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THE SOCIAL REWARDS FOR MISSION-DRIVEN BUSINESS: AN INTEGRATIVE APPROACH

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ABSTRACT

Many companies, considered successful models worldwide, are mission-driven business whose purpose is both profit generation and producing an impact on different aspects of human life. In this paper, we analyze the relationship between companies that include a social mission in their strategy, and act consistently with it, to create a sustainable competitive advantage. This advantage is expressed directly and indirectly in benefits for the company. In general, the relationship between mission and financial objectives of mission-driven businesses provides them the opportunity for better economic performance because they can leverage relational intangibles generated. This conclusion relies on three propositions made based on an integrative theoretical analysis.

JEL: L21, M19

KEYWORDS: Mission-Driven Business, Social Reward, Resource-Based View

INTRODUCTION

In strategic management, one of the most accepted explanations about the origin of success in firms is the possession of strategic resources and suited capabilities. They manage these resources and capabilities to produce a sustainable competitive advantage (Barney, 1991; Barney, 2001; Fong, 2005; Hall, 1993; Ray, Barney, & Muhanna, 2004). In the business world, success can be measured in a financial way like income generation, return of investment or the maximization of the shareholders' value (Sawhill & Williamson, 2001, p. 371). However, in recent times, many companies considered successful worldwide such as Charge.org, Google, Facebook or even Starbucks, add to their mission making an impact in different areas of human life (Bartkus and Glassman, 2008; Choi & Gray, 1998; Sawhill & Williamson, 2001; Wang, 2011).

Working for a mission generates different impacts on diverse stakeholders that surround the organization (Bartkus & Glassman, 2008; Brickson, 2007). These impacts include external sources of intangible assets with the potential to lead to a sustainable competitive advantage (J. Barney, 1991; Brickson, 2007; Dowling & Moran, 2012; Hall, 1993; Rindova, Williamson, Petkova & Sever, 2005). The resource based view offers important contributions to understanding the mechanisms through which stakeholder management translates into positive impacts on financial performance (Branco & Rodrigues, 2006, p. 128). Therefore, the following question arises: What is the link between financial success of mission-driven business and the extent of their impact generated in society as seen by a set of stakeholders?

This paper provides an integrative theoretical explanation based on a resource based view intertwined with the perspective of stakeholders about the source of competitive advantage for mission-driven business. At a practical level the analysis serves to support the idea that including a social mission to guide company activities represents a powerful win-win strategy.

In the following section, we present the theoretical frame of this work, which includes a brief description of mission-driven business, the resource-based view of the firm (RBV) and the social reward. Later, we will discuss the reached results. The paper closes with some concluding comments.

LITERATURE REVIEW

Mission-Driven Organizations and Mission-Driven Business

As its name implies, mission-driven organizations have a strong statement about its reason for existence. This reason drives their activities to achieve what they have declared. Meeting these two requirements is important because, following the recognition of the importance of strategic planning, having a mission statement became popular. Neverthelessm having a mission does not necessarily imply congruent behavior (Bartkus and Glassman, 2008; Wang, 2011).

A mission can be understood as the creation of an organizational identity characterized by pursuit of a collective well-being and not merely obtaining profits (Besley & Ghatak, 2005; Brickson, 2007; Grant & Sumanth, 2009). In this sense, the organizational mission is above economic objectives, if they exist. Its function is to focus the activities towards more transcendent purposes, such as to help reduce any social problem, working for environmental causes, or even generating greater value for consumers through a transcendent impact on their lives.

The mission is the core element of organizational philosophy. For some years it has become a relevant tool for organizations to manage relations with different stakeholders. Mission is the means by which they disclose their identity (Bartkus & Glassman, 2008; Brickson, 2007; Wang, 2011). Organizational identity is the shared understanding of the role of the organization with respect to its stakeholders, which has potential to create social value (Brickson, 2007, p. 881).

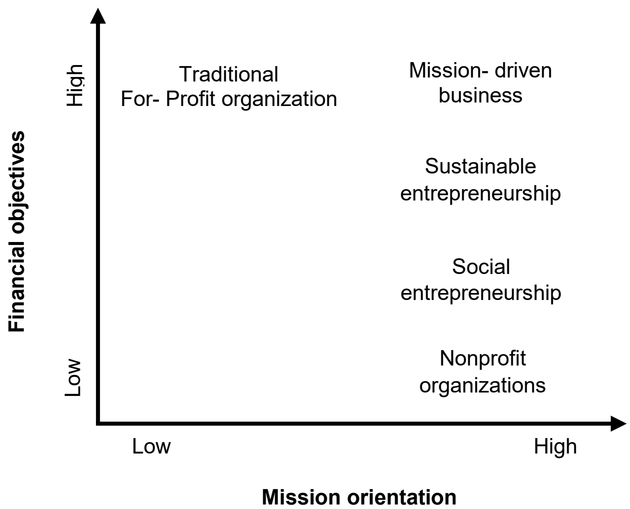
The idea that organizations have stakeholders is widely accepted within the field of administration. In his seminal work, Freeman (1984) defines stakeholders as those who may affect or be affected by the activities that organizations carry out to achieve its purposes. This perspective has evolved to focus on how companies identify their stakeholders. In this regard Donaldson & Preston (1995) argue that stakeholders are those who have a legitimate interest in the various aspects of corporate activity and for which the corporations has a corresponding functional interest characterized as having intrinsic value.

Mission-driven organizations have more impact than those that focus only profit because its activity involves a larger number of stakeholders (Bartkus & Glassman, 2008; Brickson, 2007). In this sense, impact means to affect others directly or indirectly through the activities of the organization. The greatest impact is inherent to mission-driven organizations and is independent of the particular content of the mission, or its possible production of collective goods (Besley & Ghatak, 2003, p. 28).

In the extant literature, different terms are used in an indiscriminate way to refer to mission-driven organizations. Among these terms are sustainable entrepreneurship, social entrepreneurship, social enterprise, nongovernmental organization etc. However, among these listed organizations there are differences, mainly in the level of relationship between the mission and parallel pursuit of economic or earnings objectives (Beckmann, Zeyen, & Krzeminska, 2014). Figure 1 shows that each type of organization implies a different extent of relations between financial objectives and mission orientation. Therefore, in each case, the impact to stakeholders has a different breadth and depth. For example, the traditional for-profit organization works only for the pursuit of self-interest and maximizes business value. So they are obviously not working for the pursuit of the interests of others. Nevertheless, they can indirectly impact positively its stakeholders.

The above approach is supported by reviewing the concepts of two classic mission-driven organizations, social entrepreneurship and sustainable entrepreneurship. Beckmann (2012) argues that social entrepreneurship is the establishment of new models of value creation that have a transformational impact on society, both static and dynamic. However, according to Choi & Gray (1998) sustainable entrepreneurship is a lucrative business that also pursues a social or environmental interest. A more recent proposal is by Schaltegger & Wagner (2010) define it as the realization of sustainability innovations that produce benefits for a larger part of society and often address the demands of a larger number of stakeholders. In the concepts described here, although there is coincidence in that both cases the social benefit is desired, the first definition notes the intention is to achieve a transformational impact while in the second, the innovations produce benefits but not to the general society.

Figure 1: Relationship between the Pursuit of Financial Objectives and Orientation Mission, in Different Types of Organizations Guided by Its Mission



Source: Own elaboration based on Beckmann, 2012; Choi & Gray, 1998; George & Van de Ven, 2001; Nee,2014. Figure 1 shows the relationship between the pursuit of financial objectives and orientation mission, in different types of organizations guided by its mission.

Mission driven business as sustainable enterprises are lucrative and share a particularity with other mission-driven organizations. They incorporate into ithe strategy a social mission that guides their activities (Nee, 2014). These types of companies as stated by George & Van de Ven (2001) are based on a series of shared values towards quality, respect for employees, sustainable practices and social commitment. Thus, they generate a wider positive impact to its stakeholders than the traditional for-profit organization.

The concept of Mission-driven business can be equated to social business. Beckmann, Zeyen, & Krzeminska (2014) defines social business as those which seek primarily a social mission and have a specific financial approach through self-generated income which does not require a high level of innovation. Perhaps the only difference between the two types of companies is the possibility of distributing profits to shareholders as dividends (Beckmann et al., 2014, p. 18). In this regard, apparently in mission-driven business there is not a specific impediment to distribute dividends.

As it is shown in Figure 1, mission-driven business has a special level of relationship between financial objectives and mission orientation (High - High), this comes from the combination of lucrative objectives and other social ends. Hence its social impact is higher than for-profit businesses, but less than other kind of mission-driven organizations like nonprofit organizations where all activities are oriented toward social ends.

Stakeholders as a Source of Reputation and Social Capital

The stakeholder model proposed by Donaldson & Preston (1995) implies that links between the organization and its stakeholders run in both directions. Hence, when these groups receive a positive impact like input it requires an output directed toward organization which may be reputation and social capital. Reputation is a social construct. According to Dowling & Moran (2012) for stakeholders, that construct represent what managers regard as acceptable behavior for the organization they lead. Reputation has also been defined as the perception that stakeholders have about the skills of the organization to create value with respect to competition (Boyd, Bergh, & Ketchen, 2010; Hall, 1992; Rindova et al, 2005). In essence, following Ferguson, Deephouse, & Ferguson (2000), reputation reflects what stakeholders think and feel about the organization.

According Bartkus & Glassman (2008) stakeholders expect the mission statement to be a congruent representation of what the organization is and where its activities are geared. According to the authors, an incongruous mission can be devastating to the reputation of the organization. This occurs because reputation is based on credibility and the latter in turn has a direct link with congruence. If the mission is a consistent representation, the organization will achieve a good reputation from its stakeholders.

Social capital, as well as reputation, has an external source connected to stakeholders seen from an aggregate form often called "general society". Julien (2006) proposed that social capital is the intersection between the behavior of companies and society in general. Bourdieu (2011) includes in its definition that social capital is based on the possession of a durable network of relationships of mutual recognition. The fact that social capital requires mutual recognition is linked with the element of mutual functional interest, proposed like requirements to identify the stakeholders of the corporation (Donaldson & Preston, 1995). Through the proposed link, we understand that stakeholders are generators of social capital, because they are the basis of the relational networks of the company.

Networks of relationships in which ideas of social capital are based, represent a valuable resource for their owner. They provide to members of one group access to the benefits generated by that membership, such as obligations derived of gratitude, respect or friendship (Bourdieu, 2011, p. 88). The author also asserts that existence of these networks of relationships is not a given fact of nature. Rather, they represent the product of strategies to create or produce useful social relations, both the short and the long term (Bourdieu, 2011, p. 89).

Both reputation and social capital are important constructs for organizations. On the one hand there is the solid idea that companies with a good reputation have better perform than competitors (Dowling & Moran, 2012; Hall, 1992). On the other hand, the previous idea can be extended to social capital as it is recognized as a source of intellectual capital and organizational knowledge (Nahapiet, 1998, p-260), as well as a facilitator for mobility of resources (Julien, 2006).

Reputation and Social Capital as Intangible Resources

The resource based view represents a different perspective to the analysis of organizations. Wernerfelt (1984) argues the company can be viewed as a set of tangible and intangible resources that represent its strengths and weaknesses. Barney (1991) added that differences in performance between companies come from strategic exploitation of a sustainable competitive advantage, which in turn stems from possession of various strategic resources. The sustainable competitive advantage is the implementation of a strategy of creating value not simultaneously with any current or potential competitor, and when those other companies are unable to duplicate the benefits of such strategy (Barney, 1991, p. 102).

Barney (1991) argues that to generate a sustainable competitive advantage, resources should be a source of value. They should not be in possession of competitors either current or potential. They must represent a high difficulty of imitation and, there must be no other resources that are strategically equivalent. Intangible resources can easily meet these requirements from their immaterial nature, especially because have a high degree of causal ambiguity and organizational complexity. Given this, intangibles have a greater potential to generate sustainable competitive advantage and are the basis of superior performance relative to competitors (JB Barney, 2001; J. Barney, 1991; Hall, 1992).

Reputation and social capital are among the most important intangible resources. Hall (1992) explains that reputation represents knowledge and emotions that individuals have about the company and its products. The author asserts that reputation is the intangible resource most linked to success of the company. Hall (1993) argues that reputation can be an important factor in gaining competitive advantage through differentiation. On one hand is the result of years of demonstrated superior competence and on the other it cannot be bought because there is no visible market where it is traded.

In the same line, Bourdieu (2011) defines social capital as the sum of current or potential resources, both linked to the possession of a stable network of quasi-institutionalized relations. Julien (2006) adds that in the presence of social capital, interpersonal relationships become less rigid. They are mainly derived from trust between different actors linked to organizations, which makes resource mobilization easier for the top management of the enterprise. Nahapiet & Ghoshal (1998) state that social capital can be linked to the generation of intellectual capital and organizational knowledge. These authors identified some aspects of social capital that lead to decrease transaction costs through reduction of information cost. This information is shared with low cost by the members of a given group, which is derived in an organizational advantage.

Hall (1992) argues that reputation is a fragile resource and a product of many years of activity. Reputation should be constantly monitored by management. Both reputation and social capital are fragile resources that are difficult to accumulate, because the come from perceptions, feelings and ideas of stakeholders about the organization.

Ray, Barney & Muhanna (2004) extend the resource based view by noting the company represents a particular set of resources and capabilities developed over time and through relationships with its stakeholders. In the same sense Branco & Rodrigues, (2006) explained that intangible resources and organizational capabilities have, in the relationships with stakeholders, their source of strengthening or weakening firms wealth.

RESULTS

The Social Reward

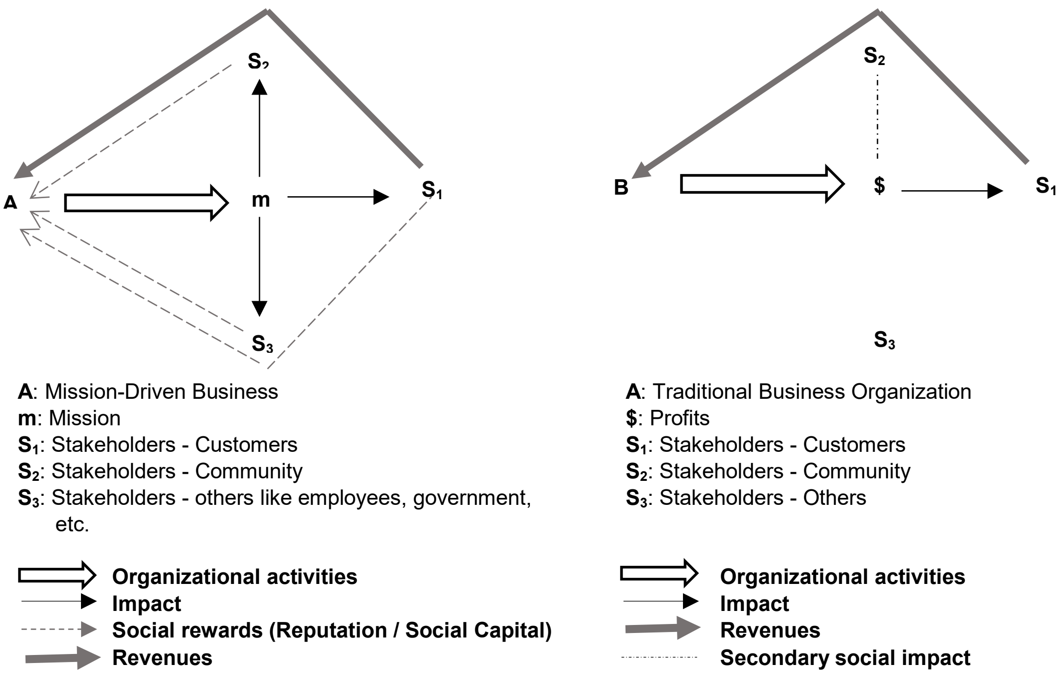
From the potential for stakeholders to be a source of intangible resources, the following propositions emerge:

P_1: When organizations have a mission statement and act congruently with it, their actions have a wider and deeper impact on its stakeholders. If these groups are affected positively, they respond motivated by the relationship of mutual interest with a social reward, which is an increase of their reputation and social capital (Figure 2).

P_2: Mission-driven business, being a specific type of mission-driven organization, have more potential to receive a social rewards compared to traditional for-profit businesses (Figure 2).

As shown in the Figure 2 the broader impact of company A does not mean that company B has no social impact, this is in concordance with Beckmann et al., (2014). It is assumed that from an economic perspective for-profit organizations provide benefits to society through aspects such as job creation, payment of taxes or simply by the indirect satisfaction to stakeholders. In the Figure-2 this was labeled a secondary impact because in for-profit organizations the primary intention is to achieve revenues. For mission-driven businesses the first intention is working for a mission with a social impact.

Figure 2: Response of the Stakeholders to the Activities of Enterprises



Source: Own elaboration. Figure 2 shows the different responses of stakeholders to the activities of enterprises, comparing between a traditional business and mission-driven business.

The social reward can be understood conceptually as the positive response from stakeholders, seen as elements of society, to stimuli generated by the impact of organizational activities. Likewise, the social reward is also an increase of relational intangible assets. Reputation or social capital seen from an accounting perspective occurs from two results. It occurs both as a result of the work of the organization aimed to benefit a greater number of stakeholders and based on the requirement of mutual interest proposed by Donaldson & Preston (1995). The logic is whether the relationship between the company and its stakeholders is functionally relevant. For relevance, the benefits that go from one side of the relationship to the other would have to be correspondingly responded by the beneficiary side.

Based on the integrated analysis of the perspectives raised, the following proposition emerges:

P3: For mission-driven businesses, the social reward received, as response to their broader and deeper impact to various stakeholders, is manifested in increasing their endowment of strategic intangible resources, in particular reputation and social capital.

<u>The Competitive Advantage in Mission-Driven Business</u>

The sustainable competitive advantage that comes from the possession of strategic resources, derives in extraordinary long-term economic benefits for the company. Usually, the persistence of such economic benefits is seen as better performance compared to competitors, which ultimately determines that some companies are more successful than others (Fong 2005).

For mission-driven organizations, the first strategic resource is precisely "the mission" because it meets the definition of Wernerfelt (1984) and with the characteristics indicated by Barney (1991). From this resource, the organizations built their identity and then develop other resources such as reputation and social capital, which depending on the particular strategies are the basis for sustainable competitive advantage. Mission-driven businesses represent a special case. The extent of their relationships between mission and financial objectives, as shown in Figure 1, give them the opportunity to leverage relational intangibles generated as a result of their work for a mission. They achieve better economic performance through an almost automatic transfer of benefits that arise when working with a mission toward increasing income or decreasing costs.

The competitive advantage in mission-driven business can manifest itself directly or indirectly from exploiting reputation and social capital. The exploitation of these resources can be translated into an increase of revenues by sales or services, to a lesser requirement of investment in advertising, or in lower transaction costs when business relationships are based on a high level of confidence and a low hazard of opportunism. These intangible assets can be the basis for developing other strategic resources such as highly motivated human resources (Besley & Ghatak, 2005, p 616; George & Van de Ven, 2001, p 42; Grant & Sumanth, 2009), intellectual capital and organizational knowledge (Nahapiet & Ghoshal, 1998); as well as help to build a strong organizational culture and achieve strategic alliances with less investment of time and capital.

Competitive advantage is the driver of success in business. Nevertheless, in the case of Mission-driven organizations, measurement of success is complicated and confusing (Sawhill and Williamson, 2001, p. 371). Paradoxically if we define success as achievement of the mission, or in other words, solve the problem in which it is based, the life of the organization would end with this success. From a strategic point of view in this case, success could be defined as achieving intermediate objectives aligned with the general mission and a corresponding reflection in good financial results.

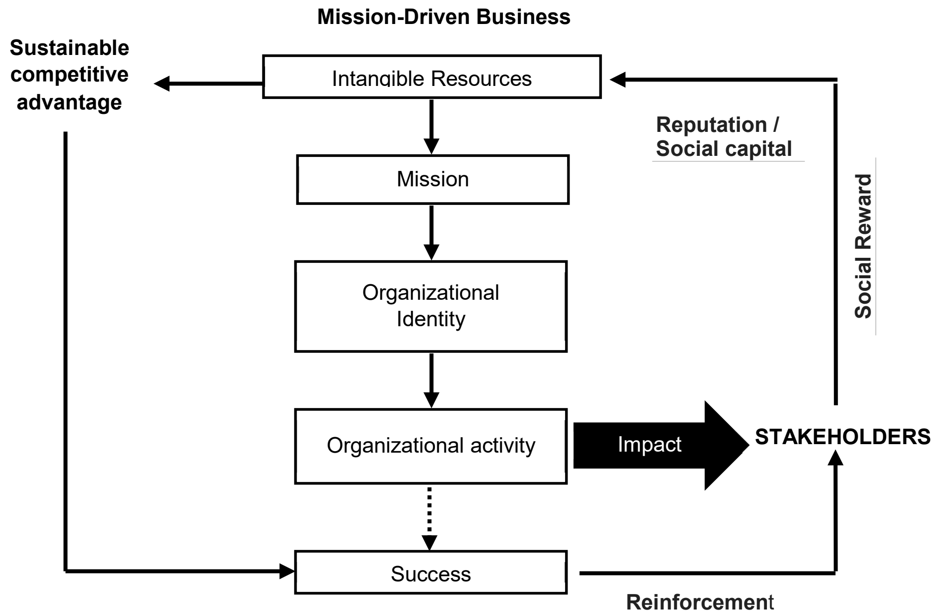
CONCLUSION

In response to the question posed at the beginning of this paper, and based on the integrative theoretical analysis, we conclude that if companies incorporate a social mission into its strategy and create an organizational identity based on that mission, they could obtain a positive effect for stakeholders for their activities and a social reward defined as an increase in their reputation and social capital. These two constructs as strategic resources, with a proper management, can in turn generate a sustainable competitive advantage which is manifested both directly and indirectly in benefits for the company. The conclusion about the link between mission-driven business success and the extent of their impact generated in society seen as a set of stakeholders is illustrated in Figure 3.

Limitations and Recommendations

Although we suggest there are theoretical ties that support the idea that social impact can generate a response from stakeholders, there are also certain limitations that prevent this. In all cases Mission-Driven business are success organizations. Both social capital and reputation are complex social constructs whose operation seems simple, but embody a measurement difficulty. The results are even more relevant for social capital, which is not generally applied in the field of business. Rather, common use is in the study of communities from a sociological point of view (Nahapiet & Ghoshal, 1998, p. 243). However, this does not diminish the value of the arguments used in this work. The very nature of reputation and social capital as an intangible resources presupposes some ambiguity and difficulty of measurement. Paradoxically these characteristics are their source of strategic potential.

Figure 3: Relationship between mission, social rewards and sustainable competitive advantage



Source: Own elaboration based on conclusions of this paper. Figure 3 shows the relationship between mission, social rewards and sustainable competitive advantage based on mutual interest relationships between mission-driven business and their stakeholders.

Another limitation is difficulty in knowing if the net value of the social reward is positive or negative. For practical purposes it has been suggested that it is positive. However, this would require determining the value of the responses to both positive and negative impact from stakeholders, who faced with same impact may have contrary perceptions.

Finally, as noted earlier, success in some types of mission-driven organizations is more difficult to conceptualize than others (Sawhill and Williamson, 2001, p. 371). Success is strongly influenced by its parallel orientation to financial objectives. In the case of mission-driven business, for practical purposes that success is to achieve intermediate objectives aligned with the general mission with a respective impact on the financial results of the company. A more precise definition is beyond the scope of this paper.

As a general recommendation for future research, we propose empirical testing of the relationship between impact of the mission on diverse stakeholders and the generation of intangible assets. The work is complicated by the measurement of the impact on the one hand and the value of intangibles on the other. But, it could be based on an extension of the methodology implemented by Bartkus and Glassman (2008). One might use any of the various methods for measuring intangible assets, for example an indirect determination through the return of assets (ROA).

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