

Enterprising Social Innovation: Focusing Research on the Most Intriguing Form of Social Entrepreneurship

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As a field of intellectual inquiry, social entrepreneurship is still in its infancy. We do not yet have the deep, rich explanatory or prescriptive theories that characterize a more mature academic field. The existing literature focuses primarily on practical considerations, with many descriptive case studies, stories of lessons learned, and “how to” guides. However, the field is ripe for theory development. Our goal in this paper is to help set the agenda for that theory-building process by suggesting a way of framing this new field of inquiry that is guided by both practical and intellectual considerations.

We are not proposing a comprehensive new definition of “social entrepreneurship” that would be embraced by everyone in the field, nor do we intend to reconcile differences in perspective, as continued debate and discourse is likely to be productive. We only contend that, for academic purposes, the study of social entrepreneurship should focus on “enterprising social innovation.” We should focus on social entrepreneurs who *carry out innovations that blend methods from the worlds of business and philanthropy to create social value that is sustainable and has the potential for large-scale impact*. A few elements of this simple description merit further explanation.

Carry out innovations. This language reinforces the distinction between inventors and innovators. Inventors come up with ideas; innovators put them into practice. Some people play both roles, but an entrepreneur must at least do the latter. These innovations represent what economist Joseph Schumpeter called “new combinations,” including the creation of a new good or service as well as producing and delivering an existing good or service in a new way or to a new market.

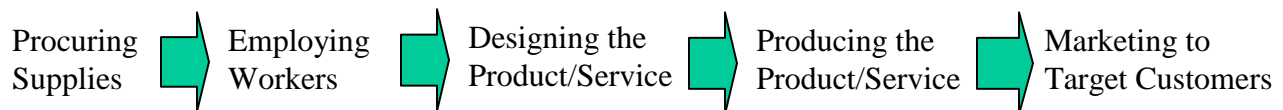
Blending methods from business and philanthropy. In order to be considered “enterprising,” the innovation must involve some business-inspired elements, whether through the adaptation of business methods to create or enhance social value, the operation of a social-purpose business, or the formation of cross-sector partnerships. Moreover, the development of new theory gets particularly interesting when the affiliative, altruistic, or expressive motivations common to philanthropy are mixed with the economic motivations commonly associated with business and markets. If these elements are not needed to achieve social impact, the organization could be run purely as a business, which poses few interesting intellectual issues beyond the discovery of the opportunity. It is the substantive mix of both business and philanthropic methods that is most challenging and intellectually intriguing.

To explore this area a little further, it is helpful to consider what we have called the “Social Enterprise Spectrum.”

Insert Table 1 about here

This spectrum describes the full range of business models available to social entrepreneurs, from purely philanthropic to purely commercial, with many variations in between. Philanthropic methods are involved anytime an organization falls short of the far right side on at least one dimension of the spectrum, indicating some form of subsidy or sacrifice. Excluding purely philanthropic or purely commercial ventures is not a major sacrifice in scope because very few social-purpose organizations exist at either extreme.

To create social value. The primary intention has to be the creation of benefits for society. There are numerous ways in which a social entrepreneur might create social value. In a previous paper on “For-Profit Social Ventures,” we proposed that a simplified version of Harvard Strategy professor Michael Porter’s “value chain” framework could be used to identify the major activities through which a business can create social value. This same framework could be extended beyond the for-profit sector to provide a basic framework for ways in which enterprising social innovation might blend philanthropic and business methods to create or enhance social value.



Social entrepreneurs may create social value at any of these steps in the process. Fair trade organizations create social value in how and from whom they purchase the goods they sell. Other social ventures create value through employing disadvantaged populations. With hospice care, the social value is inherent in the design of the value or service. A “green” dry cleaner may create social value through an environmentally friendly production process. A micro-enterprise lender creates social value by making loans to people who otherwise would not have access to the capital they need.

Is sustainable and has the potential for large-scale impact. This form of social entrepreneurship is not about temporary charitable relief or unique efforts of limited scope. It is about creating value that is likely to be sustained and scaled over time. Sustainable impact might be achieved through some kind of systemic change or major social transformation, such as the way in which the hospice movement fundamentally changed medical care for those who are dying. It might also be accomplished simply by intervening in a way that has a lasting impact in the lives of those affected. The innovation involved should also be capable, in principle, of achieving a scale of impact that is commensurate with the overall societal need or the magnitude of the societal problem being addressed. Potential scalability will be the most difficult element to judge, since few enterprising social innovations have actually achieved large scale.

The following brief examples illustrate the range of cases that fall into the scope of this concept.

Delancey Street Foundation. Mimi Silbert envisioned a new kind of rehabilitation program for substance abusers, former felons, and other who have hit rock bottom. She decided to create a place for them to live and work together, and to be empowered to become their own solutions. Delancey Street residents work in businesses that help support the organization while personally gaining an education, marketable skills, responsibility, dignity, and integrity. The program is delivered with no government funding and at no charge to the clients, and since 1971 has successfully graduated over 14,000 individuals into society as successful taxpaying citizens.

Grameen Bank. Muhammad Yunus wanted to address poverty in Bangladesh. Based on engaging with and listening to poor villagers, he came up with the idea of making very small, “micro-enterprise” loans, using local peer groups to enhance the social impact and make the model economically viable. He designed this new program and created Grameen Bank, a for-profit organization owned almost exclusively by the borrowers, to deliver it. Grameen relied heavily on grants and below-market capital through its major growth stage, but it has since renounced these kinds of subsidies.

Virginia Eastern Shore Corporation. In an effort to develop a new model for conservation, The Nature Conservancy (TNC) launched the Virginia Eastern Shore Corporation as a for-profit business in a rural region with communities struggling to overcome significant poverty. The business plan outlined four goals: job creation, environmental protection, replicability, and profitability. The leaders raised \$1.225 million in equity and \$1.5 million in debt with a plan that forecasted profitability along with the creation of 57 new businesses and 273 new jobs by the end of five years. Though in the end this venture failed, it affirmed the need for hybrid solutions and provided an example from which TNC and others could learn valuable lessons.

Habitat for Humanity. Though Habitat has been brilliant at mobilizing philanthropic resources (money, volunteer time, in-kind donations of building supplies, etc.), it incorporates a crucial business-inspired element in marketing its homes to the economically disadvantaged. Families who receive a Habitat-built home pay a mortgage. It is a modest mortgage, with zero interest, but a mortgage nonetheless. Habitat uses this business tool not because it needs the money, but because paying a mortgage gives the recipient a greater sense of ownership and responsibility, creating social value beyond the fundamental provision of housing.

Theoretical Issues Raised by Enterprising Social Innovation

Enterprising social innovation challenges the old dividing line between markets and non-markets. As illustrated earlier with the social enterprise spectrum, social entrepreneurs face a wide continuum of choices, not a dichotomy. And both ends of this spectrum can be thought of as markets. Anyone who has raised money knows they are “marketing” their organization or cause to prospective donors. This philanthropic market may differ from typical commercial markets with regard to motivations and the way value is assessed, but it is a market nonetheless. Social entrepreneurs have to decide how they will approach the markets for resources and the markets for their services or goods. To what extent and in what ways will they rely on philanthropic or “expressive” motivations as opposed to more self-interested motivations common in commercial markets? A theory of this kind of social entrepreneurship will require us to pay closer attention to the degree and type of market interaction that a social entrepreneur might want to consider. Some literature exists on these kinds of hybrid entrepreneurial activities, but it is just emerging. Much more work is needed.

Selected Theoretically Interesting Questions. Framing this new field of social entrepreneurship to focus on ventures that blend business and philanthropic methods raises some very intriguing theoretical questions, questions that could have implications for economics and social theory broadly conceived. Here are some of the most important.

- *Aligning Market Dynamics with Social Outcomes.* How and under what conditions can commercial markets be aligned with social purposes? When commercial market forces are not aligned with social impact, how can philanthropic methods help soften pressure to compromise social mission? In what ways can philanthropic market forces undermine intended social impact? How is it possible to “internalize” social costs and benefits? In

- what ways could commercial market-based approaches undermine the creation of social value?
- *Strengths and Limits of Different Economic Strategies.* What are the strengths and limits of different economic strategies with regard to sustaining the organization, scaling the innovation, and promoting systemic change? Are social enterprises with a greater degree of commercial activity more sustainable? Are they more scalable than their more philanthropic counterparts? What are the corresponding strengths and limits of using philanthropic funding strategies?
 - *Role of Different Legal Forms of Organization.* What are the conditions that allow social entrepreneurs to adopt a for-profit form of organization? How can the social mission be protected from potential financial pressure to compromise on social value in favor of profits? When is it better to adopt a nonprofit form, or create a “hybrid value chain” drawing on the strengths of both forms of organizations? Should we create new legal forms of organization, such as Britain’s community interest company, to facilitate social entrepreneurship?
 - *Bias toward Commercial Market Solutions.* Should social entrepreneurs have a bias toward commercial market-based solutions, moving to the right side of the social enterprise spectrum? If so, why and when? Once the profitability of a social enterprise reaches market levels, should social entrepreneurs be willing to turn the market over to more traditional for-profit competitors? What are the risks and limits of a strategic push toward the commercial side of the spectrum?
 - *Competitive Advantage of Social Orientation.* How can commitment to social impact create a competitive advantage, rather than disadvantage, relative to potential profit-seeking competitors? Could such a commitment allow a social entrepreneur to see opportunities that others miss? Could it inspire innovations that others do not have an incentive to create? How can it be used to attract and motivate employees, reward investors, or reinforce customer loyalty?
 - *Market Discipline and Accountability.* Under what conditions, if any, can a social entrepreneur count on market discipline to assure high levels of performance? In what ways can the use of philanthropic methods buffer an organization from commercial market “discipline”? When is this buffering helpful for protecting the social mission? In the absence of market discipline, how can social entrepreneurs assure that they are creating social value cost effectively?
 - *Efficient Capital Markets.* How do the “capital markets” work for enterprising social innovation? How well do these markets direct capital to its optimal economic and social uses? Is there a process of capital market discipline through which more effective social enterprises thrive and the less effective are driven out of business? When a so-called “double bottom line” is involved, how does an investor decide what is an optimal mix of economic and social return? How can social entrepreneurs and supporters measure and reinforce the social impact as rigorously as they do financial results?

Concluding Thoughts

Proponents of social entrepreneurs have tended to fall into one of two camps: those who focus on using commercial enterprise for social purposes and those who focus more on promoting innovative solutions to social problems. In this paper, we have argued that academics should look at the intersection of these two camps. By focusing on enterprising social innovation, we can provide practical guidance to pioneering social entrepreneurs, raise intellectually challenging questions, and address a topic that could prove crucial for society.

Thus, we are proposing that universities and individual researchers invest significant resources and energy to explore in depth a new field that involves solutions to social problems that cut across the old boundaries between business and the social sector. This arena is where the most valuable pearls of knowledge will be found, and the territory is relatively uncharted and tends to fall through the cracks between business schools and nonprofit management programs.

This cross-sector focus is congruent with several forces at work in society now. We are on the verge of adopting a new perspective on how private citizens, in the role of social entrepreneurs, can make significant contributions to providing sustainable solutions to social problems. The idea of creating innovative, market-oriented approaches to addressing social problems or serving social needs has spread to many parts of the social sector, including health care, education, economic development, human services, the environment, and the arts.

Society seems headed down a path of blurring sector boundaries, and we would do well to understand better what might lie ahead. If we do not deepen our knowledge of these kinds of approaches, we are likely to fumble around in the dark, making more mistakes than necessary. Success will depend on a better understanding of how to effectively combine elements from the business world and the social sector, and how to recognize the limits and risks. This arena is where we should focus most of our limited time and resources. Doing so will not only serve academia well; more importantly, it will be of great value to society.

Table 1: Social Enterprise Spectrum

	Purely Charitable	←————→	Purely Commercial
Motives, Methods & Goals	Appeal to goodwill Mission-driven Social value creation	Mixed motives Balance of mission and market Social and economic value	Appeal to self-interest Market-driven Economic value creation
<u>Key Stakeholders</u>			
Targeted Customers	Pay nothing	Subsidized rates, and/or mix of full payers and those who pay nothing	Pay full market rates
Capital Providers	Donations and Grants	Below-market capital and/or mix of donations and market rates capital	Market rate capital
Work Force	Volunteers	Below-market wages and/or mix of volunteers and fully paid staff	Market rate compensation
Suppliers	Make in-kind donations	Special discounts and/or mix of in-kind and full price	Charge full market prices

