

# Relationships between Social Entrepreneurship, CSR and Social Innovation: In Theory and Practice

Krisztina Szegedi, Gyula Fülöp, Ádám Bereczk

**Abstract**—The shared goal of social entrepreneurship, corporate social responsibility and social innovation is the advancement of society. The business model of social enterprises is characterized by unique strategies based on the competencies of the entrepreneurs, and is not aimed primarily at the maximization of profits, but rather at carrying out goals for the benefit of society. Corporate social responsibility refers to the active behavior of a company, by which it can create new solutions to meet the needs of society, either on its own or in cooperation with other social stakeholders. The objectives of this article are to define concepts, describe and integrate relevant theoretical models, develop a model and introduce some examples of international practice that can inspire initiatives for social development.

**Keywords**—Corporate social responsibility, CSR, social innovation, social entrepreneurship.

## I. DEFINITION OF CONCEPTS

THERE is a wide selection of definitions in the literature for the terms social enterprise, corporate social responsibility, and social innovation. Here we discuss these concepts in that order. Significant changes were evaluated in search of an explanation to the reasons for differences.

### A. Social Enterprise

Although the term social enterprise came into use in the 1960s, even today the expressions social enterprise (as a business organization), social entrepreneurship (as an activity), and social entrepreneur (with the focus on a key person) are used in a variety of conceptual systems based on different approaches, and therefore with differing content [1]. The significance of social enterprises is increasing in the European Union economy, the 10% of the overall GDP was produced by them already in 2011 [2], [3]. In this study we will focus primarily on the economic organization of social enterprises.

One shared and essential element of all concepts of social enterprise is that the enterprise exists for the purpose of some goal, mission or endeavor related to society. Beyond this, our results of the research related to this concept show that the definitions can be classified into three groups, depending on which features of the social enterprise are emphasized (the three main groups can be found in Table I). These approaches are:

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1. Business model approach – social enterprises attempt to fulfill their social goals based on business models and processes used in commercial enterprises.
2. Entrepreneurship competence approach – the key to realizing social goals lies in taking advantage of the characteristics, competencies and skills of the entrepreneur, such as innovation skills, risk taking and a proactive approach.
3. Financial "double bottom line" approach – financial and profitability factors are emphasized based on the so-called double bottom line.

The double bottom line approach is related to the strategic approach in its adoption of business policies, though the strategic approach is much broader, and there more direct emphasis is placed on the "down-to-earth" condition of income-producing operation.

Regarding the third type, it is important to note that there are several other definitions that consider one of the most important features of a social enterprise to be the re-investment of profits. Some of these definitions refer to the criteria of a non-profit (or a "hybrid") organization, while others implicitly link it with earnings adequate to cover needs, rather than profit maximization. One such definition is that issued by DTI: "A social enterprise is a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners" [14]. Furthermore, corporations have to establish balance between the economic responsibility and the legal, ethical responsibility [15]. Thus, social enterprises are economic units based on certain strategies, business models, and/or business competences (innovation, risk taking) typical of commercial enterprises, whose primary aim is not maximizing profits but tackling a particular social goal. These criteria are best met by the complex definition given by the OECD, which says social enterprise refers to "any private activity conducted in the public interest, organised with an entrepreneurial strategy but whose purpose is not the maximisation of profit but attainment of certain economic and social goals, and which has a capacity of bringing innovative solutions to the problems of social exclusion and unemployment" [16]-[18].

### B. Corporate Social Responsibility, Social Innovation, and Corporate Social Innovation

According to the definition of the EU, corporate social responsibility (CSR) is "the responsibility of enterprises for their impacts on society" [19]. The approach to corporate social responsibility has a history of over half a century. The

personal responsibility of corporate leaders emerged in the 1930s, and a movement towards taking responsibility for the consequences of the operation of a company and responsibilities towards society strengthened in the 1960s. The corporate situation has undergone major changes: globalization [20], growth in the size of firms, economic powers, negative externalities and various corporate scandals leading to a loss in trust towards companies and the strengthening of the corporate social responsibility movement. Corporate social responsibility can be traced back to ethical

consequences, showing true development of business ethics in business practice [21]. The philosophical approach has been replaced by a business approach, with research finding that it is increasingly worthwhile for companies to behave responsibly [22]. The concept of corporate social responsibility has broadened: CSR is a voluntary managerial approach to sustainable development [23]. The question these days is not whether CSR is justified in existing, but rather how to implement it [24].

TABLE I  
EXAMPLES OF APPROACHES TO THE CONCEPT OF SOCIAL ENTERPRISES

„Business models and entrepreneurial methods for social aims”	
Crossan, Bell and Ibbotson (2004) [4, p.7]	„Social enterprises are organisations that are driven by a social mission, aims and objectives, that have adopted an economic business model to achieve their social aims.”
BC Centre for Social Enterprise/1, (2016) [5]	„A social enterprise is a business that uses entrepreneurial methods to accomplish social goals and/or feed profits to a parent charity or non-profit to enable it to fulfill more of its own social mission.”
„Business competences used for social purposes”	
Mort et al. (2002) [6, p.76]	„A multidimensional construct involving the expression of entrepreneurially virtuous behavior to achieve the social mission...the ability to recognize social value creating opportunities and key decision-making characteristics of innovation, proactiveness and risktaking.”
NYU Stern (2005) [7]	„The process of using entrepreneurial and business skills to create innovative approaches to social problems.”
Peredo and McLean (2006) [8, p.56]	„Social entrepreneurship is exercised where some person or group aim(s) at creating social value ... shows a capacity to recognize and take advantage of opportunities ... employ innovation ... accept an above average degree of risk ... and are unusually resourceful ... in pursuing their social venture.”
Gray, Healy and Crofts (2003) [9, p. 141]	“Social enterprise refers to a broad set of approaches that use business acumen to address social goals.”
Said School (2005) [10]	„A professional, innovative and sustainable approach to systematic change that resolves social market failures and grasps opportunities.”
Financial „double bottom line” directly stated	
Alter (2006) [11, p. 14]	“A revenue generating venture to create economic opportunities for very low income individuals, while simultaneously operating with reference to the financial bottom-line.”
Fuqua School (2005) [12]	„The art of simultaneously pursuing both a financial and a social return on investment (the “double” bottom line).”
BC Centre for Social Enterprise/2 (2016) [5]	„Social enterprises are revenue-generating businesses... a social enterprise has two goals: to achieve social, cultural, community economic and/or environmental outcomes; and, to earn revenue.”
NESsT (2016) [13]	„A social enterprise is a business created to further a social purpose in a financially sustainable way.”

The definition of CSR that we employ is rather distant from the traditional corporate perspective, and supposes that a company is more than simply a construct pursuing capital return and profit maximization, and that environmental and social aspects need to be integrated into its operation.

“Social innovations are new solutions (products, services, models, markets, processes etc.) that simultaneously meet a social need (more effectively than existing solutions) and lead to new or improved capabilities and relationships and better use of assets and resources. In other words, social innovations are both good for society and enhance society’s capacity to act” [25]. The concept of social innovation (SI) appeared in the economics literature in the 1960s, but has truly evolved mainly in the past decade. The reasons for this are dissatisfaction with the orientation in the literature towards technological innovations in economics, and the need for tackling growing social, environment, and demographic challenges, characterized by complex, multi-layered interrelationships, and not really possible to overcome. The literature on social innovation emphasizes civil society, the role of social enterprises and commercial enterprises, and the interplay between skills, competencies, resources and capital in social innovation [25].

Corporate Social Innovation (CSI) forms a bridge between business innovation and social innovation. CSI uses market-based solutions in the interest of creating possibilities for profitable business, while handling social demands and ecological constraints [26], and attempts to take advantage of opportunities offered by ever expanding national, industrial and cross-border networks [27]. In order to consider a process, a product or a service as a social innovation, there must be clear social and commercial value creation in the background, and a new model is needed to bring a new design, development to market and/or to access new markets.

For corporate social innovation, it is necessary to create an innovative culture in order to reward and implement new ideas. It is important to reward the social entrepreneurs who carry out corporate change and who take on the role of social entrepreneurs within large organizations. The best of these entrepreneurs have the ability to inspire others, build coalitions, discover those people within the organization who possess the needed expertise, and influence the implementation of ideas. There is still much to be done in bringing internal and external rewards systems into line with objectives, and often it would be expedient to involve partners with different perspectives in order to achieve success [28].

## II. MODELS

Here we will introduce a model of social enterprise, corporate social responsibility and a model for social innovation, then outline an integrated model that highlights the relationship of the concepts and the need to integrate a reconsideration of the traditional business model.

### A. The Social Enterprise Model

Acting for the good of society is hardly a new phenomenon; in order to explain social enterprises, it is useful to look at their connections to the private and public sectors and at the different types of organizations.

The social enterprise model incorporates three closely related dimensions: the different sectors, different organizational types, and social enterprises and entrepreneurs (Fig. 1). Between the government sector and the private sector – the two extreme values – can be found the non-governmental organizations (NGOs) that form the basis of the social economy sector. These appear in different forms, among them various associations, cooperatives, and mutuals. A separate group is the group of NGOs that possess some kind of publicly acknowledged special features. One example is trade unions, another is religious organizations (churches), which both fall into the category of "other NGOs". Considering these types of groups, the most typical organizational form in the social economy sector is the non-profit organization. From that point of view, profit-oriented organizations can be said to form the other extreme. For instance, a hospital can be operated on a for-profit or non-profit basis, while meeting the same societal needs. It would be possible for these activities to be organized directly by the government, or through an associated sector (government organizations or near-government organizations). The novelty in social enterprises is that they would be capable of taking on all of the functions of any of the organizations mentioned so far in such a way that design and implementation tasks are carried out based on commercial-sector models in approach, attitude and abilities [17], [29].

### B. The Corporate Social Responsibility (CSR) Model

The best-known CSR model is that of [30], which proposes that the social responsibilities of a company are the economic, legal, ethical and philanthropic expectations formed by society. The main area of responsibility is economic, but at the same time the company must keep the law. Ethical responsibility refers to the obligation to behave fairly and honestly. The fourth area is when the entrepreneur conducts him/herself as a good citizen (Fig. 2).

The four responsibility layers together make up corporate social responsibility. There is overlap between the CSR model and the compared model, based on which social responsibility means being responsible to all stakeholders (owners, employees, buyers, local community members) [31]. The enterprise must keep a balance between its economic responsibilities (concern for itself) and the legal, ethical, and philanthropic responsibilities (concern for others). The "soul" of the CSR movement is fair and corruption-free company

conduct, which respects human rights, labor law, and protection of the natural environment [24].

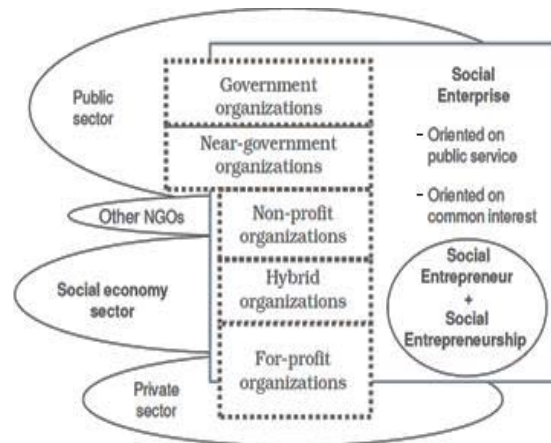


Fig. 1 The model of social enterprise [17]



Fig. 2 The corporate social responsibility pyramid. Source: own compilation based on [24]

### C. The Social Innovation Model

Social innovation meets the needs of society while at the same time creating new relationships or collaborations [32]. It refers to long-lasting and widespread initiatives with significant impacts that cause radical changes in beliefs, behavior, cultures, the dynamics of power, fundamental practices and/or access to resources of social systems enhancing equality, productivity and resilience [27]. Let us adopt the following definition: "Social innovations are new solutions (products, services, models, markets, processes etc.) that simultaneously meet a social need (more effectively than existing solutions) and lead to new or improved capabilities and relationships and better use of assets and resources. In other words, social innovations are both good for society and

enhance society's capacity to act" [25]. A model of social innovation is illustrated in Fig. 3.

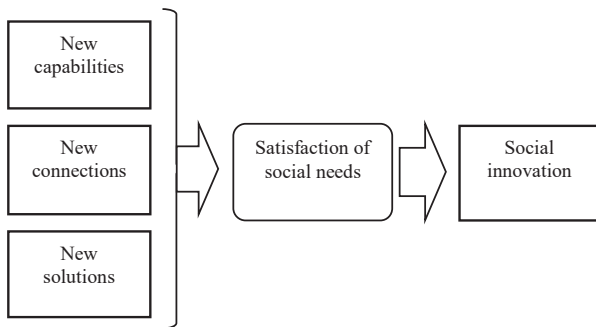


Fig. 3 Model of social innovation

#### D. The Integrated Model of Social Enterprise, Corporate Social Responsibility and Social Innovation

By corporate social responsibility, we mean a business model that assists the company in contributing to sustainable development; that is, creating a balance among economic interests, needs of the environment and expectations of society by integrating into the company's business strategy attention to impacts on environment and society, the perspective of stakeholders, and ethical conduct [33]. Considering CSR as a new business model can also be considered a social innovation, since it applies a new business concept that will result in social development (Fig. 4). As the new business model, it is only natural that the CSR perspective be integrated into the company's strategy, and that the stakeholder's perspective leads to strategic collaboration with those affected by the business. The result of this process is that positive social impacts can be achieved, and not only positive economic outcomes. In this respect, a company integrating a CSR perspective can be considered a social enterprise, where equal emphasis is placed on financial sustainability and positive societal impacts based on innovative solutions.

### III. EXAMPLES

We would like to present some examples, from Hungary and other countries, in which activities related to CSR are being channeled towards resolving environmental or social problems, or for disadvantaged settlements or groups (Table II). Some of these initiatives that the companies have integrated into their business strategies, and in the process have created new opportunities for customers and the company, leading to profit-oriented corporate social innovations [28]. Other initiatives were not aimed at producing profits; their goals were to tackle some environmental or social need.

When selecting examples of best practice, we depended greatly on the Követ CSR market database [33]. These examples provide confirmation for the validity of our integrated model. In our integrated model, these concepts move closer to each other, and the emphasis on each is equally important. In practice, we have encountered numerous CSR activities, corporate innovations, corporate social innovations

and social enterprises whose objectives have been the development of some peripheral area. The practical examples reinforce the similarities of the concepts and the relevancy of the integrated model. The examples introduced can generate new ideas for the development of society. We believe that every company should also be a social enterprise, forming a balance between economic, environmental and social objectives, and contributing to sustainable development.

TABLE II  
EXAMPLES OF CORPORATE SOCIAL RESPONSIBILITY AND SOCIAL ENTERPRISES IN HUNGARY

Enterprise	Initiative
<b>Corporate Social Responsibility (CSR)</b>	
Holcim Hungária Zrt.	Regional development: sponsors a conference series on EU funding sources; provides private financial participation for EU projects to local governments and civil organizations.
Pannon GSM Távközlési Zrt.	Charitable team building: annual obligatory team-building training courses have been held in 40 disadvantaged micro-regions
MOL Nyrt.	THANKS! PROGRAM: an alliance between local civil organizations and education institutions for a new school community service project MOL Greenzone Program: a nationwide program for the creation, development and rehabilitation of green belts with community functions
Citibank	Development project for social enterprises: business training and financing for the best organizations for job creation, facilitating access to health and education services, reducing consumption of energy and resources, and conservation of natural resources
<b>Social enterprises</b>	
Kék Madár Alapítvány – Ízlelő Étterem	Helping people with disabilities in the labour market so that they can become who they want to be – useful and respected members of society. Operation of a family-friendly restaurant since 2003.
Hotel Panda	95% of the hotel employees are people with disabilities, including blind receptionists, maids and cooks who are deaf or hard of hearing, waiters who are mentally disabled, and sales staff in wheelchairs.
Fruit of Care	Provides disadvantaged people, especially those with disabilities, with a protected workplace, where they are involved in product design, service development, production, procurement, and sales. The brand name represents a unique combination of innovative design, quality handcrafting, and social responsibility. They were asked to design the prize given for the European Award for Social Entrepreneurship and European Award for Social Entrepreneurship and Disability.

Source: own compilation from [34] and company websites

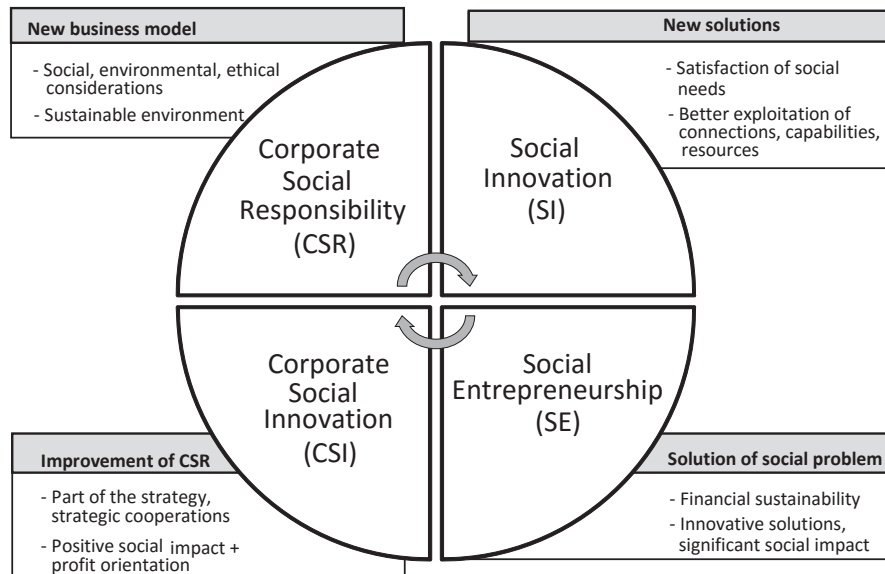


Fig. 4 The integrated model of corporate social responsibility, social innovation and social entrepreneurship

#### IV. CONCLUSION

Social enterprises, which go a step beyond accepting corporate social responsibility, may become an important driver of social development. Analysis of the concepts of corporate social responsibility and social innovation have shed light on the way in which CSR that is integrated into corporate strategy can itself be considered a social innovation. Corporate social innovation and social entrepreneurship both attempt to contribute to solving some social problem, while maintaining economic sustainability. Most of the literature differentiates between them based on the priority of either social or economic standpoints.

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