



Center for the Advancement of Social Entrepreneurship



The Process of Social Entrepreneurship: Creating Opportunities Worthy of Serious Pursuit

Ayşe Guclu, J. Gregory Dees, and Beth Battle Anderson

November 2002

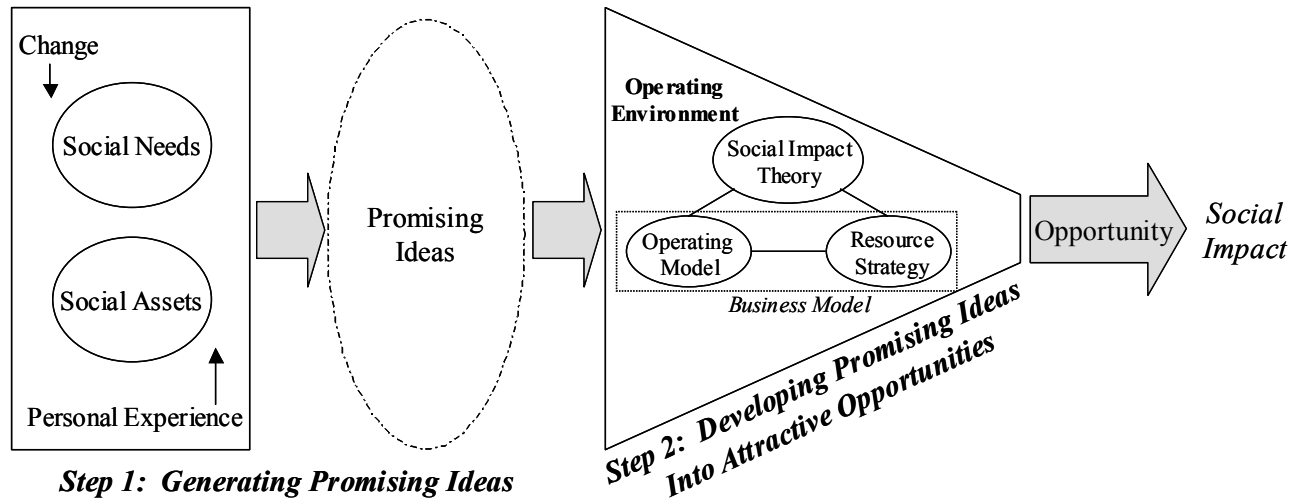
All acts of entrepreneurship start with the vision of an attractive opportunity.¹ For social entrepreneurs, an “attractive” opportunity is one that has sufficient potential for positive social impact to justify the investment of time, energy, and money required to pursue it seriously. Despite popular sayings, attractive entrepreneurial opportunities do not come knocking at the door fully formed. Nor are they out there, like lost treasures, simply waiting to be discovered by the lucky or observant. Rather, they have to be conceived, developed, and refined in a dynamic, creative, and thoughtful process. This note provides a framework to guide social entrepreneurs through the process of creating a worthwhile opportunity. It is designed to help increase the chances of success for anyone contemplating the journey of social entrepreneurship, and it may also be helpful for those considering investing in new social ventures.

Our model breaks the opportunity creation process into two major steps (see Figure 1). First, a social entrepreneur *generates* a promising idea. Second, the social entrepreneur attempts to *develop* that idea into an attractive opportunity. It is natural to think of the generation step as an act of pure creativity and the development step as purely analytic and logical. However, both steps combine inspiration, insight, and imagination with research, logic, and analysis. Innovative ideas can be generated systematically, based on keen observation and reasoning, as well as creativity.² At the same time, converting a promising idea into a workable and attractive opportunity requires an on-going creative process working hand-in-hand with focused analysis, experimentation, and sometimes even launching the initial stages of a venture. We depict the development step as a funnel. Social entrepreneurs add the most significant value in this stage of the process, and few promising ideas make it through the development funnel to become opportunities worth pursuing in the long-term.

¹ Howard H. Stevenson and David E. Gumpert, “The Heart of Entrepreneurship,” *Harvard Business Review* 1985.

² Drucker, *Innovation and Entrepreneurship*, (New York, 1985), particularly Part I.

Figure 1: The Opportunity Creation Process



Step 1: Generating Promising Ideas

The entrepreneurial journey begins with a promising idea. Ideas commonly have their roots in the personal experience of the entrepreneur, but personal experience is not the only factor that can stimulate social entrepreneurs to generate ideas worth exploring and developing. Recognizing social needs, social assets, and change can also lead to the generation of promising ideas.

Personal Experience Personal experience often motivates, inspires, or informs the idea generation process. Not surprisingly, many successful new venture ideas arise from the entrepreneur’s education, work experience, and hobbies.³ Dissatisfaction with the status quo often spurs entrepreneurial creativity, prompting social entrepreneurs to look for new approaches to problems and frustrations they have encountered personally, witnessed among family or friends, or seen on the job. Geoff Cramer, volunteer high school wrestling coach and co-founder of Futures for Kids, would probably not have imagined creating a national web portal to help kids explore post-high school opportunities if he had not repeatedly been surprised by his wrestlers’ lack of understanding of their available options. Positive experiences can also serve to inspire entrepreneurial ideas. Steve Mariotti might never have founded the National Foundation for Teaching Entrepreneurship (NFTE), an organization whose mission is to teach entrepreneurship to at risk youth, if he had not personally experienced the sense of empowerment that accompanies starting and running your own business.⁴

Relevant experience does not have to be in the same field in which the new venture would operate. Sometimes experience and knowledge of practices in other fields can help the social entrepreneur see new ways of doing things. For example, in 1995 Curtis Sliwa translated his experience founding and leading Guardian Angels, the volunteer group with a mission to make the streets safe for children and families, into an opportunity to address another growing social concern: criminal activity on the Internet, especially that targeting children and other

³ Karl H. Vesper, “New Venture Ideas: Do Not Overlook the Experience Factor,” *Harvard Business Review* 1979.

⁴ Steve Mariotti and NFTE, HBS Case # 9-391-169.

vulnerable parties. He founded CyberAngels, enlisting some Guardian Angels to form the first cyber-neighborhood watch, an effort that has since evolved into a comprehensive Internet safety organization that works closely with law enforcement agencies, schools and libraries, the media, victims of Internet stalkers, and Internet professionals to combat Internet crime.⁵ Sliwa successfully applied his experience with Guardian Angels to a completely new arena, creatively adapting the model as he learned more about this new field.

Relevant personal experience can also serve as a filter and guide in the idea generation process, informing the social entrepreneur's intuitions about which ideas have a better chance of working. However, despite its clear value, experience may lead to biases that limit the range of possibilities that we see.⁶ A famous Zen master once said, "In the beginner's mind there are many possibilities, but in the expert's there are few."⁷ Experts often fail to see possibilities that are evident to newcomers. For instance, Wendy Kopp, a Princeton senior with little experience in the field of K-12 education, envisioned a radical new program that would recruit graduates of all majors from top colleges, train them in teaching skills, and place them as teachers for two years in schools located in low income areas. This idea did not come from an "expert" in the field of education, and many were skeptical. Yet Kopp's idea led her to start Teach For America, a teacher corps that has placed over 8,000 teachers in its 12 years of existence. Of course, in general, beginners are more likely to make mistakes and go down paths that prove to be infeasible. The challenge is to marry the openness of a beginner with the wisdom that comes from experience.

Social Needs Personal experience is valuable, but it is limited and may be idiosyncratic. Sound entrepreneurial ideas respond to genuine needs. For business ventures, these are unmet or poorly met consumer needs.⁸ Business entrepreneurs sometimes lose sight of this principle, as experienced during the "dot com" era, generating and pursuing ideas that appeal to the entrepreneur but fail because they are not grounded in market realities. Likewise, social entrepreneurs would be wise to look beyond their personal preferences in the search for promising ideas, basing them on an understanding of social needs.

For our purposes, "social needs" can be understood as the gaps between socially desirable conditions and the existing reality. They rest on some vision of a better world and are grounded in personal values. These values can provide a sense of moral imperative that may serve as a powerful motivator for social entrepreneurs and their ideas.

Of course, reasonable people can disagree about values and, thus, about social needs. Some values are widely embraced, but others are in dispute. For instance, very few could argue against Share Our Strength's mission to end hunger and poverty in the United States and abroad, but many people who consider themselves "pro-life" as opposed to "pro-choice" are opposed to the efforts of Planned Parenthood of America to make comprehensive, confidential reproductive services universally available. Consensus is not necessary for an idea to be worthy of

⁵ Jerry Kitzi, "Recognizing and Assessing New Opportunities", in *Enterprising Nonprofits: A Toolkit for Social Entrepreneurs*, Dees, Emerson and Economy, ed., (Wiley, 2001) p. 48.

⁶ Ellen J. Langer, *Mindfulness*, (Reading, MA, 1989), pp. 20-22

⁷ Shunryu Suzuki, *Zen Mind, Beginner's Mind*, (New York, 1970), p. 21

⁸ For two classic reminders of the importance of satisfying customer needs see: Peter F. Drucker, *The Practice of Management* (New York, 1954) and Theodore Levitt, "Marketing Myopia," *Harvard Business Review*, 1975.

exploration. However, any serious venture will require the support and collaboration of others. Thus, for an idea to be promising, the entrepreneur's values and commitment to addressing a particular social need must be shared by enough key stakeholders to give the proposed venture some initial viability.

The story of Grameen Bank illustrates how analysis of unmet needs can lead to a promising new idea. Few would deny the need to address poverty in the desperately poor rural villages of Bangladesh. In his search for ideas that might respond to this need, economics professor Muhammed Yunus and his students spent significant time in these villages. They found that many women generated income for their families by operating small businesses, but these women could not get credit on affordable terms to develop and expand their operations, limiting their income potential. Thus, while investigating the broad need to reduce poverty, Yunus identified a more specific need for access to affordable credit, especially for women. Based on his analysis and understanding of this need, he generated the idea to create a bank that would serve this market using an innovative approach of peer-group lending. Though many traditionalists in Bangladesh objected to his focus on the economic empowerment of women, Yunus had confidence that he would be able to persuade a sufficient number of others, both in and out of Bangladesh, that he was responding to a legitimate need. Thus, a promising and ultimately very successful idea was born out of researching an unmet need.

Social Assets While it is important to ground new venture ideas in a plausible diagnosis of social needs, there is a danger of over-emphasizing the negative. Some argue that the social sector concentrates too much on needs and that better ideas emerge out of a focus on assets. Northwestern University's John McKnight worries that emphasizing needs can lead us to seeing people and communities as "deficient." He contrasts the concept of a 'neighborhood needs map' that focuses on problems such as unemployment, gangs, illiteracy, crime, child abuse, and homelessness with a 'neighborhood assets map,' that replaces the above problems with local businesses, community groups, schools, police departments, health centers, available real estate, and more.⁹ The latter presents the community in a new light and may inspire creative new ideas that would not be visible if social entrepreneurs looked at needs alone. For instance, in researching the Bangladeshi villages, Yunus and his students found assets, such as the entrepreneurial spirit of village women, which helped them generate the core idea behind Grameen Bank. While the idea generation process should not be constrained by the resources readily available, understanding the tangible and intangible assets in a community can lead to the development of promising ideas.

Though both McKnight and Yunus are primarily concerned with neighborhood or village development, the concept of asset mapping can be applied more broadly to fields of activity, communities of practice, and even to specific organizations. For instance, Community Wealth Ventures (CWV) is a consulting firm that specializes in helping nonprofits find new sources of earned income. CWV encourages organizations "to think about their assets in a new way - as valuable commodities that can be leveraged to create wealth." In working with a National Public

⁹ For an example of both kinds of maps, see John F. McKnight. *The Careless Society*, p.78. For a general description of the methodology of neighborhood asset mapping see John P. Kretzmann and John F. McKnight, *Building Communities from the Inside Out: A Path toward Finding and Mobilizing a Community's Assets*, published by the Center for Urban Affairs and Policy Research, Northwestern University, 1993.

Radio affiliate, CWV generated the novel idea of launching a news and education themed café. This opportunity built on the station's existing assets, such as its name recognition, high quality news programming, and educated audience, while furthering the station's mission of promoting public discussion of current events.¹⁰ If CWV had focused simply on the social needs that the station might meet, this idea might never have surfaced.

Change It is common to think of entrepreneurs as creating change. Economist Joseph Schumpeter described entrepreneurs as reforming or revolutionizing the patterns of production, but creating change is only part of the story.¹¹ In addition, entrepreneurs are often stimulated by the changes all around them. Peter Drucker has argued entrepreneurs “always search for change, respond to it and exploit it as an opportunity.”¹² Social entrepreneurs looking to generate promising ideas would do well to keep abreast of relevant changes. These changes can take the form of trends moving along at different rates of speed, such as the growth of Spanish speaking populations in the U.S. or the presence of personal computers in homes. Or they can appear as disruptions or discontinuities, such as the terrorist attacks of 9-11-2001 or the passage of charter school legislation in a particular state. Idea-stimulating changes can occur in demographics, values, cultures, technologies, industry structures, public policies, fashions, and knowledge, to name a few areas.

Changes can create new needs, assets, or both, opening up new possibilities and prompting social entrepreneurs to generate promising new ideas. For example, a demographic shift in North Carolina, the emergence of a growing Latino community, inspired social entrepreneurs in the Durham area to explore the idea of establishing a community-based, Latino financial institution to serve this population's financial needs. This promising idea turned into a viable opportunity with the creation of the Latino Community Credit Union, whose mission is to aid the members of this community in becoming financially independent. A technological change, namely the advent of wireless communications technology, stimulated the social entrepreneurs at Grameen to create a novel telephone company that gives rural villagers much better access to and information about the outside world, such as the market prices for chickens in the city, and provides at least one villager with a new business opportunity, selling phone time to her neighbors.

Summary Personal experience, social needs, social assets, and change can stimulate promising ideas, but only if the social entrepreneur also adopts an opportunity-oriented mindset, actively looking for new possibilities to have significant positive social impact. Harvard psychologist Ellen Langer illustrates this mindset in a study of the attitudes of school children toward people with disabilities. Langer presented children in certain classrooms with a picture of a person in a wheelchair and asked, “Can this person drive a car?” The answer was an overwhelming ‘no,’ along with lots of reasons why not. In other classrooms, Langer asked a slightly different question, “How can this person drive a car?” After a brief pause, students came

¹⁰ Please see www.communitywealth.org for more information.

¹¹ Joseph A. Schumpeter, *Capitalism, Socialism, & Democracy*, 3rd Edition, (New York, 1950).

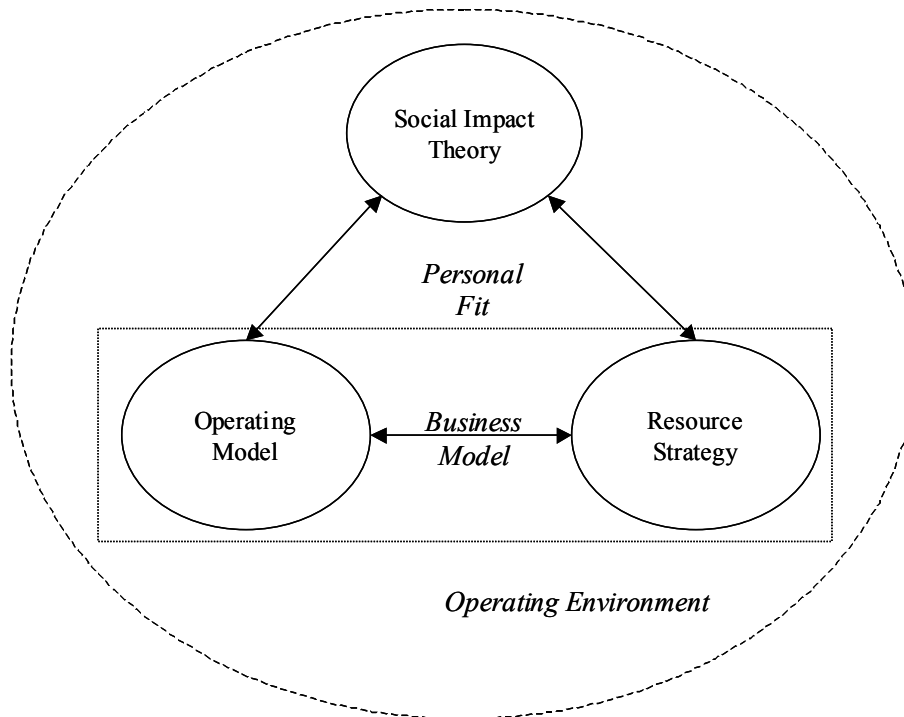
¹² Peter F. Drucker, *Innovation and Entrepreneurship*, (New York, 1985), p. 28.

up with many ideas about how a person in a wheelchair could drive a car.¹³ Successful social entrepreneurs embody this “how can” attitude, particularly in the idea generation phase. How can I translate my personal experience into broad social impact? How can I address a particular social need or make the most of existing social assets to improve society? How can I capitalize on recent changes to create new opportunities for social impact? Effective social entrepreneurs carry this orientation into the opportunity development process, engaging in continuous innovation, adaptation, analysis, and learning along the way.

Step 2: Developing Promising Ideas into Attractive Opportunities

Although ideas are powerful, people often place too much emphasis on the initial flash of brilliance. As we pointed out in the beginning of this note, the bigger challenge is converting an initially appealing idea into a worthwhile opportunity. This step combines rigorous analysis with creative adjustment as social entrepreneurs test and refine ideas through a mixture of action and research. The chances of success are significantly increased if the action and research are grounded in a set of plausible hypotheses about the underlying *social impact theory* and *business model*, which includes an effective *operating model*, and a viable *resource strategy*. These elements represent the core of any worthwhile social venture idea. Each element must be convincing on its own merits, and the combination must fit comfortably together. Furthermore, these elements must be formulated with one eye toward the external operating environment and the other focused on personal fit with the entrepreneur. (Figure 2)

Figure 2: Opportunity Development Framework



¹³ Conversation with one of the authors in 1988. Also see a very brief description in Ellen Langer, *Mindfulness* (Reading, MA, 1989), p. 168.

Social Impact Theory Underlying any new social venture is a theory about how the venture will achieve its intended social impact. This theory sits at the heart of the venture's strategy and generally embodies the organization's mission and values. The articulation of the theory should include a "convincing statement of how program inputs will produce a sequence first of intermediate and then ultimate outcomes, ... and some indication of the bases, in experience, for expecting a cascade of results."¹⁴ By clearly defining the venture's intended outcomes and means for achieving them, the theory also provides a precise description of the ultimate social impacts for which the organization will hold itself accountable.¹⁵ This kind of articulation gives the potential opportunity a more refined definition than it typically gets in the idea stage, creating a measure of clarity and singularity of purpose.

A well-articulated social impact theory should also allow the social entrepreneur to identify and test some of the core assumptions behind the venture. Some of the testing can occur prior to launching a venture by comparing the social impact theory to existing relevant knowledge in the field or by doing new research and analysis. Is the theory plausible given what we currently know? Can it be tested in a timely and cost effective way by new research? While some assumptions can be tested upfront, others are best tested in practice, a reality that fits with entrepreneurs' common bias for action over analysis. However, even with this need and bias for action, if possible, social entrepreneurs should structure their actions such that they can test as many key assumptions as feasible before making major, irreversible investments.¹⁶ Finally, since social impact is so hard to measure and many social entrepreneurs aim for long-term or lasting impact, the testing process can often take significant amounts of time. Having a clear social impact theory helps make the testing process more systematic and timely.

Defining and refining a social impact theory is a dynamic process that blends creativity and out-of-the-box thinking with concrete analysis and assessment of results. For example, The Nature Conservancy's (TNC's) longtime mission indicates the organization's intended outcomes: to preserve plants and animals and special habitats that represent the diversity of life on Earth. For most of the organization's existence, TNC's approach to achieving its mission was to purchase specific wetlands, forests, and prairies that supported particular species or natural communities. According to TNC's social impact theory, acquiring these properties would preserve the endangered species by protecting their critical habitats. Each year, TNC increased the number of acres under its protection, the primary intermediate outcome they believed would lead to their long-term goals. However, in the early 1990s, new leadership recognized that this approach was not actually achieving TNC's intended environmental impact: Species were declining within many of TNC's protected areas, in large part because activities outside the preserves were affecting the activities within them. Thus, despite its accomplishments, TNC had to modify its social impact theory, revise its measures for success, and adopt a new strategy that focused on threat abatement and the preservation of larger ecosystems rather than merely acquiring and protecting smaller parcels of land.¹⁷ As this example illustrates, social

¹⁴ Peter Szanton as quoted in, EMCF: A New Approach at an Old Foundation, HBS Case # 9-302-090, p.4.

¹⁵ An Introduction to Business Planning for Nonprofits, The Bridgespan Group, www.bridgespangroup.org.

¹⁶ McGrath, Rita G. and MacMillan, Ian C., "Discovery-Driven Planning," *Harvard Business Review*, July-August 1995.

¹⁷ Alice Howard and Joan Magretta, "Surviving Success: An Interview with the Nature Conservancy's John Sawhill," *Harvard Business Review*, September-October 1995, pp. 109-118 and John Sawhill and David Williamson, "Measuring What Matters in Nonprofits," *The McKinsey Quarterly*, 2001 Number 2, pp. 16-25.

entrepreneurs should regularly test and, if necessary, revise their social impact theory to assure they are pursuing a worthwhile opportunity.

Business Model In addition to a compelling social impact theory, every worthwhile opportunity needs to be supported by a plausible business model that includes an effective operating model coupled with a viable resource strategy. These two elements of the business model work closely together to bring the social impact theory to life. In many cases, social entrepreneurs are most creative and add the greatest value in the design of their business model. Consider how Habitat for Humanity’s operating and resource strategies work together to provide home ownership opportunities to low-income individuals and meaningful volunteer opportunities for community members. Habitat’s operating model requires that the prospective homeowners, along with amateurs and under the supervision of a few skilled crafts people, build the homes. The workforce is mobilized through local affiliates in partnership with churches, universities, and other partners. The resource strategy calls for the workers to volunteer their time, supplies to be donated where possible, and the homeowner to pay a modest, no-interest mortgage. Together these form a social sector business model that has enjoyed uncommon success.

Thus, the division between the two elements of the business model is somewhat artificial. However, it is helpful to separate them for analytic purposes. Moreover, the analysis should start with the operating model. Resource needs cannot be determined without a specific operating model in mind that converts the resources into the capabilities necessary to create the intended social impact efficiently and effectively. These capabilities will drive resource needs. Of course, as the idea is refined, the original operating model may need to be adjusted to fit the realities of resource mobilization.

Operating Model Within the business model, the operating model describes how the social impact theory will be implemented in practice. It is a combination of specific activities, structures, and support systems that are designed to work together to bring about the intended impact. In developing an operating model, the first step is to trace a chain of activity from inputs to outcomes, identifying every step that is necessary in between. These direct productive activities will usually need to be supported by more administrative functions, such as accounting, human resources, fundraising, etc. When all of these elements are put together, the result looks similar to the “value chain” in a business.¹⁸ For example, STRIVE is a nationally recognized workforce development agency whose operating model requires a series of activities that work together to achieve its primary social impact goal – helping men and women who have had difficulty obtaining employment achieve financial independence. The following graphic depicts STRIVE’s basic operating model:



Once all key activities have been identified, structural decisions need to be made, particularly defining the division of labor and coordination of activities. The major labor division

¹⁸ Michael E. Porter, *Competitive Advantage: Creating and Sustaining Superior Performance*, (New York, 1998), see Chapter 2.

question concerns what the new venture should do and control versus what could be left to affiliates, partners, suppliers, contractors, or providers of complementary services. For operating purposes, this decision will be driven largely by the importance of the activity, who could do it better, and the value of maintaining control over it. Finally, social entrepreneurs should consider the support systems that may need to be in place to assure effective and efficient social value creation, including intangible support systems such as the organization's culture. With these pieces in place, the operating model should allow social entrepreneurs to trace a plausible and specific causal path through a chain of activities, structures, and support systems to the intended social impact.

As with the social impact theory, any proposed operating model will rest on assumptions that may be in need of validation. Consider again Futures for Kids (F4K), the organization co-founded by wrestling coach Geoff Cramer to help high school students reach their full potential by helping students, parents, and educators understand the vast array of post-high school educational, training, and career opportunities. At the core of F4K's operating model is the development of a comprehensive, user-friendly web portal with information, customized tools and assessments, and links to relevant resources. For this model to be successful, target audiences must be both motivated and savvy enough to use a web portal to explore the various options effectively and thus make more informed decisions. Additionally, F4K's model relies on the assumption that a website can serve as a meaningful substitute for, or in some cases complement to, personalized, face-to-face advising and encouragement. F4K plans to incorporate other activities into its operating model to direct users to its portal, and they hope to design an interactive website that is engaging, easy to use, and responsive to the needs and interests of each individual. Nonetheless, these kinds of assumptions certainly need to be tested before anyone can say that the operating model is likely to be effective.

Furthermore, like the other elements of this framework, designing, testing, and refining an attractive and effective operating model requires a blend of analysis and creativity. Earlier we mentioned Muhammed Yunus and his innovative approach to addressing poverty in rural Bangladesh. Recall that the idea to provide credit to women entrepreneurs resulted from in-depth analysis of the economic problems and realities present in these rural villages. But at the heart of the operating model Yunus designed was a creative new approach to microcredit, peer-lending groups. One reason traditional bankers were unwilling to extend credit to this market was the villagers lack of assets to use as collateral. To address this concern, Yunus conceived of "social collateral," the strong social ties and sense of obligation and responsibility these villagers felt towards each other. To capitalize on this social collateral, he established peer lending groups, small groups of borrowers from the same village who meet regularly, support each other, and share responsibility for repayment of loans made to anyone in the group. While grounded in his analysis and understanding of the culture of that society, designing and implementing this model was truly an act of innovation and inspiration on the part of Yunus.

Resource Strategy An operating model cannot begin to create value unless it is nurtured and supported by a viable resource strategy. The two must mesh together neatly, so that the entire business model is plausible and the on-going resource mobilization process reinforces, rather than undermines, the effectiveness of the operating model. At the most fundamental resource level, the social entrepreneur needs 'people' and 'things' to go forward. People are most

important since they bring with them a wide array of intangible resources, such as skills, knowledge, contacts, credentials, passions, and reputations. Things allow people to put their intangible resources to effective use and can include everything from office space to patents. In the social sector, both people and things can be acquired with or without using money. Thus, for social entrepreneurs, a resource strategy is much more than a financial strategy.

The first step in developing a resource strategy is the identification of resource requirements. Entrepreneurs can deduce these requirements from the proposed operating model, along with performance and growth objectives. Once these fundamental requirements are identified, social entrepreneurs have to determine how best to mobilize them.¹⁹ In this stage, there are three main options available to social entrepreneurs: building partnerships or alliances, attracting donations, and paying for the resources. While some partnerships may be desirable as part of the operating model, others are driven more by resource considerations. When resources are scarce or hard to mobilize, as is often the case during a start up stage, it may be wise to build resource-based partnerships with others that have (perhaps under-utilized) resources of the kind required. For example, Goodwill Industries was initially closely tied to the Methodist Church, and its early expansion into new communities drew heavily on the church's infrastructure and support. Of course, any partnership that is not ideal from an operations point of view will have its costs and risks, especially if the venture becomes dependent on a partner organization that may not share the same strategic goals. Potential trade-offs have to be assessed on a case-by-case basis, and the operating model may need to be adjusted to compensate for these risks and trade-offs.

The second way to acquire resources without paying is through volunteers and in-kind donations, which can reduce the cash needed to achieve social impact. Imagine the costs if Habitat paid all the workers involved in building Habitat houses. It is unlikely that the organization would be able to raise sufficient funds or hire enough workers to have the impact it has, nor would the operational model be as compelling or create as much social value. However, relying on donated resources poses the risk of not being able to acquire exactly what the venture needs in a timely or reliable fashion. Again, the trade-offs must be assessed on a case-by-case basis. Like Habitat, some organizations rely heavily on volunteers or in-kind donations for core activities. Other social entrepreneurs have decided that effectiveness requires paying for key resources. Mentors typically volunteer their time, but Friends of the Children has challenged that model, arguing that the use of paid mentors for at-risk kids leads to better social outcomes. Social entrepreneurs must keep operational effectiveness in mind while developing a viable resource strategy.

Even for those things that are purchased, social entrepreneurs can offer below market compensation or ask for discounts. On the people side, market wages may not be required because of the personal satisfaction that people often get from working for a cause that is deeply meaningful to them. Many organizations have been able to attract high-quality workers with below-business-market wages. Moreover, below market compensation also helps screen out candidates who are not fully committed to the social mission. However, offering below market wages may make it hard to attract people with growing families, significant compensation needs,

¹⁹ For a more detailed discussion of the resource mobilization process, see J. Gregory Dees, Jed Emerson, and Peter Economy, *Enterprising Nonprofits: A Toolkit for Social Entrepreneurs*, (Wiley, 2001), Chapter 4.

or numerous other opportunities. With respect to things, social ventures can often qualify for discounted prices. Of course, paying below market involves an implicit form of donation and may limit the pool of available resources or reduce the quality of service provided by resource suppliers. The key is to make realistic estimates, taking into account that paying less than market rates may pose trade-offs. Finally, with regard to acquiring the major “things” needed (such as space and costly equipment), social entrepreneurs must also decide what they will buy and what they will simply rent or lease. When risk is high, renting or leasing is typically the optimal option.

Based on these decisions, social entrepreneurs should be able to project the cash needs for their ventures. They must then decide where they will get the cash. Again, this task is more complicated for social entrepreneurs than for business entrepreneurs. In the private sector, customers should cover all the operating costs, with a profit left over to reward investors. Though many social entrepreneurs would love for their ventures to be “self-sufficient,” charging customers enough to cover all the operating costs is often not optimal from the point of view of creating social impact. On some occasions, third-party payers (e.g., government agencies or corporations) can be found to cover the costs. But in many cases, revenues gained from service fees and contracts will fall short of what is needed to have the optimal impact. In those cases, philanthropic funding is needed to fill the gap,²⁰ and the resource strategy has to include a plausible fundraising plan. Often, the challenge in formulating such a plan is finding philanthropic sources whose interests and funding patterns fit with the venture’s needs. Social entrepreneurs must be vigilant about selecting cash income streams that do not pull the venture away from its core mission.

As with the other elements, any resource strategy will be built on assumptions about resource requirements and methods of meeting them. How many staff and volunteers will be necessary for successful service delivery? Can the venture attract staff with the requisite skills at the proposed levels of compensation? Can it recruit, train, and effectively manage the required volunteers? What about the in-kind donations called for in the model? Will they come with too many strings attached or have serious operating costs? Who might pay for the venture’s activities? Who might be willing to donate to subsidize it? Will revenue sources be aligned with the mission? Some of the assumptions embedded in the model will be highly plausible based on past experience, but others will be open to serious question. Of those posing the greatest uncertainty, some will be more crucial to the viability of the resource strategy. Social entrepreneurs should identify those uncertain assumptions to which the resource strategy is most sensitive and make sure they are tested as the venture rolls out.

Finally, like the rest of the process of social entrepreneurship, developing an attractive resource strategy often requires creativity, especially given the intense competition for funding in this sector. In some instances, an innovative resource strategy might even drive, or significantly impact, the social venture’s operating model. Some McKinsey consultants offered a particularly powerful example of this situation when describing Pratham, a nonprofit organization in India that addresses illiteracy and malnutrition amongst the poorest children in Mumbai for only a few

²⁰ To understand some of the different options, see “Sources of Financing for New Nonprofit Ventures,” Harvard Business School #9-391-097, revised 1996.

dollars per child served each year.²¹ At the core of Pratham's strategy is a commitment to identifying and utilizing underused resources in their communities. Thus, rather than set up traditional pre-schools, Pratham partners with community organizations, local governments, and corporations to provide the physical infrastructure for their programs, while recruiting and training teachers from outside of the traditional workforce. This approach to employment allows them to tap into another underutilized resource in their communities, unmarried young women, while building a loyal and committed corps of teachers who work for below-market wages. This "capital light" resource strategy has not only allowed Pratham to grow quickly, but it also has helped the Pratham leaders devise an effective and creative operating model that can be adapted for delivery of a wide range of services to poor communities in India. The key to Pratham's success, and something that all social entrepreneurs should consider whenever a particular resource strategy demands modification of an operating model, is that the resourceful approach does not undermine the effectiveness of the model and ultimate social impact. In fact, the most attractive resource strategies actually enhance social impact.

Operating Environment. Every new venture idea will be implemented in a distinctive operating environment that will be favorable in some respects and challenging in others. Although the relevant features of the operating environment will depend on the specifics of the venture idea, including the social impact theory and the business model, most ventures will make crucial assumptions about their *markets*, the *industry structure*, the *political environment*, and the *culture*.

- *Markets* refer not only to the intended users or clients, but also to third-party payers, donors, volunteers, and workers, anyone who must voluntarily participate in the venture in order for it to be successful. Social entrepreneurs must have a plausible value proposition for each market or stakeholder group.
- The *industry structure* includes alternative providers as well as potential collaborators or partners, crucial complementary services, potential substitutes, and key suppliers.
- The *political environment* refers to specific regulatory requirements and the various potential sources of public support or resistance.²²
- The *culture* is defined not only by the dominant values of the people in the intended operating environment, but also by behavioral norms and relevant sub-group cultures.

As social entrepreneurs flesh out the three core elements of their opportunities, they will inevitably make assumptions about their operating environment. The potential success of the venture depends largely on whether the assumptions accurately represent the context. For instance, an entrepreneur who wants to start an intensive job training program for unemployed single parents may assume that child care will not be an obstacle for many of the intended participants. If it turns out that either appropriate and affordable childcare options are not

²¹ Rukmini Banerji, Madhav Chavan, Paresh Vaish, and Atul Varadhachary, "A Point of Light in Mumbai," *The McKinsey Quarterly*, 2001, Number 1, pp. 156-165.

²² Two articles by I.C. MacMillan may be useful in thinking about both the industry structure, or competitive analysis, for social ventures, and the role of politics in new ventures: "Competitive Strategies for Not-For-Profit Agencies," *Advances in Strategic Management*, Volume 1, pp. 61-82, (JAI Press, 1983) and "The Politics of New Venture Management" in *The Entrepreneurial Venture: Readings Selected by William A. Shalman and Howard H. Stevenson* (pp. 160-168). Boston: Harvard Business School Press, 1992.

available in the community, or the local culture has strong norms against leaving children with people who are not family, the training program is not likely to have its intended impact. The social entrepreneur may need to redesign the effort, perhaps including childcare as part of it, or rethink the job training idea altogether if childcare issues will make employment after the program infeasible. Thus, a promising opportunity must fit with the characteristics of its environment.

Since the operating environment is dynamic, it is also helpful for social entrepreneurs to be sensitive to the *window of opportunity*. This window represents the timeframe in which conditions are expected to be favorable for pursuing a given opportunity. Changes in external conditions can increase or decrease receptivity to new ideas, thus opening or closing the window of opportunity. Relevant factors include the growth or decline of the social need being addressed, the number of people affected by the need, the visibility of the need and expected media coverage, perceptions of urgency or relative importance by key resource providers, levels of satisfaction with existing approaches, technological changes, changes in public policy, and popular trends or fashions in relevant fields. Increased funding for anti-terrorist groups after the 9-11 attacks and greater support for organizations focusing on ethical issues related to the accounting profession after the collapse of Enron are two recent examples of windows that have opened significantly, while a struggling stock market and uncertainty about the US economy and potential plans for war have likely narrowed the window of opportunity for many other social ventures.

The underlying dynamics of the need can also affect the window of opportunity. Some preventative approaches often work well only if they are implemented before the level of need hits a critical mass, or a “tipping point.” Once that point is reached, the window for that kind of approach has closed. Some windows stay open a long time and others close relatively quickly. Social entrepreneurs have better chances of success if they can take advantage of windows that are opening and that will stay open long enough for the venture to have its intended impact.

Personal Fit As social entrepreneurs develop their ideas into worthwhile opportunities, they also have to be sensitive to personal fit. Even if they have found an attractive opportunity, it may not be a good opportunity for them. Several factors should be considered in assessing personal fit. For simplicity, we have identified three categories: 1) commitment, 2) qualifications, and 3) stage of life.

Social entrepreneurs must make sure they have the requisite commitment when deciding to pursue a given opportunity. New ventures of any sort are tremendously demanding. Social ventures are even more so. Social entrepreneurs often struggle to coordinate ambitious social impact goals with scarce income sources and to satisfy excess need for services with an over stretched staff and limited time. Burnout is not uncommon. Social entrepreneurs must have the same commitment and determination as a traditional business entrepreneur, *plus* a deep passion for the social cause, *minus* an expectation of significant financial gains.

On a more mundane level, having the original idea is not a sufficient qualification for leading the venture. Social entrepreneurs should conduct an honest self-assessment of whether they have the skills, expertise, credibility, credentials, and contacts to make a particular venture work. If they wrote a job description for the CEO, would it fit them? Skills and other personal assets can be developed on the job, but a poor fit in the beginning should give the social

entrepreneur pause. Attracting a strong team can help compensate for some shortcomings, but social entrepreneurs should make sure they have enough of the necessary skills and assets to warrant their pursuing the opportunity.

Finally, would-be social entrepreneurs must decide whether it is the right time in their life to pursue this kind of opportunity. Career and family considerations must be taken into account. Starting a new venture entails opportunity costs, and its attractiveness should be assessed in relation to other options. Successful social entrepreneurs may well have talents that would be highly valued and well compensated if they chose to work for an established business.²³ Starting a social venture can present a career risk and put a strain on personal relationships, and social entrepreneurs should enter the process with full awareness of these risks. Ultimately, social entrepreneurs would be wise to pursue only opportunities that fit their personal commitment, qualifications, and stage in life.

Summary In order to determine whether a promising idea can be transformed into an opportunity worthy of serious pursuit, it is essential for the social entrepreneur to articulate a compelling social impact theory and a plausible business model. Developing a plausible business model requires designing an effective operating model and crafting a viable resource strategy. These pieces must fit together, and the assumptions embedded in them must be credible given the environment in which the social entrepreneur intends to operate. Finally, the requirements of the venture must fit the commitment, qualifications, and life stage of the entrepreneur considering it. When all these elements are feasible and aligned, the chances for success are relatively high and those involved can make a more informed estimate of the potential for social impact.

Of course, even if the probability of success and the potential magnitude of the impact are relatively high, social entrepreneurs and potential supporters still face the difficult question of whether a particular opportunity is, in an absolute sense, worth the investment of energy and resources that would be required to pursue it. It would be ideal if there were tools for calculating a return on investment that could be used for comparison with other potential opportunities. Business entrepreneurs aim to create value for their customers in a way that generates sufficient residual returns to make the venture attractive to investors and to themselves. These economic returns on investment serve as the yardstick by which a business venture's attractiveness is commonly measured. No similar common yardstick exists for measuring social return on investment. While some social benefits can be converted into dollar terms, it is almost impossible to do this with many important social impacts, such as improved self-esteem in children or even improved reading skills.²⁴ We can measure social outcomes (e.g., better high school graduation rates, reduced levels of recidivism among drug addicts, or less pollution in streams), but we do not have a common metric for comparing different kinds of outcomes to one another or for comparing the outcomes to the dollars and time invested in achieving them. To complicate matters further, reasonable people can disagree not only on the relative value of different social impacts (e.g., Is saving the whales more important than providing better drug addiction services?), but also on whether the value is positive or negative (e.g., Is it positive or

²³ Jeffrey A. Timmons, *New Value Creation: Entrepreneurship in the 21st Century*, (McGraw Hill, 1995).

²⁴ For the most advanced example of measuring social impact, see "SROI Methodology," Roberts Enterprise Development Foundation, www.redf.org.

negative to protect the rights of individuals to own assault weapons?). Even when we have reasonable measures for outcomes, causal connections are often hard to establish, especially when the desired outcomes are visible only in the longer term. Thus, in the end, the absolute worthiness of a social opportunity is a judgment call open to disagreement and debate.

Do these challenges mean that all of the analysis is a waste of time? Hardly. Potential social entrepreneurs contemplating dedicating a portion of their lives to pursuing a particular opportunity, as well as funders considering backing a venture, should make their decisions armed with meaningful information about the chances of success and the potential magnitude of the impact. With that information, those investing time, energy, or money in a social venture can determine whether that investment is worth it for them.