

**PART ONE**

**Social  
Entrepreneurship:  
Concept and Context**

COPYRIGHTED MATERIAL



# The Many Faces of Social Entrepreneurship

In this chapter, we provide a survey of the many faces of social entrepreneurship, summarized as four Ws: What is social entrepreneurship? Who are the social entrepreneurs? Why social entrepreneurship? Where does it occur?

## WHAT IS SOCIAL ENTREPRENEURSHIP?

The term “social entrepreneurship” was used first in the literature as early as the 1960s, but it was not until the term was adopted by Bill Drayton in the early 1980s that it began to come into widespread use. Despite a recent growth of interest in social entrepreneurship, researchers have yet to reach consensus on the definition of this emerging concept. For example, the terms “social entrepreneurship” and “social enterprise” are sometimes used interchangeably, which leads to confusion. To illustrate the variety of the understanding of the concept, we provide a sample of definitions of social entrepreneurship in Table 1.1.

The wide variety of existing definitions can be roughly categorized as broad and narrow. A narrow definition of social entrepreneurship refers mainly to earned-income strategies for nonprofit organizations,<sup>1</sup> or what Dees and Anderson call the “social enterprise” school of thought.<sup>2</sup> Enterprise, as the name suggests, is the main topic of concern in the social enterprise school of thought. It is defined as an entrepreneurial, nonprofit project that helps generate revenue as well as serve the society. This perspective focuses on producing income flows other than collecting revenue from grants and subsidies. Also, it endorses the scheme of business techniques to improve the working of nonprofits in order to make them more entrepreneurial. Social enterprise school has a commercial

**Table 1.1**  
**Definitions of Social Entrepreneurship**

Author(s), Year	Definition
Austin, Stevenson, & Wei-Skillern (2006) <sup>3</sup>	Innovative, social value creating activity that can occur within or across the nonprofit, business, or government sectors (p. 2).
Brinckerhoff (2000) <sup>4</sup>	<p>Social entrepreneurs have the following characteristics:</p> <ul style="list-style-type: none"> <li>• They are willing to take reasonable risk on behalf of the people their organization serves;</li> <li>• They are constantly looking for new ways to serve their constituencies, and to add value to existing services;</li> <li>• They understand that all resource allocations are really stewardship investments;</li> <li>• They weigh social and financial return of each of these investments;</li> <li>• They understand the difference between needs and wants; and</li> <li>• They always keep the mission first, but know that without the money, there is no mission output (p. 12).</li> </ul>
Center for the Advancement of Social Entrepreneurship (2008) <sup>5</sup>	Innovative and resourceful approaches to addressing social problems. These approaches could be pursued through for-profit, nonprofit, or hybrid organizations.
Dees (1998) <sup>6</sup>	<p>Social entrepreneurs play the role of change agents in the social sector, by:</p> <ul style="list-style-type: none"> <li>• adopting a mission to create and sustain social value (not just private value);</li> <li>• recognizing and relentlessly pursuing new opportunities to serve that mission;</li> <li>• engaging in a process of continuous innovation, adaptation, and learning;</li> <li>• acting boldly without being limited by resources currently in hand;</li> <li>• exhibiting a heightened sense of accountability to the constituencies served and for the outcomes created (p. 4).</li> </ul>

Author(s), Year	Definition
Frumkin (2002) <sup>7</sup>	Social entrepreneurs have a combination of the supply-side orientation and the instrumental rationale, providing a vehicle for entrepreneurship that creates enterprises that combine commercial and charitable goals (p. 130).
Light (2006a) <sup>8</sup>	A social entrepreneur is an individual, group, network, organization, or alliance of organizations that seeks sustainable, large-scale change through pattern-breaking ideas in what governments, nonprofits, and businesses do to address significant social problems or how they do it.
Martin & Osberg (2007) <sup>9</sup>	<p>Social entrepreneurship has the following three components.</p> <ol style="list-style-type: none"> <li>1. Identifying a stable but inherently unjust equilibrium that causes the exclusion, marginalization, or suffering of a segment of humanity that lacks the financial means or political clout to achieve any transformative benefit on its own.</li> <li>2. Identifying an opportunity in this unjust equilibrium, developing a social value proposition, and bringing to bear inspiration, creativity, direct action, courage, and fortitude, thereby challenging the stable state's hegemony.</li> <li>3. Forging a new, stable equilibrium that releases trapped potential or alleviates the suffering of the targeted group, and through imitation and the creation of a stable ecosystem around the new equilibrium ensuring a better future for the targeted group and even society at large (p. 35).</li> </ol>
Mort, Weerawardena, & Carnegie (2003) <sup>10</sup>	<ol style="list-style-type: none"> <li>1. Social entrepreneurs are first driven by the social mission of creating better social value than their competitors which results in them exhibiting entrepreneurially virtuous behavior.</li> <li>2. They exhibit a balanced judgment, a coherent unity of purpose, and action in the face of complexity.</li> <li>3. Social entrepreneurs explore and recognize opportunities to create better social value for their clients.</li> <li>4. Social entrepreneurs display innovativeness, proactiveness, and risk taking propensity in their key decision making process.</li> </ol>

*(Continued)*

**Table 1.1 Continued**

<b>Author(s), Year</b>	<b>Definition</b>
Peredor & McLean (2006) <sup>11</sup>	Social entrepreneurship is exercised where a person or group: <ul style="list-style-type: none"><li>• aims at creating social value, either exclusively or at least in some prominent way;</li><li>• shows a capacity to recognize and take advantage of opportunities to create value;</li><li>• employs innovation, ranging from outright invention to adapting someone else's novelty, in creating and/or distributing social value;</li><li>• is willing to accept an above average degree of risk in creating and disseminating social value; and</li><li>• is unusually resourceful in being relatively undaunted by scarce assets in pursuing their social venture (p. 64).</li></ul>
Pomerantz (2003) <sup>12</sup>	Social entrepreneurship can be defined as the development of innovative, mission-supporting, earned income, job creating or licensing ventures undertaken by individual social entrepreneurs, nonprofits, or nonprofits in association with for-profits (p. 25).
Thompson, Alvy, & Lees (2000) <sup>13</sup>	Social entrepreneurs are people who realize where there is an opportunity to satisfy some unmet need that the state welfare will not meet, and who gather together the necessary resources (generally people, often volunteers, money, and premises) and use these to "make a difference" (p. 328).
Young (1986) <sup>14</sup>	Nonprofit entrepreneurs are the innovators who found new organizations, develop and implement new programs and methods, organize and expand new services, and redirect the activities of faltering organizations (p. 162).

knowledge foundation similar to the social innovation school. The social enterprise school is rooted in commercial entrepreneurship practice, which believes that entrepreneurship is a method of creating and administrating organizations.

A broad definition of social entrepreneurship tends to include all types of innovative, social-value-creating activities that can occur within or across sectors,<sup>15</sup> or

what Dees and Anderson call the “social innovation” school of thought, which sees social entrepreneurs as people who attempt to solve societal problems and meet its needs in a novel way. This school aims to find new and improved methods to deal with society’s problems or meet its needs. This can be done if social entrepreneurs launch a nonprofit or a profitable company. The private foundations that encourage planned growth of the sector and their creators have contributed a lot to the basics of both schools of thought within the American tradition. The social innovation school of thought takes its roots from profit-making businesses regarding discovery, evaluation, and exploitation of opportunities—opportunities obtained, in the case of social entrepreneurship, through fulfillment of social needs in novel ways.<sup>16</sup>

Opponents of the narrow definition emphasize that earned income is only a means to a social end, and that the fundamental driver of social entrepreneurship is innovation and social impact. On the other hand, opponents to the broad definition are concerned that it confuses innovation with entrepreneurship, and that it “becomes a convenient label for almost any new approach that has a social outcome.”<sup>17</sup>

For the purpose of this book, we follow Tschirhart and Bielefeld to define social entrepreneurship as *the pursuit of social objectives with innovative methods, through the creation of products, organizations, and practices that yield and sustain social benefits*.<sup>18</sup>

A better understanding of the social entrepreneurship concept also requires that we examine the similarities and differences between social entrepreneurship and commercial entrepreneurship. Austin, Stevenson, and Wei-Skillern provide a detailed examination of this question.<sup>19</sup> They hold that differences between social and commercial entrepreneurship are the results of four major variables:

- Market failure—creates different entrepreneurial opportunities for social entrepreneurship and commercial entrepreneurship
- Mission—results in fundamental differences between social entrepreneurship and commercial entrepreneurship
- Resource mobilization—requires different management approaches in social entrepreneurship and commercial entrepreneurship
- Performance measurement—social entrepreneurship necessitates the measurement of social value in addition to commercial value

Austin and colleagues discuss the management implications of social entrepreneurship based on Sahlman's PCDO model, which states that the management of entrepreneurship necessitates the creation of a dynamic fit between People (P), Context (C), the Deal (D), and the Opportunity (O). They argue that social entrepreneurship differs from commercial entrepreneurship in each of the four elements. The most distinct difference is in Opportunity, due to differences in organizational missions and responses to market failure. The impact of Context varies due to the way that the interaction of mission and performance measurements influences management. The role of People varies due to differences in the difficulties of resource mobilization. Finally, the terms of the Deal are fundamentally different, due to the way resources must be mobilized, as well as the ambiguities of performance measurement.

To facilitate the distinction between these two types of entrepreneurship, Austin, Stevenson, and Wei-Skillern recommend that the Deal be replaced with what they term the "social value proposition"—a conceptualization of the social value or benefits produced—and People be replaced with economic and human resources.

Moreover, due to its difference from commercial entrepreneurship, they maintain that the management of social entrepreneurship should take into account the following issues:

- The centrality of social value—this must be the first and foremost consideration.
- Attention to organizational alignment—both internal and external alignment will be needed to deliver social value.
- Organizational boundaries—they may need to be more flexible, because social value may be enhanced by cooperation instead of competition.

## **WHO ARE THE SOCIAL ENTREPRENEURS?**

We know who the social entrepreneurs are: Susan B. Anthony (United States), William "Bill" Drayton (United States), Florence Nightingale (U.K.), Vinoba Bhave (India), Y.C. James Yen (China), Muhammad Yunus (Bangladesh)—the list goes on. Of course, it is one thing to identify the famous ones, and quite another thing to try to provide a definition that can capture the key aspects shared by these and many other social entrepreneurs. In some way social entrepreneurs are like the arts: they seem to defy definition; they refuse to share a



common denominator. This perhaps explains why scholars and practitioners alike are having trouble settling on the “best” definition for social entrepreneur.

However, the effort to find common denominators has never stopped. Researchers have hypothesized that there are certain individual qualities that make up a social entrepreneur. Social entrepreneurs share many of the same qualities that regular entrepreneurs share: their ventures are typically of high risk, they are characteristically skilled at stretching resources more efficiently, and typically they have a new idea that fills a niche in the market. What separates them from regular entrepreneurs is their drive for social change and the “potential payoff, with its lasting, transformative benefit to society, that sets the field and its practitioners apart.”<sup>20</sup> Their visions include a permanent change to the status quo. In addition to changing the social landscape, social entrepreneurs do not operate in the current system, optimizing the current possibilities, but “instead find a wholly new way of approaching the problem.” Social entrepreneurs are not merely trying to make the best out of the current situation, but instead create a wholly new situation in which to operate. A social entrepreneur, therefore, has a business and social mission, and through that mission changes the way the system functions.

The following are some common behavior categories found in existing definitions of social entrepreneurship:

- **Balanced Judgment:** The social entrepreneur literature often refers to balance, as in judgment and in managing the interest of multiple stakeholders. The relationships that social entrepreneurs manage are complex, and this balance assists the manager with serving both the mission and the financial needs of the organization.<sup>21</sup>

- **Opportunistic:** Experts point out that social entrepreneurs excel at recognizing and taking advantage of opportunities to deliver in a way that provides social value and honors the mission.<sup>22</sup> Social entrepreneurs “act boldly” and are not limited by resources they currently control.<sup>23</sup>

- **Virtuous:** The social entrepreneur has to be or become entrepreneurially virtuous in both behaviors and actions, such as integrity, compassion, and inclusiveness.<sup>24</sup>

- **Risk Endurance:** When discussing the term social entrepreneur, it is understood that these individuals are engaging in a social enterprise that involves risk.<sup>25</sup>

Young identifies seven types of social entrepreneurs that each display a combination of traits and motivations:<sup>26</sup>

- *Independent* entrepreneurs, who search and find an entry into small organizations where it is relatively easy to get in
- *Searchers*, who want to get away from rigid rules and awkward organizations
- *Power seekers*, who give credit to larger organizations for providing opportunities for advancement
- *Conservers*, who want security and well-set traditions and seek established and stable organizations for providing them with that
- *Professionals*, who want to follow their career and search for organizations that can provide them with the platform
- *Artists*, who search for organizations that can sustain the work they want to do and can help them get recognized
- *Income-seekers*, who have no goals other than to enhance their income potential, be it in a large or small organization<sup>27</sup>

Based on a review of the existing literature, Mair and Noboa summarize the unique characteristics of social entrepreneurs in terms of:

- Traits and skills, including: vision and fortitude, creativity, a collective style of leadership, the ability to pounce on opportunities, the capability of working as a team, and a community-oriented motivation factor.<sup>28</sup> Other characteristics might include passion, a clear purpose, bravery, values, commitment, and a business style of thinking. Along with this there should be planning, flexibility, willingness to plan, and customer focus.<sup>29</sup>

- Behavioral attributes, such as openness to others' feelings, good communication skills, determination, less concern about failure, ingenuity, trustworthiness, competence to satisfy the needs of the customers, guts to accept social criticism, a good working capacity, and a target orientation.

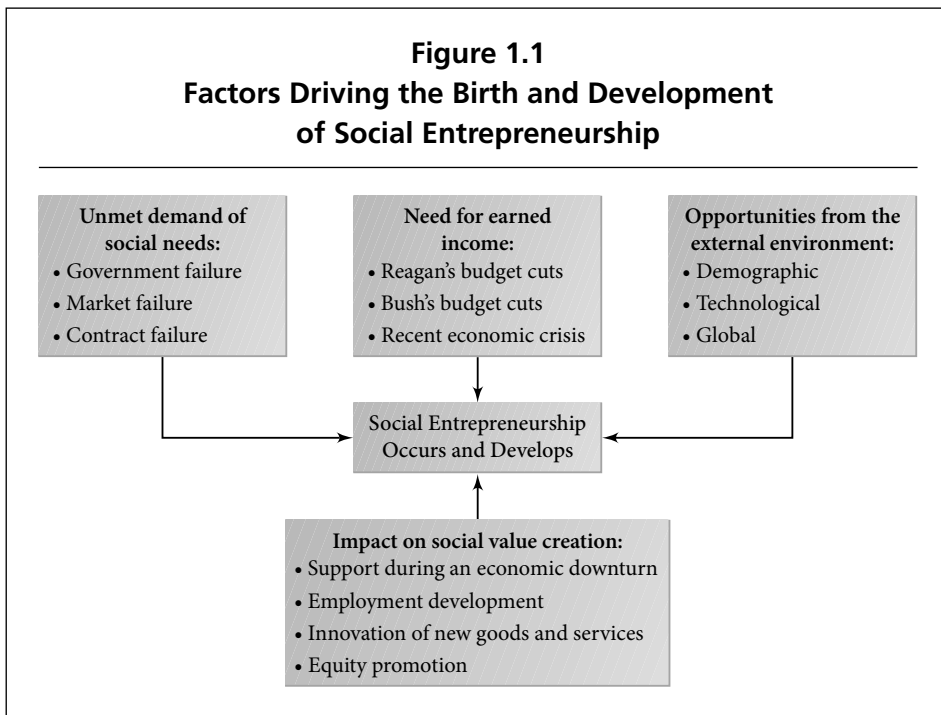
- Context and background, such as social, moral, and educational background; previous entrepreneurial experience; social entrepreneurs' involvement with the social sector or their exposure to social issues; and the like.<sup>30</sup>

Helpful as it is, research on the traits and characteristics of social entrepreneurs alone may be insufficient and potentially misleading. Researcher William Gartner draws an interesting equivalence between the problem of a trait approach to entrepreneurship and that of recruiting baseball players based on their personality profiles:

Based on upbringing and experience we could document a baseball player’s locus of control, need for achievement, tolerance of ambiguity, and other characteristics that we thought must make for good baseball playing . . . Yet, this type of research simply ignores the obvious—that is, the baseball player, in fact, plays baseball. Baseball involves a set of behaviors—running, pitching, throwing, catching, hitting, sliding, etc.—that baseball players exhibit. To be a baseball player means that an individual is behaving as a baseball player. A baseball player is not something one is, it is something one does, and the definition of a baseball player cannot stray far from this obvious fact without getting into difficulty.<sup>31</sup>

## WHY SOCIAL ENTREPRENEURSHIP?

Why does social entrepreneurship occur? We identify both motivation- and capacity-related reasons. We also discuss briefly the impact social entrepreneurship may have in social value generation. Figure 1.1 illustrates how the factors work together to trigger social entrepreneurship.



The *first and foremost* reason is the fact that the demand in terms of social needs is not yet fully met. In other words, the demand, such as the need to feed and house the homeless in a big city, outstrips the ability of existing individuals and organizations to meet this demand. The desire to do more to meet pressing social needs than is possible with existing resources motivates entrepreneurial behavior. In a 2012 commentary in *New York Times*, columnist David Bornstein wrote, “Today, as problems have grown increasingly complex, a big question is how we can reorganize the problem-solving work of society so it is more responsive to needs. Three generations ago, the federal government could address many forms of injustice through legislation—mandating a 40-hour workweek, instituting a minimum wage, establishing housing codes. Today, our societal challenges—in education, health, or the environment—demand innovation from many directions.”<sup>32</sup>

Several theories explain why there always have been and may increasingly be social needs that are unaddressed or underaddressed. First, market failure and government failure theories are concerned with collective action problems around the provision of public goods or collective goods. A public good is a good that is both nonexcludable (that is, there is no easy way to prevent non-paying customers from accessing the good once it is produced) and nonrival (that is, its consumption by one person does not diminish the simultaneous consumption by another). Examples of public goods include national defense and clean air. A collective good (for example, the performing arts) is a good that is excludable but still nonrival. Public goods and collective goods may lead to market failure, and therefore they provide roles for government, nonprofit organizations, and social entrepreneurs. Government can step in to correct market inefficiencies, but it may also fail, because government provides public goods only at the level that meet majoritarian, homogeneous demand (that is, that satisfy the median voter). Thus nonprofits and social entrepreneurs step in to meet residual unsatisfied demand for public goods resulting from the heterogeneous preferences of citizens. Market inefficiencies also occur in the case of private goods: according to contract failure theory, information asymmetry between customers and service providers leads to the breakdown of ordinary contractual mechanisms; nonprofits and social entrepreneurs arise in situations in which consumers feel unable to evaluate accurately the quantity or quality of the service a firm produces for them. In such situations, consumers may find nonprofit organizations to be more trustworthy than for-profit businesses because of the

nondistribution constraint (that is, a nonprofit is prohibited from distributing its net earnings among individuals who oversee the organization).<sup>33</sup>

The *second* broad reason why social entrepreneurship occurs is that, for nonprofits, there is a need for enhanced revenue generation or greater internal efficiencies to financially sustain operations. Nonprofits have a long history of earning income. For decades nonprofits had been carrying out traditional commercial activities, such as gift shops and secondhand clothing stores, to provide services to their constituencies. Nonetheless, since the early 1980s the picture has changed. During the Reagan administration, due to the economic recession and budget cuts in social services, numerous nonprofits were forced to consider or initiate earned-income ventures to make up for lost government funding. In 2000, when the George W. Bush administration threatened a series of budget cuts, nonprofits had to embark on a new round of revenue-seeking efforts. Conservative outlooks, both within and outside of the government, further urged nonprofits to invest in market-based solutions to social problems, which included paying more attention to earned income as a source of nonprofit sustainability. The early 2000s recession triggered by the burst of the dot-com bubble, and most recently the Great Recession triggered by the collapse of the housing bubble and the failure of financial institutions, had significant impacts on federal and state economies and changed priorities of government expenditures. Diminished political support for social welfare spending at the federal level, combined with state budget deficits, resulted in significant budget cuts in many nonprofits. Because government funding has become increasingly unpredictable or even unreliable, nonprofits have substantially changed the way they do business and have been forced to find more innovative ways to carry out their missions.<sup>34</sup>

The *third* reason for social entrepreneurship is related to changes in the external environment, which provide social-value-creation opportunities that did not previously exist. We identify four factors in the external environment in which changes may introduce opportunities to serve broader social needs and create new forms of value. These factors are demographics, technology, globalization, and potential impact on social value creation.

## **Demographics**

Demographic factors refer to the characteristics of a human population, such as age, gender, level of education, level of income, family, race/ethnicity, and geographic distribution. The demographic profile of the United States has

undergone some important changes since the 1950s: in addition to growth in sheer numbers, the U.S. population is growing disproportionately older and becoming more racially and ethnically diverse.<sup>35</sup> Similar trends are observed in Europe.<sup>36</sup> These trends will likely lead to newly emerging social needs and open up opportunities for social entrepreneurs. In many developing countries, with more access to education and the growth of the middle class in recent years, a markedly increasing number of people now have the capacity to be change makers and initiate social entrepreneurial activities.

As an integral part of this demographic transition, women are playing a more significant role in the movements of social entrepreneurship. In the United States, women account for over two thirds of the nonprofit workforce, and the percentage of women in leadership positions (for example, chief executives, fiscal officers) in nonprofit organizations has been greater than the percentage of men.<sup>37</sup> This overrepresentation of women in nonprofit employment suggests that the nonprofit sector might provide a more robust supply of aspiring women social entrepreneurs than do other sectors. In the United Kingdom, there is evidence that women are more likely to be social entrepreneurs than commercial entrepreneurs, and that the difference between male and female levels of entrepreneurship is much smaller for social entrepreneurs than it is for their commercial counterparts.<sup>38</sup> This increasingly important role of women in social entrepreneurship can be partially attributed to the fact that more women are now receiving education from professional schools (business, public affairs, social work, and so on), which are fostering an ecosystem for women students. Take Wharton San Francisco as an example. According to Wharton San Francisco's COO Bernie Birt, the school is working toward attracting highly talented women to their programs, and the 2014 class of the school's MBA for Executives program is up to 19 percent female. Even if this is not close to the 50 percent mark, compared to prior years, it is moving in the right direction.<sup>39</sup> Moreover, as discussed in the Introduction, there is also growing interest in professional schools around the world for a more engaging social entrepreneurship curriculum.

### **Technological Factors**

The technological environment refers to innovations, institutions, and activities associated with creating new knowledge and translating that knowledge into new products and services.<sup>40</sup> In the United States, a milestone event in the

technological environment was the passage of the Bayh-Dole Act in 1980. Bayh-Dole allows a university, small business, or nonprofit institution to retain property rights of inventions funded by the federal government and to commercialize their research advances.<sup>41</sup> Prior to this act, it was difficult to transfer inventions produced by universities and research institutions using government funding to the industry or the public, as the government retained the licenses to all patents from government-funded research. This law significantly increases inventors' incentive to pursue innovation and entrepreneurship.

Moreover, the Internet and social media have provided an unprecedented arsenal of resources for the success and collaboration of many social entrepreneurs. The U.S.-based nonprofit peer-to-peer microfinance organization Zidisha is a good example. Capitalizing on the rapid diffusion of internet and mobile technologies in developing countries, Zidisha provides an eBay-style microlending platform where computer-literate, low-income entrepreneurs in developing countries (borrowers) can engage in direct dialogue with individual web users worldwide (lenders) without intermediaries, thus making small business loan transactions at a lower cost than has ever before been possible in most developing countries.<sup>42</sup>

## **Globalization**

Globalization provides opportunities for entrepreneurs to make better use of the resources of some countries to address social needs common to many countries. VisionSpring offers a good example: a social enterprise with a mission to ensure access to equitable and affordable eyeglasses for people in the developing world, VisionSpring provides eye tests and eyeglasses to lower-income customers in more than twenty countries, including Bangladesh, El Salvador, India, and South Africa.

Although globalization provides a lot of opportunities, it also requires enormous localization efforts from social entrepreneurs in order to solve local problems. Proximity Designs is a social venture that aims to reduce poverty for rural families in Myanmar (Burma) by designing and delivering low-cost products and services. To customize the delivery of agricultural-development services in rural Myanmar, Proximity Designs established a local design lab in Myanmar where a team of ethnographers and product designers worked closely with low-income farmers to develop such products as foot-powered irrigation pumps, water storage tanks, and solar-lighting systems. To ensure that farmers can

afford to use its products and services, Proximity Designs developed a financing program that make small loans available to farmers at modest rates. They also offered after-sales support and repair services to user households.<sup>43</sup>

## Potential

Finally, social entrepreneurship is further spurred by its potential to contribute significantly to our fight against economic downturns and social value generation. Among the few major impacts generated by social entrepreneurship are (1) support during an economic downturn, (2) employment development, (3) innovation, and (4) equity promotion.

**1. Support During an Economic Downturn** Social entrepreneurship becomes especially important during an economic recession, helping to address the widening gap between capitalized needs and social needs. In a bad economy, many become homeless or struggle to survive on a reduced income. Adults as well as children must adapt and cope, and various organizations must meet an increasing demand for cash or in-kind donations to support these families. Personal counseling, career counseling, and job training become particularly important to help these families remain stable. Social entrepreneurs, with their passion for solving social problems, have a critical role to play.<sup>44</sup>

**2. Employment Development** Social entrepreneurship creates jobs and employment—a major and vital economic value in itself. Estimates suggest that anywhere from 1 to 7 percent of workers are employed in the social entrepreneurship sector.<sup>45</sup> For example, based on a population survey of 22,500 individuals across the U.K., a Global Entrepreneurship Monitor (GEM) study reported that about 3.2 percent of the working-age U.K. population could be classified as social entrepreneurs (defined in the survey as being involved in founding and running a social venture younger than forty-two months).<sup>46</sup> The GEM study found that social entrepreneurs are disproportionately more effective at job creation than other businesses. On average, all forms of socially oriented organizations create more jobs than mainstream entrepreneurial enterprises. Specifically, those social enterprises with mixed revenue streams create five times as many jobs as mainstream entrepreneurial businesses; however, it is worth noting that they also have over six times the amount of turnover as mainstream entrepreneurial businesses.<sup>47</sup>



**3. Innovation** Innovation is often instrumental in improving social welfare and promoting social development. Social enterprise can excel in this area, as it is more free to innovate in developing new services and goods without financial expectations from shareholders or the red tape of government. With the increase in social entrepreneurial initiatives, issues like mental health, crime, HIV, drug abuse, and illiteracy are being handled in innovative ways.<sup>48</sup>

**4. Equity Promotion** Social entrepreneurship, if appropriately designed and implemented, fosters a more equitable society. It does so by disrupting what is currently unjust and deficient and by addressing social issues more creatively and effectively. Moreover, some of the most vulnerable populations that have particular difficulty finding employment (homeless, disabled, unemployed people, women facing gender discrimination, at-risk youth) benefit from both the employment and the job training offered by social enterprises.<sup>49</sup>

## WHERE DOES SOCIAL ENTREPRENEURSHIP OCCUR?

Social entrepreneurship can occur in all three sectors: public, business, and non-profit. It can also occur in networked settings, in which public, nonprofit, and business organizations work together toward common goals. Below we provide a set of examples of social entrepreneurship in public, business, and nonprofit sectors respectively and their intersection areas.

In the *public sector*, social entrepreneurship is closely related to innovation and can mean different things in different contexts. It might indicate new ways of organizing work (such as Public Private Partnerships), new ways of rewarding employees (such as pay for performance), or new ways of communicating with the public (such as government blogs and social media sites). It might take the form of policy innovations, service innovations, and innovations in other fields like democracy (such as e-voting) or international affairs (such as the International Criminal Court). Some innovations are so radical that they are regarded as systemic (such as National Health Service in the U.K. and Obamacare in the U.S.).<sup>50</sup>

Garbage collection in the city of Phoenix, Arizona, offers a good example of social entrepreneurship in the public sector at the local level. In the 1990s, the city of Phoenix put out their contract for garbage collection to public bid. The public works department, which is responsible for providing external services

to Phoenix residents as well as internal support functions for other city departments, bid along with the private sector. At first, public works lost most of their business, but over time they learned how to compete and win. Though it is a government agency, public works' garbage collection business is "an enterprise function with all services supported by service fees charged to residential and commercial customers."<sup>51</sup>

Some governments in the United States have recently made efforts to institutionalize innovation and to foster entrepreneurial initiatives. At the federal level, the Obama administration established the Office of Social Innovation and Civic Participation to support projects that combine public and private resources to solve social problems. In New York, the state and city partnered to support the Center for Court Innovation, a nonprofit organization aiming at experimenting with innovative approaches to public safety problems.<sup>52</sup>

Governments in European and Asian countries have taken similar steps. For example, Denmark's Ministry of Finance set up a unit to promote new creativity—such as the creation of a single account for financial transactions with citizens. The Economics and Business Affairs Ministry has restructured itself to be project-based rather than function-based, and has established its own internal consultancy, MindLab, that provides a systematic approach to public sector innovation. Singapore has provided funding for innovations in public service delivery through the so-called "Enterprise Challenge" program, which was run through the Prime Minister's office. One project of the program is the "virtual policing center" through which non-urgent inquiries are routed to the Singapore Police Force, and teleconferencing for incarcerated individuals to interact with their relatives. It is reported that these initiatives could achieve savings ten times greater than their costs.<sup>53</sup>

Public sector unions can be sources of innovation and champions for faster adoption. Public sector unions primarily represent the interests of employees within public sector organizations. Unions representing professionals and manual workers are sometimes perceived as resisting innovations, particularly those that involve changes to demarcations between industries. However, unions have often helped drive innovation: the Fire Brigades Union in the U.K., for example, helps firemen find part time employment as benefits advisors alongside their roles as firemen; the local branch of Unison—one of the U.K.'s largest trade unions—in Newcastle upon Tyne was key to the introduction of a new IT system for the Council. In Norway, the Model Municipalities initiative brings

together multiple stakeholders including politicians, management, and trade unions in a program for upgrading public services.<sup>54</sup>

Social entrepreneurship in the *business sector* goes beyond “doing well by doing good,” emphasizing the combination of business and ethics, particularly corporate social responsibility. In this sector, social entrepreneurship is conducted by a for-profit organization that has clear charitable causes or even operates a nonprofit subsidiary to distribute its products or services or redistribute its revenue and profit. An excellent example is TOMS Shoes, a shoe company with a charitable cause: “to create a better tomorrow by taking compassionate action today.” Their approach is simple: for every pair sold, a new pair is donated to a child in need of shoes. Since TOMS launched in 2006, over ten million pairs of shoes have been given to children in more than sixty countries. Recently TOMS has begun selling eyewear: similar to their shoes, with every pair of glasses sold, TOMS helps give sight to an individual in need.<sup>55</sup>

Pura Vida Coffee is a Seattle-based company that sells fair-trade certified organic coffee from third world countries. While this business model is not really that “entrepreneurial,” the company makes itself different by using its profits to help coffee growers and producers of the third world. Before founding the company, cofounder John Sage worked at Microsoft and was already one of Microsoft’s early millionaires. But he felt “money wasn’t enough for him” and “there had to be more.” He thought, “Americans spend somewhere between \$15 billion and \$20 billion every year on coffee, and if there’s an opportunity to just get some small piece of that . . .” The idea was developed into a venture when he talked to his college friend Chris Dearnley, who had been struggling to find steady funding for charitable programs in Costa Rica. The company sells coffee mainly on college campuses and churches. With its slogan, “Create Good,” it provides living wages to farmers and producers of coffee and donates money (including its own profits and contributions it encourages from its distributors and private donations) to help the education and healthcare programs in coffee growing countries. It has grown into one of the largest distributors of fair-trade organic coffee in the country, and has been able to attain significant social and environmental outcomes, demonstrating that financial bottom line and social performance can go hand in hand.<sup>56</sup>

*Fifteen* was founded by English celebrity chef Jamie Oliver in 2002. It began as an ambitious effort to offer disadvantaged youths (ages eighteen to twenty-four) an opportunity to develop a career path for themselves through the art

of cooking and hospitality. The restaurant initiative was named for the fifteen young people who originally entered this apprenticeship program funded by Jamie's restaurant. Since the first establishment opened, in London, *Fifteen* has:

- Delivered delicious dishes to diners and opened two other restaurants in Amsterdam and Cornwall
- Trained hundreds of unemployed young people to be chefs and inspired many of them to pursue successful careers in the restaurant business
- Reinforced the value of local produce and cooking techniques<sup>57</sup>

Two examples are offered to illustrate social entrepreneurship in the *nonprofit sector*. *Real Change* is a weekly street newspaper based in Seattle, Washington. It is written by professional staff and sold or delivered by vendors, most of whom are poor or homeless, as an alternative to panhandling. The paper covers a variety of social justice issues, including homelessness and poverty and also mainstream news. Each copy costs the vendors about 35 cents; they sell these to customers for a \$1 "donation" and keep the difference, plus any tips. A 501(c)3 nonprofit organization, *Real Change* has been operating since 1994. According to *Real Change's* 2012 Annual Report and survey, 43 percent of vendors are currently homeless and 49 percent were previously homeless. Of those surveyed, 44 percent are housed (of which over half are in subsidized housing), 17 percent are sleeping outdoors, 11 percent are sleeping in shelters, 8 percent are "staying with friends or family," and 6 percent are sleeping in cars. Less than 8 percent of vendors have never been homeless.<sup>58</sup>

OneWorld Health is the first nonprofit pharmaceutical company in the United States. It was founded by Drs. Victoria Hale and Ahvie Herskowitz in 2000, and received 501(c)(3) tax-exempt status in 2001. The mission of the organization is to discover, develop, and deliver safe, effective, and affordable new treatments and interventions for people in developing countries, with an emphasis on diseases that disproportionately afflict children. OneWorld Health has established its unique strength by utilizing and integrating the scientific and manufacturing capacity of the developing world. Working with partners across the world, the organization identifies potential new medicines for neglected infectious diseases afflicting the most vulnerable populations, assesses the safety and effectiveness of investigational drugs, follows international ethical standards for research, collaborates to manufacture and distribute new medicines, and

works to ensure their affordability and availability for distribution. The model of OneWorld Health challenges the traditional profitability thinking of the pharmaceutical industry and redesigns the entire value chain of drug delivery. The model is sustainable because it manages to create value for everyone involved. As researchers Seelos and Mair note, “Biotechnology companies have found an appealing outlet for idle intellectual property, and compassionate research and development efforts have attracted scientists and volunteers to donate time, effort, and knowledge to the project.”<sup>59</sup> The organization has received funding from a number of influential donors, including the Bill & Melinda Gates Foundation (the Institute received 96 percent of its funding from the Foundation as of 2006), Amgen, Chiron Corporation, Gap, Lehman Brothers, Pfizer, Vital Spark Foundation, and Skoll Foundation.<sup>60</sup>

*The interface between public and private/nonprofit sectors* is a fertile ground for innovation and social entrepreneurship. Relatedly, public-private partnerships are a common form of venture. One of the earliest examples is a partnership between Marriott (a hospitality company) and the March of Dimes (a public charity that works to improve the health of mothers and babies) to conduct a cause-focused campaign in 1976. For Marriott, the goal was to generate highly cost-effective public relations and media coverage for the opening of their two-hundred-acre family entertainment center, Marriott’s Great America in Santa Clara, California. For the March of Dimes, the goal was to fundraise for its cause. The campaign was highly successful: it provided 2.5 million dollars in donations to the March of Dimes, while stimulating the record-breaking opening of Great America and providing hundreds of thousands of dollars in free publicity.<sup>61</sup>

Another example is a joint venture between American Express and the Statue of Liberty Restoration Fund in 1983. During this period, the Statue of Liberty was undergoing extensive renovations, and the company came up with the idea to donate to the renovation. The promotion spanned the fourth quarter of the year, and the agreed-upon amount was one cent for each use of its cards and one dollar for every new card issued. The campaign succeeded in increasing the profits of American Express; the company saw a 28-percent increase in card usage and issued numerous new cards. A total of \$1.7 million was donated to the Statue of Liberty-Ellis Island Foundation. (Note, however, that more than \$6 million was spent on campaign promotions.<sup>62</sup>)

Social entrepreneurship can also occur *inside or outside an existing organization*. It occurs when individuals identify an idea for social innovation and take

the risk to implement the idea by establishing a new organization (that is, an independent start-up). A prominent example is the Grameen Bank, which grew from a project undertaken by Dr. Muhammad Yunus at Chittagong University in 1976 and became a groundbreaking social business that provides collateral-free micro loans for self-employment to millions of women villagers in Bangladesh.<sup>63</sup> Another example is Kiva, an online microfinance organization with a mission to connect people through lending to alleviate poverty and an innovative approach that leverages the Internet and a worldwide network of microfinance institutions. Social entrepreneurship also occurs when individuals develop innovative initiatives aimed at social causes *within* established organizations (that is, social intrapreneurship). For example, in his role as the chief information officer of the American Red Cross, Steve Cooper guided the introduction of a first-ever national call center during Hurricane Katrina to provide emergency financial assistance to the more than four million people displaced from their homes.<sup>64</sup>

## CONCLUDING THOUGHTS

Social entrepreneurship occurs when there is a new problem to be faced, new technology available that would make things more efficient, or new research discovers a different cause of a social malady or a new treatment for a social issue. Social entrepreneurship does not always have to be novel; it could even be a resurgence of an old technique. For instance, Hassan Fathy, an Egyptian architect working in the 1950s, attempted to revive ancient Egyptian techniques of building using adobe to build clean, safe, spacious, private homes for the poor with almost no material costs.<sup>65</sup> Fathy's work came as a response to governmental housing projects that were small, unventilated, and very costly due to the use of foreign materials such as cement and steel. Although Fathy's attempted housing project failed due to several reasons, his approach was novel and entrepreneurial at a time when progress was defined by western standards.

## EXERCISES

### Exercise 1.1

This chapter reviews two dominant schools of thought on the definition of social entrepreneurship: the "social enterprise" school and the "social innovation" school. Please identify an example of social entrepreneurship based on each

definition, and then use the examples to discuss the merits and limitations of these definitions.

### **Exercise 1.2**

What unique characteristics do social entrepreneurs tend to display? Use a real example to describe the unique traits and/or behavioral patterns of a social entrepreneur.

### **Exercise 1.3**

Why does social entrepreneurship occur? Please describe the factors that lead to the birth and prevalence of social entrepreneurship. In particular, find a social enterprise in your local community that was created during the last economic downturn, and explain how it has addressed a community need.

