

# Chapter 4

## An Entrepreneur Sees the Reward:

### The Importance of Intellectual Capital and Corporate Social Responsibility in a Company

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#### ABSTRACT

*The aim of this chapter is to advance the understanding of how social entrepreneurs analyze and apply intellectual capital and corporate social responsibility within their companies. From the extensive literature review, the broad definitions of intellectual capital, and corporate social responsibility, the measurement models and the management of intellectual capital and the development process of corporate social responsibility were identified. Modern, socio-economic, philanthropic, and classical views were taken into consideration to explain corporate social responsibility in detail. In order to develop holistic understanding, the relationship between intellectual capital and corporate social responsibility on the basis of entrepreneur were analyzed. The understanding of the intellectual capital and corporate social responsibility in companies were shown by theoretical framework of resource-based view, dynamic capabilities, stakeholder theory, and legitimacy theory.*

#### INTRODUCTION

In today's business life, creativity and innovation are two superior necessities that every organization must have. These two factors are seen as basic needs for entrepreneurs to compete and create quality in market. One of the most important characteristics of entrepreneurs is creativity embraces knowledge, personal equipment and competency. Knowledge is perceived as inevitable need for organizations rather than solely a data. This need has turned information-based capital into crucial topic when organizations

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has realized the power of knowledge and its return on investment. It can be said that there is a chain relationship between information and knowledge. In order to understand this relation there is a classic noise example. The noises such as noise of the wind or patter of rain that someone hears are data, but meaning can be given to those noises through information. Structured and organized information generate knowledge that is laid up at the cognitive system of individuals. Knowledge is considered as the basis value creation. The success of using knowledge might be measured by its own contribution. Within an organization perspective, knowledge is analyzed as a dimension of intellectual capital. Intellectual capital can be defined as the value of intangible assets and their added value create dynamic factor that they do not take a part in organization's balance sheet. Dynamic ability of an organization and intellectual capital are significantly related (Teece, Pisano & Shuen, 1997; Eisenhardt & Martin, 2000).

Human being has been making an effort to fulfill their needs and to master nature since its existence. Through the occurrence of this effort, the fulfillment of individual needs and demand saturation have been actualized. In addition to meeting the customer demands, the quality of goods and services or customer satisfaction, community service or contribution are purposes of entrepreneurs. These purposes might be divided into two parts: community service and consumer service. While community service contributes to the financial and social development of community; consumer service focuses on needs fulfillment of consumer segment. Corporate social responsibility focuses on the certain voluntarily behaviors or actions to meet various stakeholders' needs or expectations (Peloza & Shang, 2011). For example, CEO Elon Musk declared that Tesla Inc. would allow individuals and organizations in order to use its patents in 2014. This action reflects benefiting from projects that include advanced technologies.

Social responsibilities that focalizes social benefit make significant contribution to organizations for being highly competitive, having good image and reputation, having loyal customers, committed employees, recruitment of competent candidates, government incentives and cost reduction. Within the social sector, social entrepreneurship has gained attention in several countries. Primarily, they adopt to serve a social mission (Luke & Chu, 2013) and are appeared in the bipolar of the hybrid structure as follows non-profit (i.e., public) and for-profit (i.e., private) organizations. While public sector organization focuses on the benefits of public, private sector organization prioritizes the forces of market to increase their return on investment. Since social entrepreneurship does not fit the arrangements between public and private organizations, social entrepreneurs suggest a hybrid organizational structure as a prime example (Pache & Santos, 2012). The justification of hybrid structure is guided by the social impact as well as financial gain. Social enterprises survive through transactions to financially sustain their mission activities.

Organizations has engaged attention that human does not only contribute physically but also mentally to organizations that they work in. The impacts of knowledge and resource-based views (RBV) showed that organizations have valuable and rare resources that are hard to imitate and substitute (Barney, 1991). The resources are *all assets, capabilities, organizational processes, firm attributes, information, and knowledge controlled by firms* (Barney, 1991, p. 101). These resources generate competitive advantage for the organizations where intellectual capital, organizational performance and values are created. RBV is a theoretical model to explain the competitive advantage of resources. The availability of resources eases the product and service development through strategic management of the companies. The RBV embraces the relationship between company's strategy and its internal sources relying on *value, rareness, imperfect imitability, non-substitutability* (VRIN) framework. *Value* indicates the creative power of tangible and intangible assets on sustainable value. *Rareness* refers to resources that are unique and hardly accessible. *Imperfect imitability* arises when inimitable resources accomplish one or combinations of three circumstances: (a) resource obtaining ability of the firm is related with its unique historical

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