

CHAPTER 1



Social Entrepreneurship

Need and Opportunity

Societies worldwide are urgently seeking innovative approaches to addressing persistent social problems that afflict their communities but that have not yet been satisfactorily addressed by either governments or the marketplace. Historically, these challenges have been the domain of nonprofit organizations (also known as nongovernmental organizations or NGOs, or civil society organizations or CSOs), which operate in fields ranging from education, health services, social services, and environmental conservation to arts and culture. In response to the challenge of overcoming the increasingly complex social issues that societies face today, the social sector has grown vastly and continues to proliferate worldwide. In the United States alone, the sector is comprised of more than 1.5 million organizations¹ with combined revenues of over \$700 billion, and it controls over \$2 trillion in assets,² while internationally, hundreds of thousands of NGOs operate in both developed and developing countries with combined revenues on the order of tens of billions of dollars.³ Despite the magnitude of the social sector, however, many of the challenges that these organizations seek to address persist to this day. While the social sector includes many activities that are critical to the well-being of society, many observers, both inside and outside the sector, have noted that traditional social sector approaches have made insufficient headway in addressing critical social problems. Many social problems have increased in intensity and complexity, crying out for more entrepreneurial approaches that create more social value with limited resources. Social entrepreneurship often exhibits some of the virtues commonly associated with commercial entrepreneurship, such as efficiency, dynamism, innovativeness, high performance, and economic sustainability. These approaches achieve better leverage on resources, enhance effectiveness through creative partnerships, raise expectations for performance and accountability, and ultimately achieve more sustainable social impact.

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A CHANGING CONTEXT AND EMERGING OPPORTUNITIES

While the challenges in the social sector are many, the potential and opportunity for social entrepreneurship to be a powerful force for social value creation have never been greater. Financial pressures on most social sector organizations have increased in recent years and are unlikely to lessen. In much of the social sector, costs have been rising faster than inflation. For example, according to data from the U.S. Bureau of Labor Statistics, the Consumer Price Index rose 13.4% between 2000 and 2005, while during the same period, the price indices for education and medical care rose 35.7% and 24.0%, respectively.⁴

At the same time, in many social sector domains, government funding has decreased and private donations and grants have not made up the difference. President Bush's 2007–2012 budgets would cut direct federal funding of nonprofits, excluding support of health services providers, by \$14.3 billion. Research by the Aspen Institute estimates that about 20% of nonprofits' resources come from private giving, including individuals, foundations, and businesses; 30% comes from the state and federal government; while 40% to 50% is earned from service fees. According to Erica Greeley, deputy director of the National Council of Nonprofit Associations, which has more than 22,000 members in 45 states and Washington, D.C., "Federal budget cuts do have a major impact. There is no way that private giving can make up the difference."⁵

Even where public subsidies have not yet declined, they are under serious threat, as governments at all levels in most countries struggle to balance their budgets. This pressure on government and private funding, coupled with the proliferation of social sector organizations, has fueled intense competition for scarce funds (see Chapter 3). Consequently, many social enterprises are searching for new ways to control costs, increase revenues, and enhance effectiveness. More than ever, these organizations need to do more with less.

On the positive side, the economic boom of the 1990s in the United States generated significant new private wealth and fostered the emergence of many new philanthropists. At the same time, a new generation of leaders with managerial skills and entrepreneurial talent is growing and becoming increasingly engaged in the social sector. For example, the Masters of Business Administration (MBA) interest in the social sector has surged in recent years. Net Impact, an international organization whose membership is comprised of MBA students who want to use their business skills to make a positive influence on society, has seen their number of chapters almost double to 94 since 2000. Twenty-nine of the 30 schools on *BusinessWeek's* ranking of top business schools have a chapter on campus.⁶ Growing numbers of MBA graduates have gone on to leadership positions in the social sector, whether as senior managers or volunteer board members. These social sector actors bring not only new capital,

management expertise, and talent but also a drive to foster innovation to achieve increased social impact. Accompanying these trends have been a growing concern regarding the effectiveness and efficiency of traditional social sector approaches and an increasing demand for greater organizational accountability for social impact. Thus, an increased receptiveness toward new modes of operation has become a trend in the social sector.

As a result of the confluence of these trends, the nature of the social sector is changing. The boundaries between sectors, and indeed between organizations within sectors, are becoming increasingly blurred. Nonprofits are looking for more sustainable solutions to social problems and are sometimes experimenting with revenue-generating enterprises more commonly associated with the business world. As noted previously, fee for service income represents the major source of revenue for most nonprofits (see Chapter 4). They have a social purpose, but they are also economic enterprises. Social purpose business ventures are being established in sectors such as medical care, education, and human services—areas traditionally dominated by public and nonprofit organizations.

Innovative partnerships are being forged between nonprofits and businesses, often combining social and commercial goals (see Chapter 5). New organizational models are being created through creative alliances among nonprofits as well as between nonprofits and public agencies that enable the partners to better leverage their respective resources. As societies search for better ways to provide socially important goods and services, opportunities for experimenting with new approaches and organizational models for growing (see Chapter 6) to achieve social goals are continually emerging. An integral part of this activity is the development of effective performance management systems that enable more effective assessment and achievement of social impact (see Chapter 7).

SOCIAL ENTREPRENEURSHIP DEFINED

With the emergence of this range of innovative activity, the concept of social entrepreneurship has taken on multiple and varied meanings in popular discourse, as well as in the academic literature. The concept of social entrepreneurship has its roots in the broader field of entrepreneurship and draws on the definition of entrepreneurship as “the pursuit of opportunity beyond the tangible resources that you currently control.”⁷

In this definition, a key focus is on how various individuals and groups identify and commit to an opportunity, how the entrepreneurial organization gains access and functional control over a network of resources that are not within its hierarchical control, and the way in which participants are rewarded.⁸ The entrepreneurial organization focuses on opportunity, not resources. Entrepreneurs

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must commit quickly but cautiously so as to be able to readjust as new information arises. The process of commitment becomes multistaged with minimal commitment of resources at each stage to allow for learning from experience and new knowledge before more resources are sought.

Definitions of social entrepreneurship have been based on this more general conceptualization of entrepreneurship and range from relatively narrow to more general.⁹ Common across all these definitions is the fact that the underlying drive for social entrepreneurship is to create social value, rather than just personal and shareholder wealth.¹⁰ Narrower conceptualizations of social entrepreneurship typically refer to the phenomenon of applying business expertise and market-based skills to the social sector, such as when nonprofit organizations operate revenue-generating enterprises.¹¹ Whereas more general conceptualizations of social entrepreneurship refer to innovative activity with a social objective in either the private or nonprofit sector, or across both, such as hybrid structural forms, which mix for-profit and nonprofit activities.¹² It is this latter, more general conceptualization of social entrepreneurship that we use throughout this book. *We define social entrepreneurship as an innovative, social value-creating activity that can occur within or across the nonprofit, business, or government sector.*

OBJECTIVES AND STRUCTURE OF THE BOOK

The opportunities available to a social entrepreneur are diverse and wide ranging, and they include everything from starting a social purpose commercial venture, to developing an innovative nonprofit model, to creating an entire network of alliances. The distinct opportunities and challenges of creating and building sustainable social enterprises require not only the creative combination and adaptation of social and commercial approaches but also the development of new conceptual frameworks and strategies tailored specifically to social entrepreneurship. Thus, successful social entrepreneurship requires an in-depth understanding of the distinctive management context of the social sector. Furthermore, although the field of social enterprise is relatively new and still emerging, and indeed many social enterprises are truly experiments in that they are often the first of their kind, social entrepreneurial success still requires a strategic and systematic approach.

Among the many characteristics that make social enterprise unique are the following:

- **The centrality of the social mission:** The creation of social value takes precedence over the creation of personal shareholder or stakeholder wealth.

- **Fragmented, heterogeneous capital markets:** Most social enterprises, to some degree, depend on the philanthropic capital markets for some portion of their funding. Funders have a wide range of motivations and expectations, often making funding unpredictable, highly restricted, and unsustainable. Yet social entrepreneurs must typically spend a majority of their time on an ongoing basis seeking funding from these sources since their operations rarely, if ever, become financially viable without some form of philanthropic support.

- **Human resources challenges:** Social enterprises, with their limited capacity for offering financial incentives, often pay below-market rates¹³ and rely heavily on volunteer labor. Social entrepreneurs often must rely less on financial rewards and incentives and more on intrinsic motivators and creative strategies for attracting, motivating, and retaining staff.

- **Blending of social and commercial approaches:** Social and commercial approaches can sometimes be mutually beneficial, while other times they may conflict. Combining approaches for social value creation poses a unique set of management opportunities and challenges.

- **Alliance opportunities:** Because nonprofit organizations seek to create social value and do not necessarily require that all value created be captured within organizational boundaries, there is tremendous potential for new opportunities and models for collaboration and partnership within the sector. Unlike in the private sector, collusion is sometimes allowed and, in some cases, even encouraged by various stakeholders, from beneficiaries to funders.

- **Challenge of scale:** Although social needs far outstrip the resources dedicated to serving them, and demand for social programs and services is often virtually limitless, achieving large-scale growth and impact remains an elusive goal for most social enterprises.

- **Ambiguous market signals:** Despite its importance for effective management, performance measurement is a perennial challenge for social enterprises, as tools for measuring social impact are still in their infancy. Furthermore, because third-party payers often cover the cost of services due to an inability or unwillingness by customers to pay, market signals are often weak. Thus, high performance is not readily rewarded nor is poor performance readily punished.

- **Dispersed and distinct role of governance:** The board plays a central role in supporting the social enterprise leader and organization in generating social value, but there are important differences between social entrepreneurial governance and corporate governance. Some key differences include board leadership, composition, and membership.¹⁴ Furthermore, many social enterprises have multiple governing bodies within a single organization. Even those

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organizations with a single legal governing board often have multiple local advisory boards that sometimes play a de facto governing role.

Through an examination and analysis of the critical components of social entrepreneurship, from starting, growing, to enhancing the value of social enterprises, this book will develop analytical frameworks that will enable readers to develop an in-depth understanding of the distinctive characteristics of the social enterprise context and organization and learn concepts and tools that will enable them to pursue social entrepreneurship more efficiently, effectively, and sustainably. By presenting a series of case studies on actual social enterprises, we will provide the reader with a firsthand look at the distinctive challenges and rewards of social entrepreneurship. Through analysis of the cases, our aim is for readers to develop the knowledge, skills, and attitudes necessary for responding creatively and effectively to the challenges of creating, building, and leading innovative social purpose organizations, and to provide an appreciation of how to approach the social entrepreneurial process more systematically and effectively.

We have organized this book around analytical frameworks and key action areas that social entrepreneurs are likely to face at various stages of their organization's development. We begin in Chapter 2 with an overarching framework for the social entrepreneurship process. The subsequent chapters address five specific action areas: resource mobilization, marketplace activation, alliances, growth strategy, and performance management. Each chapter will be introduced by an overview reading that explores critical dimensions of the topic and provides an analytical framework that can guide the examination of the corresponding critical action issues in the accompanying case studies.

Chapter 2, "The Social Entrepreneurial Process," sets forth a basic analytical framework that highlights the commonalities and distinctions between social and commercial entrepreneurship. This framework is applicable to the analysis of all the subsequent case studies. The cases in this chapter highlight some of the unique aspects of social entrepreneurship, including the centrality of social mission, the critical role of social and organizational networks, the idiosyncrasies of the capital markets, the imperative and challenge of growth, and the wide array of critical stakeholders that a social entrepreneur must build relationships with. These cases set the stage for further exploration of the distinctive aspects of social enterprise and their implications for social entrepreneurship in each of the successive chapters of the book.

Chapter 3, "Navigating the Philanthropic Labyrinth," examines key aspects of the philanthropic capital markets, as well as major trends and innovations that are emerging in the marketplace.

Chapter 4, “Earning Your Own Way,” examines a number of creative market-based approaches and organizational structures used by for-profit and nonprofit organizations as a vehicle for generating the resources and services needed for social betterment.

Chapter 5, “Crafting Alliances,” analyzes how a collaborative approach is becoming an increasingly integral part of social enterprise strategy and delves into some of the opportunities and risks associated with building innovative intrasector alliances among nonprofits, and intersector alliances between nonprofits and business and between nonprofits and government.

Chapter 6, “Managing Growth,” explores the distinctive challenges facing social entrepreneurs who successfully make it through the start-up stage and choose to expand their organizations to increase the organization’s impact.

Chapter 7, “Measuring Performance,” deals with perhaps the most complicated and distinctive managerial feature of social enterprises. Defining performance success and creating a measurement system to track a social enterprise’s progress along these dimensions remain a perennial challenge.

NOTES

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