replication of knowledge within her venture while impeding replication by others. However, she also aims to maximize the social impact of her knowledge as guided by the social mission. Maximizing social impact may call for easing replication of her knowledge by others who share the same social mission. However, the social entrepreneur does not have a marginal calculation mechanism that can translate the value of the social impact from the replication of her venture's knowledge to the terms of the economic mission. Put differently, she can calculate no "exchange rate" between social impact and economic profit. Social impact and economic profit are incommensurable objectives when it comes to knowledge replication. Even conceptually, there is no metric to compute the marginal social benefits of knowledge replication versus economic risks. Consequently, the social entrepreneur's decisions call for the exercise of *judgment*—a kind of judgment that cannot be validated *ex ante*.

Thus, there is a need to manage the double bottom line. Managing the double bottom line of the social venture is the third form of added complexity to which Tracey and Phillips (2007) refer, and one which ordinary ventures do not encounter. This form of added complexity is manifest in the knowledge protection decisions of the social entrepreneurial venture, This yields a final proposition, one capturing the added complexity of social entrepreneurship:

**Proposition 3.** *Social entrepreneurial ventures balance the conflicting considerations of their dual missions when they make decision about protection of their knowledge.*

### **Conclusions and Next Steps**

In this paper we employ the knowledge-based theory of the firm as a theoretical lens to identify the central attributes that distinguish social entrepreneurship from ordinary entrepreneurship. Our main thesis is the result of applying a theory of the firm to the social entrepreneurship phenomenon. Our review of the literature shows one previous study that followed a similar approach. In their pioneering study, Meyskens et al. (2010) applied the resource-based theory to examine social entrepreneurship. They found that there were more similarities between social and ordinary entrepreneurship than there were differences. Following their lead but adopting another theory of the firm to examine the same phenomenon, we conclude that their finding is an artifact of the theory they chose rather than an inherent attribute of the object of study. By adopting a different lens, we were able to identify a meaningful difference between social and ordinary entrepreneurship.

Unique knowledge that resides within, and defines, the organization is the key to pinpointing that meaningful difference. According to the knowledge-based theory, the organization thrives on the replication of that knowledge within the boundaries of the

firm and suffers from its diffusion to others. *We argue that the shift in decision-making about knowledge replication is a significant manifestation of the dual mission nature of social entrepreneurial ventures.* A social enterprise cannot simply protect its knowledge but has to consider how the diffusion of its knowledge to other organizations might advance the social mission. This added complexity, identified by Tracey and Phillips (2007), is a consequence of the dual missions of the social enterprise and has no analogue in the ordinary enterprise. It is what separates Toms Shoes from Target.

The added complexity identified by Tracey and Phillips (2007) manifests itself in three sets of challenges, corresponding to the three forms of added complexity they identify. First, managing accountability is made more difficult in the case of social ventures because of the addition of new key stakeholders in the decision-making process. When the question of sharing the valuable knowledge of the venture with others is brought up, the decisions will be more difficult to make due to the interests of these new stakeholders. For instance, the immediate beneficiaries of the social value may be skeptical about sharing to the extent that they are concerned for the venture's economic viability. However, other stakeholders, such as public officials and strategic business partners, may favor of sharing since they will have expectations for replicating the solution to the social problem in other places. The managerial implication is the additional challenge of balancing the expectations of these additional stakeholders to which the social venture is accountable.

Second, managing identity is made more difficult in the case of social ventures because of the potentially conflicting attributes of the dual missions. The social mission of the venture alone may be a significant source of attraction to the entrepreneurs and some of the employees. When the question of sharing the valuable knowledge of the venture with others is brought up, if the venture consistently makes decisions in favor of

the economic mission then the risk of alienating those employees increases. Through the identity lens, the members of an organization interpret key decisions and react accordingly (Dutton & Dukerich, 1991). If a common identity is not shared among the members of the organization this will interfere with decision making and organizational success. The managerial implication is the additional challenge of achieving and maintaining a single identity that is consistent with both missions.

Finally, managing the bottom line is made more difficult in the case of social ventures because of the existence of two incommensurable bottom lines associated with the dual missions. In the case of a social venture in which the activities supporting the economic mission are unrelated to those supporting the social mission, the challenge may arise infrequently. The social entrepreneur can make a strong case for protection if the proprietary knowledge is only the source of funds without which the social mission will not be fulfilled. But in the case of a mission-driven social enterprise (i.e. one in which the same set of activities support both missions simultaneously), the knowledge-sharing decisions will be more difficult to make because of the differential impact each alternative has on each bottom line. The managerial implication to the social venture is the additional challenge of making judgments in presence of two conflicting and incommensurable objectives.

These managerial implications, which are unique to social entrepreneurship, hint at the theoretical implications of our conceptual analysis. There is no consensus in the broader entrepreneurship literature on whether social entrepreneurship represents a theoretically distinct phenomenon or not. In this paper we contribute to the conversation by showing how the dual missions of the social enterprise (Dees, 1998) have significant implications from the perspective of the knowledge-based theory of the firm. Based on this analysis we expect that the boundaries of social enterprise may differ from those of

an ordinary enterprise. Further research might uncover how this difference manifests itself in terms of knowledge endowments and the decisions about them in social and ordinary ventures. Research in this direction would suggest that social entrepreneurship has the potential to open a new area of research in the development and application of the knowledge-based theory. According to the knowledge-based theory, the fundamental function of the firm is the efficient integration of specialized knowledge that can be replicated within the firm boundaries while kept safely away from the threat of imitation.<sup>6</sup> This assumes one overall mission on the part of the venture: maximize the economic returns from knowledge integration. As the social entrepreneurial venture is not founded on that assumption, it invites a potentially fruitful line of inquiry extending the knowledge-based theory in a novel way.

Based on this conclusion, we recommend further studies in three directions. First, the theoretical propositions advanced in this paper need to be tested empirically. Entrepreneurs use several empirically observable tools to protect or share their unique knowledge. A comparison of social and ordinary ventures in their use of those tools would show if they indeed differ as stated in the propositions we advance. Further empirical studies may develop and test hypotheses involving the use of knowledge-sharing practices such as teaching programs, allowing others to observe their operations, and visits to other ventures to facilitate knowledge sharing. Similar empirical studies may develop and test hypotheses involving the use of knowledge-protection practices

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<sup>6</sup> One potentially fruitful research question from the theory of the firm perspective is the examination of the role of identity challenges in the way social ventures integrate specialized knowledge. The boundaries of the knowledge-based theory may be clarified and tested in the case of social ventures as their ability to provide the cognitive background and the incentive mechanisms to share and integrate knowledge efficiently within a firm (Kogut & Zander, 1996) is vulnerable to identity challenges (Tracey & Phillips, 2007).

such as intellectual property protection (e.g., patents), contractual mechanisms (e.g., non-competition clauses in employment contracts, non-disclosure clauses in communications with investors), and the public reaction to such practices.

Second, we did not formally test the applicability of other theories of the firm in answering our initial question. Meyskens et al. (2010) adopted the resource-based theory of the firm in their treatment of social entrepreneurship to uncover the similarities with ordinary entrepreneurship. We, in turn, adopted the knowledge-based theory of the firm with the expectation that social ventures might treat knowledge differently.<sup>7</sup> Further studies may uncover interesting differences between social and ordinary entrepreneurship by adopting other theories of the firm.

Third, researchers applying knowledge-based theory distinguish among types of knowledge residing within the firm (explicit – tacit, know-about – know-what – know-how, and declarative – procedural are examples of common distinctions). The strategic importance of each type also differs. Tacit knowledge, procedural knowledge, or know-how is usually recognized as the hardest for competitors to imitate (Kogut & Zander, 1992). The propositions we advance in this paper could be applied more narrowly to individual types of knowledge to uncover further differences or similarities between social and ordinary enterprises as they make decision about knowledge protection.

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<sup>7</sup> In passing, Dacin et al (2010: 49) voiced a similar intuition in their review.

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