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How Does Compassion Affect the Actions of Entrepreneurs Prior to Establishing the Social Enterprise?

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Abstract: Social entrepreneurship, a hybrid market-based type of business undertaking, has been an emerging trend in the local and global markets. Entrepreneurs nowadays no longer just innovate and create products to meet the various needs of the consumers, but also provide long-term solutions to social concerns. Instead of full remuneration going to investors, the surplus benefits of organizational activity accrue to the beneficiaries and a greater value for customers are given emphasized (Alvord, Brown, & Letts, 2004; Austin, Stevenson, & Wei Skillern, 2006; Mair & Marti, 2006). The failure of profit-seeking companies to produce the goods and services, because many people are willing but unable to pay for what they want and need (Seelos & Mair, 2004), gives an opportunity to social enterprises to cover the unmet needs and social goals. Though several scholarly articles have been written about the term, there is still no consensus explanations on the motivations of entrepreneurs to engage in social enterprises (Miller, Grmes, McMullen, & Vogus, 2012), so a proposed compassionate model has been presented, wherein Compassion, a prosocial motivator, affects the actions of entrepreneurs prior to establishing a social enterprise. The study aims to validate the claims of prior claim whether compassion triggers the mechanisms; (1) integrative thinking, (2) prosocial cost-benefit analysis, and (3) commitment to alleviating others' suffering, in setting up social enterprises, to analyze the importance of having all three compassion-triggered processes, and determine the effects of pragmatic and moral legitimacy to social entrepreneurship. The research design is explanatory and case study research to help the researcher focus on the analysis of a specific problem to explain the phenomena. Primary and secondary data will be used. The results of the qualitative study will be significant to social entrepreneurs, business owners and employees, customers, government, academe, future researchers, and other stakeholders. It will give them a bird's view on how compassion affects the actions of social entrepreneurs. A detailed presentation of the case study of Human Nature, a fruitful social enterprise, and Anna Meleto-Wilk, a recognized social entrepreneur, has been used to answer the research problems. This will be a discovery of new knowledge in the field of social entrepreneurship and the role of compassion as a prosocial motivator of entrepreneurs prior to establishing a social enterprise.



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Key Words: social entrepreneurship; social enterprises; social entrepreneurs; social goals; compassion; entrepreneurship; integrative thinking; prosocial cost-benefit analysis; commitment to alleviate others' suffering; poverty

1. SOCIAL ENTREPRENEURSHIP

1.1 Introduction

The word “entrepreneur” comes from the French word, *entreprendre*, and German word *unternehmen*, both of which means “to do something” or “to undertake,” as in accepting the risk involved in the commercial undertaking (Paredo & McLean, 2006). It was only in the sixteenth century when the word entrepreneur was used, which refers to an individual who undertakes a new business venture. A groundbreaking development of the concept originated from Richard Cantillon (1680-1730), and Jean-Baptiste Say (1767-1832), and in the twentieth century, the significant refinement of scholarly understanding the term “*entrepreneurship*” was contributed by Joseph Schumpeter (Dees, 1998:2f) and Israel Kirzner. Later on, the word was further popularized in academic use, and the willingness of a person to bear financial risk of commercial establishments has been a defining characteristic of an entrepreneur. Though several literatures have been written about the term, there is still no compromise delineation of an entrepreneur as to this date. There are fundamentally different conceptions and interpretations of the concept and its entrepreneurial role, consensus on a definition of the field in terms of the entrepreneur is perhaps impossibility (Venkataraman, 1997: 120).

As for the goal of entrepreneur, scholarly articles for market-based venture have identified its top priority as rational self-maximization (Licht, 2010) and profit-seeking (Baumol, 1980). Entrepreneurs capitalize the needs and wants of the society to make earnings. The notion of entrepreneurship adopts the element of value creation as per Say while Schumpeter takes the presence of innovation and change, and entrepreneurial activity of recognizing and exploiting opportunities (Paredo & McLean, 2006). The gap between what is currently offered in the market and what the market needs is the foundation for the

innovation of goods that entrepreneurs produce. Ideally, the innovative commodities and services that entrepreneurs offer may be the solutions to various economic problems. Of course, these economic problems are equated to economic returns for entrepreneurs, and the process that it went through is simply called entrepreneurial activity.

One common genus of entrepreneurs is social entrepreneurs (Dees, 1998). “Social entrepreneurs exhibit in the social arena the risk-tolerance, innovativeness, and pro activeness displayed by commercial entrepreneurs” (Paredo & McLean, 2006). On the other hand, social enterprises, the social entrepreneurs’ business undertaking, have emerged as a complex yet promising organizational form in which market-based methods are used to address seemingly unsolved social issues (Miller, Grimes, McMullen, and Vogus, 2010). It still aims to generate profit for their shareholders but on the top of it is its intention to grow the social undertaking and reach more people in need. Indeed, acquiring wealth is still important, but not at the expense of their stakeholders and most of its earnings is reinvested in the enterprise to fund further expansion or to be distributed fairly among owners and employees.

The failure of profit-seeking companies to produce the goods and services, because many people are willing but unable to pay for what they want and need (Seelos & Mair, 2004), gives an opportunity to social enterprises to cover the unmet needs and social goals. These initiatives all over the world have been evident in the cases of The Institute for OneWorld Health (USA), Sekem (Egypt), Grameen Bank (Bangladesh), Healthy City or “*Ciudad Salud*” (Peru), and The Big Issue (UK). The emergence of social enterprises even in the Philippines has been apparent in the birth of *Gawad Kalinga* (GK) Enchanted Farm in Angat Bulacan, Human Nature, Hapinoy, and ECHOstore (Habaradas & Aure, 2014). Nowadays, this so called “*social entrepreneurship*” has been the driver of social innovation and transformation among various sectors in society, and



it is commonly equated to social enterprise (Paredo & McLean, 2006). It is an embryonic innovative method for dealing with multifaceted social needs (Johnson, 2000: 1). It is also a unique business approach to certain economic and social problems, and it aims to alleviate the life of the people from poverty. Moreover, it marries two distinct and ostensibly competing organizational objectives: creating social value and creating economic value (Austin, Stevenson, & Wei Skillern, 2006; Dees, 1996, 1998).

With all the scholarly study about social entrepreneurship, it seems that the underlying forces for its concern for others makes it both commendable and theoretically challenging, and the social entrepreneurs' motivations remain undertheorized (Miller et al., 2010). For traditional business ventures, it is quite clear those businessmen invest money in a commercial enterprise to earn profit. Some scholars cited that non-monetary rewards such as need for achievement (McClelland, Winter, & Winter, 1969), autonomy (Amit & Zott, 2001; Hamilton, 2000; Moskowitz & Vissing-Jorgensen, 2002), or a taste for variety (Atebro & Eldedhli, 2006) enable them to bear risk and uncertainty involved with new venture creation (McMullen & Shepherd, 2006), but the question remains on what motivates entrepreneurs to engage in social enterprises, when in fact, social enterprises focus more on creating social impact, rather than increasing personal or shareholder wealth (Austin, Stevenson, & Wei-Skillern, 2006).

Miller, T. L., Grimes, M. G., McMullen, J. S., and Vogus, T. J. (2012) proposed that compassion motivates social entrepreneurship. This prosocial motivator is being transformed to the likelihood of entrepreneurs to engage in social entrepreneurship. It will pass through the three compassion-triggered processes: (1) integrative thinking, (2) prosocial cost-benefit analysis, and (3) commitment to alleviating others' suffering. The article's main purpose is to hone the role of compassion in encouraging entrepreneurs into social enterprises, which lacks strong theoretical foundations (Short, Moss, & Lumpkin, 2009). Furthermore, an increase in the perceived legitimacy means an increase in compassion-driven processes, or vice-versa, which leads to social entrepreneurship (Miller et al., 2012).

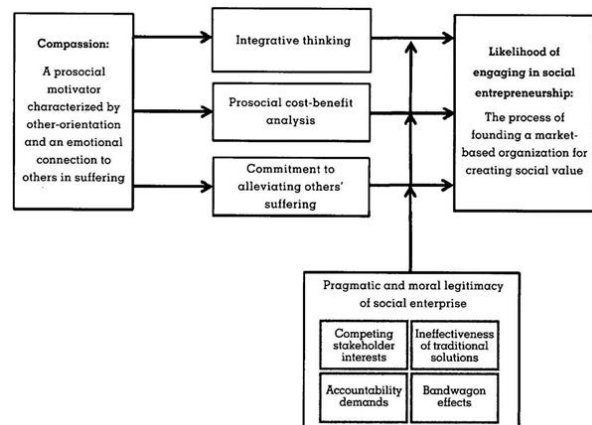
Arend's (2013), on the other hand, suggested alternative approaches to building social entrepreneurship that will be effective in advancing, such as the choices of exploratory variable of compassion. Miller et al. (2013) addressed critiques by highlighting the fact that social entrepreneur in

their proposed model is an embedded agent (Holm, 1995; Seo & Creed, 2002). Both scholars agreed that an individual-opportunity nexus is necessary to substantiate the extent of the proposed model. However, instead of reiterating an argument on emphasizing the institutional factors that channel compassion toward social entrepreneurship (Miller et al., 2012), an opportunity to build on their model and Arend's critique is realized (Miller et al., 2013) and encouraged.

Indeed, Miller et al. (2012) had elaborated how such compassion must be contextualized in this undertheorized subfield. The scholars had provided a substantive platform for future research on this significant theory, and this study is the respond to the call to further provide theoretical and empirical evidences that will support the claim that compassion is the origin of social entrepreneurship.

The study aims to determine the influence of compassion to each of the three compassion-triggered mechanisms: (1) integrative thinking; (2) prosocial cost-benefit analysis; and (3) commitment to alleviate others' suffering; prior to establishing the social enterprises. It aims to: 1. To validate whether compassion triggers the following mechanisms in setting up social enterprises: (1) integrative thinking; (2) prosocial cost-benefit analysis; and (3) commitment to alleviate others' suffering; 2. To analyze the importance of having all three compassion-triggered processes to prior to establishing the social enterprise; and 3. To determine if pragmatic and moral legitimacy affect social entrepreneurship.

2. METHODOLOGY





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In the qualitative study entitled *Venturing for Others with Heart and Mind: How Compassion Encourages Social Entrepreneurship* (Miller, T. L., Grimes, M. G., McMullen, J. S., and Vogus, T. J., 2012), a theory on how compassion encourages social entrepreneurship has been proposed. This model will be the conceptual framework of the study wherein: the dependent variables are compassion, integrative thinking, prosocial cost-benefit analysis, and commitment to alleviate others' suffering; the moderating variable is the pragmatic and moral legitimacy; and the dependent variable is the likelihood of engaging to social entrepreneurship. These variables are the one subject to statistical treatment to further justify that validity of the model.

The study aims to understand the relationships between compassion and the three mechanisms prior to establishing the social enterprise. The proposed model of Miller et al. (2012) will be used as the conceptual framework of the research, and to further validate the compassionate piece in the local settings.

RESEARCH LOCALE

The researcher had chosen Ms. Anna Meloto-Wilk, co-founder and owner of a well-known social enterprise in the Philippines, Human Nature (Gandang Kalikasan, Inc.). The office of the subject social enterprise in this study is located at 463 Commonwealth Avenue, Quezon City, Philippines 1119, and its operating on weekdays is 9:00 AM to 5:30 PM and on weekends is 9:00 AM – 1:00 PM. It has numerous store branches in the country and around the world, in the United States of America, Canada, Singapore, Malaysia, United Arab of Emirates, and others

RESEARCH DESIGN

The study used explanatory and case study research methods. It is explanatory because it attempts to understand the cause-and-effect of compassion and its processes to the likelihood of a person to engage in social enterprises. It aims to explain the role of compassion as a prosocial motivator, and the explanatory research will allow

the proponent to assess the impact on existing norms, mechanisms, or processes. This design helped the researcher to focus on the analysis of a situation or a specific problem to explain the phenomena.

The research used case study research because it will allow the researcher to further explain the complex phenomenon such as compassion through the use of the presenting the actual experience of the lone respondent and its social enterprise. As per Robert Yin (2009), a case study research method as an empirical inquiry that investigates a contemporary phenomenon within its real-life context. As per Robert Yin (2009), a case study research method as an empirical inquiry that investigates a contemporary phenomenon within its real-life context. It will use the following steps (Stake, Simons, & Yin, 2009): 1. Determine and define the research questions, 2. Select the cases and determine data gathering and analysis technique, 3. Prepare to collect the data, 4. Collect data in the field, 5. Evaluate and analyze the data, and 6. Prepare the report.

RESEARCH INSTRUMENT

The researcher used unstructured interview. A personal interview to Ms. Anna Meloto-Wilk has been conducted. The proponent followed the outline of the interview and utilized probing and follow-up questions to better understand the point of view of the lone respondent and for the clarification of answers to the questionnaires. Checklist – has been used by the researcher but it was not shown to the respondent. This checklist served as a guide to further probe about the relationships of the independent variables to the dependent and moderating variables. The checklist has been prepared based on the qualitative measures in the previous literature.

3. RESULTS AND DISCUSSION

The proponent presented the case of Human Nature (Gandang Kalikasan, Inc.), a social enterprise brand that provides all Philippine-made natural beauty and personal care products not only in the country but in other countries around the world, and the its founder and co-owner, a recognized social entrepreneur, Ms. Ana Meloto-Wilk. Their products and its processes are discussed in relation to social enterprise. Those products are made from the locally-grown materials which are free from any harmful



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chemicals. Its social causes are entrepreneurship and local business development, poverty eradication, and rural development.

Their social enterprise all started from Gawad Kalinga (a successful social enterprise that employs low-income individuals) volunteers Camille Meloto, Dylan Wink, and Anna Meloto-Wink, who wanted to revolutionize an inclusive enterprise that promotes caring and restores communities. The founders also aim to provide more livelihood to Gawad Kalinga residents through producing a wide variety of products such as mineral make-up, hair care, facial and lip care, hand and body care, baby care, kids care, protective care, and merchandise (Habaradas and Aure, 2014). They realize the potentials of making the natural and organic ingredients in the Philippines after they noticed that these are the trends in the United States. Despite the higher costs, they still invested on the capability of every Filipino farmers. Their mantra is Human Nature is Pro-Philippines, Pro-Poor, and Pro-Environment, because they believe that businesses can have a heart, a heart for the country, a heart for the poor, and a heart for the environment. Its humble beginnings as a social enterprise has been told in their website, www.humanheartnature.com, and has been used as a secondary data. The success of the Human Nature, as a social enterprise, has been undeniable since its establishment in November 2008. The hybrid business venture itself, the genuine advocacy of the owners, and the dedication of management and staff have been evident and recognized globally. Its success is not solely due to its unique selling proposition but also in the way they treat people.

4. CONCLUSIONS

Before we draw the conclusions and recommendations, let me review first the research questions that the study would like to answer: (1) How does compassion affect the integrative thinking, prosocial cost-benefit analysis, and commitment to alleviate others' suffering prior to establishing the social enterprise; (2) How does the presence of all three compassion-triggered mechanisms affect the social entrepreneurs prior to establishing the social enterprise; and (3) How does pragmatic and moral legitimacy significantly impact the actions of entrepreneurs prior to establishing the social enterprises?

The detailed presentation of the case study of Human Nature, a fruitful social enterprise, and Anna Meleto-Wilk, a recognized social entrepreneur, has been used to answer the problems. Compassion, a feeling of deep sympathy for others, fueled the desire of the social entrepreneur to engage in social enterprise. It has been a prosocial motivator for Anna Meleto-Wilk to venture into social enterprise despite of a great career in marketing and advertising. Her plans to climb the corporate ladder could have been so easy for her because of her experience, network, and academic background, but she focuses instead, to address poverty because of her compassion. Her love for the Philippines is considered as her other-orientation, while her passion for world class locally-made natural and beauty products measure the integrative thinking of the entrepreneurs. Integrative thinking because it takes a lot of intellectual reasoning to come up with an innovative products that her social enterprise is manufacturing and selling.

Through the interview of Anna Meleto-Wilk and published articles about Human Nature, we therefore conclude that compassion affects all the compassion-triggered mechanisms of entrepreneur prior to establishing the social enterprise. Her compassion for others initiated her integrative thinking; her compassion encourages pro-social cost benefit analysis; and her compassion inspires her commitment to alleviate others' suffering. All the other elements that have been discussed in the previous discussion have been met: Emotional connection affects one's identity (Miller et al., 2012); Emotional connection creates a prosocial identity (Miller et al., 2012); Prosocial identity perceives to act to improve others' lives (Grant & Campbell, 2007); Incorporating another's suffering into one's identity can increase commitment (Aquino & Reed, 2002; Flynn & Brocker, 2003; Frost, Dutton, Worline, & Wilson, 2000); Individual become more committed to goas that fulfill the core values of their identity alleviating others' suffering (Gagne & Deci, 2005); Emotional energy reinforces commitment to those whom one is connected (Collins, 1993; Goss, 2008; Thomas, McGarty, & Mavor, 2009); and Emotional connection to the pain of others has the capacity to reinforce desirable aspect (Miller et al., 2012).

For the second research problem, we therefore conclude that all the compassion-triggered processes: (1) integrative thinking; (2) pro social cost benefit analysis; and (3) commitment to alleviate others' suffering are all present in the case of Anna



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Meleto-Wilk and its Human Nature. It is interrelated and it affects the actions of entrepreneurs. Any of the three mechanism may exist first prior to the other, but all three are present prior to establishing the social enterprise.

We also conclude that pragmatic and moral legitimacy affect the actions of entrepreneurs prior to establishing the social enterprise. Anna Meleto-Wilk have considered the stakeholders' competing interests, accountability demand, ineffectiveness of traditional solutions, and bandwagon effects. She even stated that all the distinct experiences converged to make her want to set up her own enterprise so the legitimacies have influenced her actions prior to establishing Human Nature.

With all the conclusions highlighted in the paper, I therefore conclude that all the propositions are accepted: Proposition 1: Compassion motivates entrepreneurs to engage in social enterprises; Proposition 2: Compassion promotes integrative thinking of entrepreneurs prior to establishing the social enterprises; Proposition 3: Compassion stimulates prosocial cost-benefit analysis prior to establishing the social enterprises; Proposition 4: Compassion encourages commitment of entrepreneurs to alleviate others' suffering prior to establishing the social enterprises; and Proposition 5: Pragmatic and moral legitimacy affects the actions of entrepreneurs prior to establishing the social enterprises. The proposed model of Miller et al (2012) proved that compassion motivates social entrepreneurship.

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