

## Going Global: Exploring the Obstacles for Social Entrepreneurs

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### Abstract

*Social enterprises (SE), firms with mission to enhance the social wealth and the common good are increasingly becoming significant to the socio-economic development of nations. Like conventional small and medium business enterprises, a number of social enterprises aspire to play active role across national borders and having serious constraints to scale through. Though both forms of enterprises participate in global business environment, issues that confront SEs and their internationalisation aspiration is relatively unexplored. This paper seeks to make fresh contributions to the social entrepreneurship literature on the factors confronting social entrepreneurs in their internationalization aspirations. The study is theoretical and adopts positional literature review method. Though similar, it is concluded that the constraints facing SEs are not all together the same with traditional SMEs, but include both internal and external factors such as limited financial resources, difficulty in obtaining reliable foreign representation and human capital inefficiency. Others include government and political risks, procedural constraints, and macro-environmental constraints: political, economic, socio-cultural and technological barriers. By implication, global business operation presents a lot of challenges, the way forward for SEs entails a careful and strategic analysis in order to gain distinctive edge.*

**Keywords:** Social Enterprise, Born-Global, Social Entrepreneurship, Internationalization, Business Environment Constraints.

### 1. Introduction

Regardless of their size and geographical setting, today's small and medium-sized enterprises (SMEs) are increasingly becoming industrial mainstay of many economies. For instance, they contribute large share of export income to nations GDP, create wealth and employment opportunities, supply raw materials and components to large enterprises, enhance technological growth and social transformation. (Jitesh et al., 2008; Okpara 2009; Onuga, 2005). Ordinarily, survival in domestic markets, one would have thought, should be the foremost desire of SMEs given the limitation in their size, structure and access to competitive resources. But with the trends towards global marketing, a greater number of SMEs now play active part in foreign market.

Today, while small enterprises are aspiring to go global, others are already becoming active players in international business environment, participating in many interlinked supply chain network and contributing to national economies through exporting, franchising, product licensing, joint venture operation, and foreign direct investment (FDI) etc. Evidence abound that even the smallest of businesses are gearing toward global market at a faster rate, giving rise to an expression in entrepreneurship literature as "Born-Global" firms (Etemad and Wright, 2003; McDougall and Oviatt, 2009; Moen and Servais, 2002; Pickernell et al., 2016). Moreover, many small tech-start-ups are increasingly being launched with cross-border aspiration (Autio et al., 2000; Etemad and Wright, 2003). What this implies is that a firms' size does not necessarily limit internationalization intention (Verwaal and Donkers, 2002). It may also suggest that small business participation in global economic space create more opportunities to scale up business operation, fast-track meaningful innovation, enhance managerial know-how, and improve productivity and profitable bottom line (Pickernell et al., 2016).

The advancement made by small business enterprises in international market is enabled by many factors. This ranges from owner-manager-specific characteristics or entrepreneurial orientation (age, experience, positive global mindset, being proactive, risk-taking, innovative and flexible in decision making (Kalinic and Pater, 2013; McMullen and Bergman 2017; Sarasvathy, 2001) to strong marketing and networking capabilities (Frackiewicz and Grzesiuk, 2013). Other enabling factors include firm-specific resources and internal capability (ICT, intellectual asset, human capital), globalization and trade openness and advancement in technology (Moen and Servais, 2002; Pickernell et al., 2016).

While the traditional small business enterprises are making successful entry into the international market, for a social entrepreneur with similar aspiration, it may not be the same success story. By definition, a social entrepreneur can be described as someone that takes up a persistent social problem and find innovative or unique solutions for them. Such a person employs the basic principles of entrepreneurship with the intent of creating social and intellectual capital for the common good without being essentially profit-driven (Bornstein and Davis, 2010). Since profit making is a secondary objective, social entrepreneurs mobilize the masses and build organizations called “social enterprises” to assist in the attainment of social goals. Thus, a social enterprise is a business that trades for the common good, they address societal issues, strengthen communities, develop and empower people, but also make and reinvest any profit realized in order to deliver on its social or environmental goals (Zahra et al., 2009). They operate with an aim of finding solutions to identified social issue, changing the face of society in a profitable manner (Yunus and Weber, 2010).

As widely acknowledged, SMEs are making successful inroads into the global market. However, their exploits do not go unhindered. They still face some cultural, legal, regulatory, ethical, communication, socio-political and economic barriers (Hutchinson et al., 2009; Narayanan, 2015; Kang-Sik 2017). Yet, not much is reported in existing social entrepreneurship literature what constraints confront social entrepreneurs and enterprises in their attempt to internationalize and create social wealth globally. Apart from Austin et al., (2006) that provided some encouragement, there appear to be a dearth of literature showing whether both forms of enterprises/entrepreneurs (conventional SMEs and Social SMEs) have similar constraints or barriers to contend with in their aspiration to go global. Therefore, this paper seeks to make contributions to the social entrepreneurship literature by offering fresh insights into the factors confronting social enterprises in their internationalization aspirations.

The rest of the article is organized as follows: section 2 provides an understanding of the concept of social entrepreneurship and describes the features of Social SMEs. In section 3, the focal case organization- Legacy International Group is described to explore their operations and their internationalisation aspirations. Section 4 explores the constraints confronting internationalisation aspirations of social entrepreneurs and their social enterprises, bringing out the implications for theory and future research. In section 5, we draw conclusion and recommendations.

## **2. Understanding Social Entrepreneurship and the Features of Social SMEs**

Interest in social entrepreneurship and research on the internationalisation of social enterprise is considerably and steadily increasing. This follows the widely acknowledged effort by Muhammad Yunus who won the 2006 Nobel Peace Prize for pioneering Grameen Bank aimed at raising socio-economic standard through the provision of microcredit to the poor (Chell, 2007; Doherty et al., 2014). The numerous theoretical and empirical interest probably has ignited the multiple definitions, and has equally led to the lack of consensus on how social entrepreneurship is characterized. Today, social entrepreneurship is at times conceptualized as profit-making social enterprise established to support the social or cultural goals of an organization (Austin et al., 2006). For example, an organization that aims to alleviate poverty in the community, may establish and operate a commercial bank while providing free skill acquisition trainings to members of the community. While the training aims to empower the people and shore-up the skill base of the community, the bank engages in economic ventures to support the training program and alleviate poverty.

Some scholars (Choi and Majumdar, 2014; Teperi, 2018) also conceptualise social entrepreneurship in terms of having the capacity to create social capital, defined broadly to include economic, health, societal, and environmental aspects of human welfare. While conventional SMEs entails taking the risk to open new business or diversifying the existing ones, social entrepreneurship mainly focuses on creating social capital without necessarily measuring the performance in profit or monetary terms (Bornstein and Davis, 2010). Austin et al., (2006) defines social entrepreneurship along the social dimensions such as philanthropism, social works, health, sanitation, sustainability and environmental program. Teperi, (2018) notes that a social entrepreneur might also be concerned with identifying imbalances in the society, finding the root causes behind such social stigma and raising an entity to address such imbalance in the community.

According to Choi and Majumdar, (2014), the main goal of a social entrepreneur is exclusively not to earn a profit, but rather, to engage in social ventures. Such ventures, working with local stakeholders, aimed to implement widespread social improvements such as creating a child rights foundation and women empowerment, improving the social standing of people with physical disabilities, building plants for the treatment of waste products and water sanitation etc. But this does not eradicate the need to be profitable since all entrepreneurs need capital to embark on their social project and bring a solution to societal problems.

Given the multiplicity of definitions, this paper adopts Kerlin's (2010) definition which conceptualises social entrepreneurship as encompassing all the activities and processes undertaken to discover, define, and exploit opportunities in order to enhance social wealth by creating new ventures or managing existing organizations in an innovative manner. From Kerlin's (2010) definition, we argue that social enterprises are characterized by the following features: (1). Its primary activity being that of identifying a social issue that causes segregation or marginalization of a segment of humanity (Zahra et al., 2009). (2). Creating opportunities for social wealth to alleviate the marginalized individuals or groups, ensuring a better future for the targeted group and even society at large (Seelos and Mair 2005), (3). The much intensely debated issue of the not-for-profit versus for-profit status of social enterprises (Besley and Ghatak, 2017; Choi and Majumdar, 2014). The aim of achieving both profit and social objectives enables social entrepreneurs make use of market opportunities so as to deliver required solutions to the society. Above all, as Besley and Ghatak, (2017) further described, social enterprises exhibit entrepreneurial characteristics including value creation, innovation, opportunity recognition, flexibility, and resourcefulness.

### **3. Obstacles on “Going Global” Aspirations of Social Enterprises**

What kinds of constraint are social enterprises likely to face in their internationalization aspiration? As many social enterprises grow and continuously seek new opportunities beyond the domestic markets, they are insulated from the dynamics of business environment (Govindarajan, 2009). Thus, an understanding of the challenges would form the basis for crafting strategies and scaling-up plans for internationalization. Following the Organization for Economic Co-Operation and Development (OECD) (2008), we consider the challenges in two broad dimensions: Internal factors/barriers and external factors/ barriers.

#### **3.1 Internal Obstacles to “Going Global” Aspirations of Social Enterprises**

A gamut of internal factors is capable of placing limitations on the going-global aspiration as well as the entry strategy of social enterprises. These are issues internal to the enterprise and associated with organisational resources/capabilities and organisation's approach to internationalisation business. The OECD, (2008) and Hutchinson et al., (2009) share opinions on the major internal forces including firm's size, firm age, limited financial resources, the dual nature services (profit/social or non-profit/social), difficulty in obtaining reliable foreign representation and human capital inefficiencies. Hutchinson et al., (2009) notes further that not only are most social enterprises young and small in size, their low level of international experience coupled with the dual

philosophy appear relatively recent, hence their ability to obtain grants and donations from government and big financing agencies are limited. This tend to create the issue of not being able to institute supportive network of international partners-an important element in successful internationalization.

Within our classification of internal barriers to SE internationalisation are what Hynes, (2009) includes as information barriers, functional barriers, marketing barriers and value-based barriers. In terms of informational challenges, Hynes, (2009) implied issues relating to inability to identify, select, and contact international market players due to information inefficiencies. On this, Hutchinson et al., (2009) description includes, such challenges as difficulty in understanding the available sources of national and international information necessary to reduce uncertainty of foreign markets. Lack of access to and the high cost of obtaining data limits understanding of the foreign markets. Informational barriers also include the failure to contact overseas customers due to geographical distance and time-zones, lack of advanced research capacity in identifying foreign clients /customers, and limited exposure to sources of potential customer databases. In Doherty et al., (2014) assessment, internal (firm level) constraints to successfully establishing foreign presence includes insufficient personnel, lack of expertise and relevant knowledge within the company to handle the task required for internationalisation such as proper documentation, logistics arrangements, and communicating with foreign customers which requires good knowledge of foreign languages and cultures.

### **3.2 External Obstacles on “Going Global” Aspirations of Social Enterprises**

External factors impacting on the going global desire are constraints arising from the home and host environment within which the social enterprise operates. Relying further on OECD, (2008) classification, it is possible to sieve out the likely external issues confronting social enterprises and their internationalisation aspiration to include the following: governmental and or political risks, procedural constraints, and business environment barriers.

Governmental and or political risks may be defined as issues associated with the behaviour, actions or inactions of government and its agencies, or public sector organisations impacting negatively on firms’ internalization processes. According to Hill, (2005), political or governmental risk to international entrepreneurship include lack of home government assistance/incentives, unfavourable home regulations, rules and restrictions, national insecurity, civil strife, insurgencies and hostile foreign policy. However, Jones, (2001) observed that civil war or ethnic crisis and insurgencies rarely impacts on internationalization of SMEs. Another threatening political risk associated with internationalization is the nationalization. According to Brooks et al (2004), nationalization policy could have serious effect particularly when government resort to exchange rate control particularly in times of economic crises. Other barriers related to governmental actions and policies include investment restrictions in terms of local content requirements in project design, project execution, product manufacturing, foreign direct investment(FDI) restrictions, high and arbitrary tariff classification, unfavourable quotas and procurement policies, environmental regulations, and inadequate property rights protection, and technology transfer (Davies et al., 2018; Färdig and Håkansson, 2014; Kang-Sik, 2017). Suder, (2004) also add high costs of customs administration, port safety and technical standards, and corruption and unethical practices as part of the government and political factors affecting enterprise internationalization.

According to Leonidou, (2000), procedural barriers to foreign expansion are difficult to document, they relate to transactional barriers associated with the foreign operations, and can take variety of dimensions, depending on the aspect of trade policy in consideration. It can range from poor procedure for implementing business policies, the attitudes and behaviour of regulatory authorities and public officials, poor administrative practices that promote discrimination, racism, discrimination or weak domestic institutions (*e.g.* judicial systems). Constraints that could be considered procedural also includes difficulty to communicate with and contact potential foreign associate or customer, difficulties to enforce contract and settle any dispute that might arise in the process, inability to maintain control over foreign middle men, lack of familiarity with exporting procedures/paperwork

and international transactions, excessive transport and insurance costs, and strict currency exchange transaction imposed by foreign government central banks (OECD, 2008; Leonidou, 2000; Färdig and Håkansson, 2014; Kang-Sik, 2017).

Business environment barriers are the challenges relating to the influences of macro-environment exemplified by political, economic, socio-cultural and technological environment element of the foreign market(s) in which the social enterprise operates or wishes to operate in. Enterprises wishing to surmount the threat posed by macro-environmental could utilize the PEST analysis to evaluate the impact of each macro element. Moreover, SE could also employ the Michael Porter's model to analyse the industry for its five major forces including buyers, sellers, competitors, new entrants and substitutes. OECD, (2008) and Kang-Sik, (2017) identified some of the following factors including socio-cultural differences (in terms of Xenophobia, ethnic, religious, and behavioral tolerances in relation to SEs), foreign currency exchange risks and exchange rate fluctuation, political instability of host country, poor and deteriorating economic condition, communication/language differences, unfamiliar business practices, risk of labour exploitation, high tariff barrier, inability to adjust export promotion activities to the target market, and climate change/worldwide demographic and ecological issues.

#### 4. Conclusion and Areas for Future Focus

The thrust of the paper was to examine the issues surrounding and probably impacting on the internationalization aspirations of social entrepreneurs and their enterprises. The essence was to make fresh contributions to the social entrepreneurship literature on the factors confronting social entrepreneurs and their enterprises in their internationalization aspirations. The paper adopted theoretical and positional literature review method with website content gleaned from some social enterprises and not-for-profit social enterprises in United Kingdom. The conclusion drawn is that the constraints facing social enterprises are not all together the same but include both internal and external obstacles such as limited financial resources, difficulty in obtaining reliable foreign representation and human capital inefficiencies. Others include governmental and political risks, procedural constraints, and macro-environmental constraints: political, economic, socio-cultural and technological barriers. By implication, aspiring to go global presents a lot of challenges, the way forward for SEs entails a careful and strategic analysis in order to gain distinctive competitive edge. Based on the current study and findings, three major areas are delineated for future research coverage: (a). The impact of firm size, location and culture on actualizing global aspirations of social enterprises. (b) Examining the survival techniques of social entrepreneurs in crises-ridden foreign environment. (c) Exploring the psychological determinants of going global success amongst social enterprises.

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