Objectives

• At the end of class, you should be able to:
  1. Discuss the impact of the external environment on entrepreneurial activity.
  2. Assess the external environment of social ventures.
  3. Describe the role of institutional environment on social venture creation.
  4. Discuss the tools used to analyze the external environment of social entrepreneurship.
The External Environment of Social Ventures

• The Macro-Environment of Entrepreneurship

Context is important in understanding entrepreneurship. It determines when, how, and why entrepreneurship happens; it can be an asset or a liability that shapes entrepreneurship; but, equally, entrepreneurship may influence context, too.

• The social problems prevailing in a particular country may influence the likelihood of creating social ventures to address them. For example, Sanergy, a social enterprise working to address the need of sanitation needs by building community toilets is relevant to the areas in which it operates in Nairobi, where inadequate toilets is an issue. Such a venture would not be created in New York, where access to toilets is not an issue.

• Social entrepreneurs and the firms they create always operate in environments that shape them.

• Generally, four broad types of environment affect entrepreneurship:
  - political;
  - sociocultural.

• The PEST Model and Social Entrepreneurship

<table>
<thead>
<tr>
<th>Political/ Legal factors</th>
<th>Economic factors</th>
<th>Social factors</th>
<th>Technological factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax policy</td>
<td>Economic growth</td>
<td>Culture</td>
<td>R&amp;D activity</td>
</tr>
<tr>
<td>Labor law</td>
<td>Interest rates</td>
<td>Traditions</td>
<td>Automation</td>
</tr>
<tr>
<td>Environmental Law</td>
<td>Exchange rates</td>
<td>Religion(s)</td>
<td>Rate of technological change</td>
</tr>
<tr>
<td>Trade</td>
<td>Inflation rates</td>
<td>Religious tolerance</td>
<td>Use of technology</td>
</tr>
<tr>
<td>restrictions</td>
<td>State of economy</td>
<td>Lifestyle</td>
<td>Types of technology</td>
</tr>
<tr>
<td>Tariffs</td>
<td>Standard of living</td>
<td>Value system</td>
<td></td>
</tr>
<tr>
<td>Democracy</td>
<td>Economic risk</td>
<td>Norms</td>
<td></td>
</tr>
<tr>
<td>Political stability</td>
<td>Structure of industry</td>
<td>Population demographics</td>
<td></td>
</tr>
<tr>
<td>Political risk</td>
<td>Market size</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rule of law</td>
<td>Availability of investment capital</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4/27/2022
Institutional Profile and Entrepreneurship

- A country’s institutional environment comprises relatively stable rules, social norms, and cognitions that guide, constrain, and liberate domestic economic activity. (Institutional theory focuses on the roles of social, political and economic systems in which companies operate and gain their legitimacy. Institutional environment can strongly influence the development of formal structures in an organization, often more profoundly than market pressures)

- It sets the framework for market transactions by defining the alternative courses of action that are open to firms.

- The three components of the institutional environment (cognitive, normative, and regulatory) they can either enhance or impede the mergence of entrepreneurial activities in a country.
  - Regulatory = Regulations & Laws. Rules set by legal
  - Normative= Social norms, values and beliefs
  - Cognitive = Availability of expertise

### Scott’s institutional profile of a country

<table>
<thead>
<tr>
<th>Regulatory</th>
<th>Normative</th>
<th>Cognitive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Laws, regulations, rules set by legal and formerly recognized institutions</td>
<td>Social norms, values, and beliefs influence the relative social desirability of entrepreneurial as an occupational choice</td>
<td>Availability of expertise and knowledge Perceptions and shared mental models</td>
</tr>
</tbody>
</table>
Institutional Profile and Entrepreneurship

- Kostova, who introduced the concept of a three-dimensional institutional profile to explain how a country’s government policies (regulatory dimension), widely shared social knowledge (cognitive dimension), and value system (normative dimension) affect domestic business activity.

- The **regulatory dimension** of the institutional environment consists of laws, regulations, and government policies that promote certain behaviors and restrict others. These factors influence economic growth and set the basic rules of the game. Supportive regulatory environments are crucial for the development of entrepreneurial activities.

- **Normative institutions** reflect the degree to which a country’s residents admire entrepreneurs and entrepreneurial activity. The **normative environment** encourages people to become entrepreneurs, but it takes a strong cognitive and regulatory environment for firms to obtain the resources and legitimacy necessary to secure external investors.

- The **cognitive dimension** of the institutional environment refers to shared mental models through which people interpret information. It reflects the knowledge and skills possessed by people in a given country as well as the framework they use to categorize and evaluate information.

The External Environment of Social Ventures

- **Tools for Analyzing Social Ventures’ External Environment**

  - **Environmental Scanning**

    Environmental scanning is a strategic management tool that is used to analyze the external environment of a firm. This five-step process involves:
    1. identifying the environmental scanning needs of the firm;
    2. gathering the information needed by the focal firm;
    3. analyzing the information;
    4. communicating the results to concerned parties; and
    5. making informed decisions.
The External Environment of Social Ventures

- **Tools for Analyzing Social Ventures’ External Environment**
- **Environmental Scanning**
  - Sources of information for environmental scanning are both external and internal.

<table>
<thead>
<tr>
<th>External Environmental Sources</th>
<th>Internal Environmental Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal contacts</td>
<td>Personal contacts</td>
</tr>
<tr>
<td>Journals/Magazines</td>
<td>Internal reports</td>
</tr>
<tr>
<td>Books</td>
<td>Conference papers</td>
</tr>
<tr>
<td>Newspapers</td>
<td>Internal memos</td>
</tr>
<tr>
<td>Professional Conferences/Meetings</td>
<td>Committee meetings</td>
</tr>
<tr>
<td>Radio/Television</td>
<td>Sales staff</td>
</tr>
<tr>
<td>Internet</td>
<td>Other managers</td>
</tr>
<tr>
<td>Customers</td>
<td>Other employees</td>
</tr>
<tr>
<td>Commercial databases</td>
<td>Internal databases</td>
</tr>
</tbody>
</table>

The External Environment of Social Ventures

- **Competitive Intelligence**
  - Strategic tool used to garner information about the competition.
  - Involves:
    - Collecting information.
    - Analyzing and interpreting information.
    - Distributing and storing information.
    - Responding to the information.
- **Benchmarking**
  - Refers to the process of measuring and comparing an organization’s business processes against leaders in an industry.
  - Provides opportunity to gain insights that will help the organization to improve.
  - Benchmarking helps to avoid *reinventing the wheel*. 
The External Environment of Social Ventures

• **Benchmarking**

  Although there is no universal way of conducting benchmarking, practitioners and scholars agree on the importance of following seven steps in the benchmarking process:
  1. identify problem areas;
  2. identify industries that have similar processes;
  3. identify organizations that are leaders in those areas;
  4. survey leading organizations for measures and practices;
  5. visit the leading organizations to identify best practices;
  6. implement best practices; and
  7. evaluate and make adjustments when necessary.

By using benchmarking, social ventures can learn not only from other high-quality social ventures but also from high-performing commercial businesses. Benchmarking offers nonprofit organizations a systematic and reliable tool to manage and improve performance by studying the best solutions to common problems.

• For example, KaBOOM, a nonprofit that builds playgrounds in US inner cities, used benchmarking by studying how businesses built easy-to-maintain websites and then used the same method to reduce its own web development costs.

• Social ventures can use benchmarking to compare themselves to the best in a particular area or to learn from the best practices in both social and commercial entrepreneurship.
The External Environment of Social Ventures

• **Applying Porter's Five Forces Model to Social Ventures**

  The five forces identified by Porter are
  1. intensity of rivalry among existing firms;
  2. threats of new entrants;
  3. pressure from substitute products;
  4. bargaining power of buyers; and
  5. bargaining power of suppliers.

• The joint influence of these five forces determines the intensity of the competition in a given industry. The greater the strength of the five forces, the lower the expected profitability in a given industry will be.

• In social entrepreneurship, one may speculate that the greater the strength of the five forces, the lower will be the expected sustainability of the social venture operating in a given sector.

---

**Diagram**

- **Substitutes**
- **Rivalry among existing firms**
- **Suppliers**
- **Threats of new entrants**
- **Buyers** (beneficiaries in the case of social ventures)

---

The External Environment of Social Ventures

• **Applying Porter's Five Forces Model to Social Ventures**

  A social venture can compete with other social ventures or commercial ventures that engage in corporate social responsibility (CSR) or corporate social entrepreneurship. Thus, it makes perfect sense to apply Porter’s five forces model to social entrepreneurship.

• Despite the fact that social ventures address social needs, they compete for resources, grants, donors, volunteers, and government contracts. Competitors include any social ventures that provide similar services. These ventures compete to acquire much-needed financial resources from benefactors, grants, government contracts, corporate and foundation sponsorships, and for volunteers.
The External Environment of Social Ventures

• **Applying Porter's Five Forces Model to Social Ventures**

• Buyer power can be equated with Beneficiaries. Most of the time, these beneficiaries do not have strong bargaining power over the focal social venture. In areas where beneficiaries were used to getting free product, this bargaining power might be high in that they may choose to opt not to consume a product/service requiring a fee.

• The third force is suppliers. Social ventures that make products interact with the suppliers of raw materials. Such suppliers could have strong bargaining power when they are few in number and have a vested interest in the social needs addressed by the social venture.

• The fourth force, substitute products, may not operate in quite the same manner as in the traditional five forces model. Here, the beneficiaries may not have the choice to choose alternative services because they are often needy.

• The fifth force, threats of new entrants, refers to the possibility that new social ventures may enter the “social market” to provide similar products or services. Such entry may erode the competitive advantage of existing social ventures.

Activities

• Visit the website of the Global Entrepreneurship Monitor (www.gemconsortium.org). Select two countries that are ranked among the top five for social entrepreneurship.
  • Identify what characteristics facilitate the emergence of social entrepreneurship in these countries.

• Select two countries that are ranked at or near the bottom when it comes to social entrepreneurship.
  • Identify the characteristics that are similar among these countries and explain why they impede social entrepreneurship.

• Visit the website (www.doingbusiness.org/rankings) and consider the latest rankings. Identify some of the reasons why sub-Saharan African countries are faring poorly compared to those from other parts of the world. If you were a consultant to a government from a sub-Saharan African country, what advice would you give to foster commercial and social entrepreneurship? Be specific.
Activities

- Case Study
- Case 1 BRCK
- Case 2 Global Health Corps

- Read and answer the questions and be ready for a discussion