



# **“Social Entrepreneurship is About Innovation and Impact, Not Income”**

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Originally published in the CASEconnection Newsletter  
October, 2004



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Having worked in this field for a while, I am always delighted to find that people are increasingly familiar with the term "social entrepreneur." Too often, however, they identify social entrepreneurship with nonprofits generating earned income. When the Schwab Foundation for Social Entrepreneurship named Linda and Millard Fuller of Habitat for Humanity and Wendy Kopp of Teach for America, among others, as outstanding social entrepreneurs, it must have confused many people. Both organizations are well known, but neither of them is known for its earned income strategies. They rely heavily on grants and donations. In fact, these social entrepreneurs are masterful at attracting philanthropic donations. What makes them entrepreneurial is that each of them has pioneered creative ways of addressing social problems and marshaled the resources to support their work. Habitat mobilizes volunteers to build affordable houses for the poor. Teach for America recruits talented college graduates to teach in economically distressed schools. Schwab was following a view long endorsed by Bill Drayton at Ashoka that social entrepreneurship is about innovation and impact, not income. This view is well grounded in entrepreneurship theory (see my paper on "*The Meaning of Social Entrepreneurship*,") but not sufficiently.

Despite efforts to spread an innovation-based definition, far too many people still think of social entrepreneurship in terms of nonprofits generating earned income. This is a dangerously narrow view. It shifts attention away from the ultimate goal of any self-respecting social entrepreneur, namely social impact, and focuses it on one particular method of generating resources. Earned income is only a means to a social end, and it is not always the best means. It can even be detrimental-taking valuable talent and energy away from activities more central to delivering on the organization's social mission. Though it is very popular right now, it is just one funding strategy among many and must be assessed on a case-by-case basis. The key is finding a resource strategy that works.

Focusing on earned income leads people to embrace the problematic idea of a "double bottom line." Profits should not be treated with equal importance to social results. No amount of profit makes up for failure on the social impact side of the equation. Any social entrepreneur who generates profits, but then fails to convert them into meaningful social impact in a cost effective way has wasted valuable resources. From a management point of view, the financial "bottom line" is certainly important, but it is not on the same level as social impact. Social entrepreneurs have only one ultimate bottom line by which to measure their success. It is their intended social impact, whether that is housing for the homeless, a cleaner environment, improved access to health care, more effective education, reduced poverty, protection of abused children, deeper appreciation of the arts, or some other social improvement.

**"We have seen that the function of entrepreneurs is to reform or revolutionize the pattern of production . . ."**

Joseph A. Schumpeter, *Capitalism, Socialism and Democracy*

Many activities that generate earned income are not entrepreneurial at all. Earned income has become commonplace. In fact, if religious congregations are excluded, earned income has exceeded donations as a source of funds for public charities in the U. S. for many years now. Hospitals charge fees for medical services; private schools charge tuition; performing arts groups sell tickets; many museums charge admission and often have gift shops in their lobbies. No one thinks of these practices as examples of "social entrepreneurship" even though they all involve generating earned income. It would be absurd to give a social entrepreneurship award, for instance, to a major hospital simply because of

its extremely high percentage of earned income from patient fees and the record profits at its gift shop and parking garage. Yet, this would be a logical implication of taking earned income as the yardstick of social entrepreneurship. High levels of earned income are often not innovative and may not be correlated with high levels of social impact.

Any form of social entrepreneurship that is worth promoting broadly must be about establishing new and better ways to improve the world. Social entrepreneurs implement innovative programs, organizational structures, or resource strategies that increase their chances of achieving deep, broad, lasting, and cost-effective social impact. To borrow from J.B. Say, the eighteenth century French economist who first popularized the term "entrepreneur," they shift resources into areas of higher productivity and yield. Habitat persuades volunteers to shift their time from recreational activities to building a house. Teach for America persuades bright college graduates who did not major in education to devote two years of their careers to teaching in schools that have a difficult time finding teachers. This resource-shifting function is essential to progress. As Peter Drucker has said, "What we need is an entrepreneurial society in which innovation and entrepreneurship are normal, steady, and continuous."

Of course, some exciting forms of social entrepreneurship use earned income strategies to achieve social impact. We should encourage social sector leaders to explore innovative financial strategies that make their organizations more effective in serving social needs while leveraging social assets. Creative efforts to harness business methods to serve social objectives are often entrepreneurial in the best sense of that term. Consider Grameen Bank that was built around an innovative approach of using peer-groups to improve the economics and effectiveness of micro-enterprise lending as a tool to fight poverty in Bangladesh. Or consider Delancey Street Foundation, a residential community of hardcore substance abusers in San Francisco that runs several businesses to provide productive employment to community members and generate funds for the organization. These are powerful examples of how social sector leaders can blend business methods with social objectives. What makes them entrepreneurial is not the source of income, but their innovations and their impact.

Earned income ventures are socially entrepreneurial only when they have a social purpose beyond simply making money. If social entrepreneurship is to be distinctive in any way, it must be because social objectives matter in how the venture is organized and managed. If the only way a venture serves your mission is by generating funds, it may be business entrepreneurship, but it is not social entrepreneurship. If I start a bakery to make money that will be used to support my sailing hobby, we do not call the bakery a "sailing venture." Likewise using the proceeds of the bakery for a social purpose does not make it into a "social" venture. It is a social venture only if social considerations are integrated into its objectives and management. A purely moneymaking venture can be managed using straight business principles. It makes no difference if the owner intends to use the cash generated by the venture to buy a bigger sailboat or to serve the homeless. True social ventures often require a more complex skill set than straight business ventures.

Only if we can embrace a definition of social entrepreneurship that focuses on innovation and impact, we can put funding strategies in their proper perspective. It is not surprising that people are drawn to the earned income definition of social entrepreneurship. Resources are scarce and social needs are great. Everyone wants to explore new avenues for generating resources and earned income seems

promising. Unfortunately, some social sector leaders appear to be more concerned about attracting resources and sustaining their organizations than they are about assessing, sustaining, and improving their social impact. They assume they are doing a great job on the social side and that they deserve the additional funding, often without much systematic evidence. These are risky assumptions. Finding ways to sustain organizations that are not cost-effectively delivering social value is a terrible waste of energy and resources. Social sector leaders should look for creative resource strategies that enhance their impact, rather than simply sustain their organizations. By embracing a definition of social entrepreneurship that focuses on innovation and impact, we can assure that social objectives are taken seriously in the entrepreneurial process. In the end, social entrepreneurship must be about creating social value, not simply about making money.

*This article appeared on The Skoll Foundation's Social Edge in September 2003. Social Edge is a lively and provocative online community for the social sector. <http://skoll.socialedge.org>*