

FRAMING A THEORY OF SOCIAL ENTREPRENEURSHIP: BUILDING ON TWO SCHOOLS OF PRACTICE AND THOUGHT

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Social entrepreneurship has been gaining momentum as an academic subject. In the past decade, numerous schools, particularly, but not exclusively, business schools, have launched new courses, programs, centers, or research initiatives embracing variations on this theme (Hahn, 2005).¹ Even with this flurry of activity, 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.

The construct of “social entrepreneurship” has emerged from the work of several reflective practitioners in recent decades. The combination of these two terms reflects a breakdown in the boundaries between business and the nonprofit sector in the search for new approaches to social problems and needs. It is a development that is potentially promising, but also risky. If we are to have any chance for guiding or shaping practice going forward, we need to make sure our theories are designed to help practitioners, funders, and policymakers. In order to better assure that theories have this kind of practical and social relevance, Schultz and Hatch (2005) have recently argued that we should shift “from a logic of building management practice from theory to one of building management theory from practice” (p.1). Social entrepreneurship is an ideal arena for implementing the process of developing theory based on practice, and doing so with respect for the “first-order theorizing of practitioners.”

¹ In 2003, ARNOVA, the sponsoring organization for this volume, launched the Social Entrepreneurship/Enterprise Section (SEES) in response to this activity.

Of course, practical relevance is not the only consideration. In order to qualify as an important new field worthy of significant theory building, social entrepreneurship must also raise a distinctive set of intellectual questions, including questions that cut across disciplinary boundaries. This will help attract the interest of scholars from a range of disciplines, which will both provide legitimacy and create new knowledge. This requirement does not conflict with the requirement of practical relevance. It is complementary, because practical issues rarely fit neatly into single disciplinary boxes (Schultz and Hatch, 2005). This cross-disciplinary approach played a key role in the evolution of entrepreneurship from a marginalized field of study to a respected, dynamic area of inquiry. As Stevenson (2000), a leading scholar in the area, observed,

...the arena of entrepreneurship involves many fascinating and important problems that have come to the attention of mainstream scholars. Entrepreneurship, properly conceived, is an intellectual domain of hard and important problems that can be attacked with the best possible scholarship. The progress of the field has been substantially enhanced as it attaches its problems to discipline tested tools (p. 5).

In order to assure intellectual value and practical relevance, it is crucial to define the domain in a felicitous way. One of the key elements of Stevenson's statement above is the qualifying phrase "properly conceived." One of his arguments is that a critical step forward for the entrepreneurship field was framing the field in a way that raised challenging intellectual questions and attracted academics from multiple disciplines interested in exploring the characteristics of entrepreneurial firms.² We need a similar framing in the field of social entrepreneurship.

We will argue that the best way of framing this new field lies at the intersection of the two dominant schools of practice and thought: the Social Enterprise School and the Social Innovation School. In an important sense, there is no right answer about which school should have claim to the term "social entrepreneurship." As we will demonstrate, both schools are grounded in legitimate understandings of "entrepreneurship," and each has a strong and thoughtful group of proponents. Both of them respond to a general sense that we need fresh ideas about tackling social problems.

The tensions between practitioners in these schools have enriched the quality of discussion in the field. While we expect some tensions to continue, we are proposing that academic inquiry focus on "enterprising social innovations," by which we mean carrying 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. This is where the most exciting elements of practice and early theory development are already converging; the most promising opportunities for society are emerging; and the most intellectually intriguing prospects for academic inquiry lie. Focusing on enterprising social innovation will force us to acknowledge the intimate connection between social and economic realities. It will challenge the artificial barriers between business and the nonprofit sector. And since this framing falls somewhere between the domains of business schools and nonprofit programs, it has the potential

²For a discussion of definitional issues in entrepreneurship, see Stevenson and Jarillo (1990).

to attract and engage a broad range of scholars across diverse disciplines and domains.

Two Schools of Thought Emerging from Practice

While everyone agrees that the practices now referred to as “social entrepreneurship” (however defined) have existed for a very long time, the framing of these practices as “social entrepreneurship” seems to have stimulated a growing level of interest amongst both practitioners and academics. Notably, this intriguing phrase emerged out of two independent streams of practice. They both have their roots in the early 1980s, though neither fully embraced the term “social entrepreneurship” until early in the 1990s. These two streams of practice have resulted in two main schools of thought about the essential nature of “social entrepreneurship.” One school is focused on the generation of “earned-income” to serve a social mission. In keeping with an emerging convention, we can call this the “Social Enterprise” School.³ The other school is focused on establishing new and better ways to address social problems or meet social needs. We can call this the “Social Innovation” School. While these schools are often conflated in popular discourse, they reflect different perspectives, priorities, and, to some extent, values. At times, their proponents have been at odds. But both schools have been critical to the growth of the field of social entrepreneurship, and it is important to highlight briefly a few of the key thought leaders, organizations, and themes associated with each before exploring the promising intersection of the two.

The Social Enterprise School of Thought. The *American Heritage Dictionary* defines “entrepreneur” as “a person who organizes, operates, and assumes the risk of a *business venture*” (emphasis added). While most theoretical literature on entrepreneurship attempts to establish a deeper understanding, even some academics have adopted this definition to avoid getting mired in theoretical debates. As Columbia Business School Professor Amar Bhidé (2000) claimed in a recent book, “Following common usage, I call individuals who start their own businesses entrepreneurs. Theorists attribute a variety of functions to entrepreneurs, such as coordination, risk-taking, innovation, and arbitrage... I refrain from debating which of these roles are truly ‘entrepreneurial’” (pp. 25-26). This straightforward understanding of “entrepreneurship” informs the Social Enterprise School. Thus, many adherents think of “social entrepreneurs” simply as those who organize and operate businesses that support a “social” objective, even if they do it only by making money to subsidize more direct, social-purpose activities. The initial momentum for this school grew out of two distinctive, but eventually convergent, motivations.

One motivation was an increasing interest among nonprofit organizations in finding new sources of revenue to supplement donor and government funding. In 1980, Edward Skloot and some colleagues founded New Ventures, the most

³We are following a convention that has emerged in practice here. However, we do so reluctantly. We prefer to use and have used the term “social enterprise” more broadly to refer to significant social-purpose undertakings. See Dees and Backman (1995). Also, the first *American Heritage Dictionary* definition of “enterprise” is simply “an undertaking, esp. one of some scope, complication, and risk.” Thus, in common usage, an “enterprise” need not involve earned income.

prominent of the consulting firms that were emerging for nonprofits interested in exploring business ventures.⁴ A few years later, Skloot (1983) published a prominent article in *Harvard Business Review* entitled, “Should not-for-profits go into business?” Skloot referred to this activity as “nonprofit entrepreneurship,” claiming that the “object is income” and nonprofit executives should “be careful about trying to mix social motives with business considerations” (p. 24). The focus was on enterprises that were “related but not customary to the organization” that could help diversify its funding base (Skloot, 1987, p. 381).

The second motivation was a desire amongst some business executives to promote the provision of human social services by for-profit companies. William Norris, the maverick founder of Control Data Corporation, believed that social needs created business opportunities (See Norris, 1981 and 1983; Worthy 1987). In a 1981 op-ed piece in the *New York Times*, Norris stated, “We need fundamental change. We need business to take the initiative, to address the major unmet needs of our society as profitable business opportunities and to do so in partnership with government and other sectors.” A few years later, a group of business executives, two of whom were Control Data Corporation executives who had undoubtedly been inspired by Norris, founded the Alpha Center for Public/Private Initiatives as a “national resource for entrepreneurs and others involved in the delivery of human services by *for-profit companies*” (Alpha Center, 1986, emphasis added).⁵ Unlike Skloot, this group saw great potential in mixing social motives with business considerations.

Over time, both Skloot and the Alpha Center moved closer together in their conceptions and priorities. In 1988, Skloot offered a broader perspective on nonprofit entrepreneurship, saying, “Nonprofit enterprise exists along a spectrum of activity starting with traditional fee-for-service charges and extending into full scale commercial activity” (p. 3). By this account, nonprofit enterprise could involve programs that were customary to the organization, thus raising questions about how to blend social motivations and business methods. By 1993, with former Control Data Corporation executive Jerr Boschee at the helm, the Alpha Center had changed its name to the Alpha Center for Social Entrepreneurs⁶ and declared that its mission was “to encourage entrepreneurship among nonprofits and to help them create and expand social purpose businesses” (Alpha Center, 1993). While Boschee (1995) continued to include for-profit examples in his writings, his conception of “social entrepreneurship” had clearly moved into the arena in which Skloot had been working and writing.

By this time, several other thought leaders had emerged in this arena. Richard Steckel published his popular book *Filthy Rich & Other Nonprofit Fantasies* in 1989. A few years later, Share Our Strength (SOS) founder Bill Shore (1995) drew on his experience, leading an enterprising nonprofit to call for the creation of “community

⁴ Skloot was not alone in responding to this need in the early 1980s, see also Cagnon (1982), Duncan (1982), Wiewel et al. (1982), Crimmins and Keil (1983), and Williams (1983).

⁵ Robert Price, who succeeded Norris as CEO of Control Data, was a founding board leader, and Jerr Boschee, an executive in community relations at Control Data, was senior vice president of the Center, and eventually its president.

⁶ Subsequently, the Alpha Center changed its name again to become the National Center for Social Entrepreneurs.

wealth enterprises.” He argued, “To meet the challenges of the future, nonprofits must be thoroughly reinvented to create new wealth—that is, *nonprofits for-profit*” (p. 83). A community wealth enterprise was defined as a “new type of entrepreneurial hybrid” that generated resources “through profitable enterprise to promote social change.” Shortly thereafter, Jed Emerson and Fay Twersky published “The New Social Entrepreneurs,” which shared the lessons Emerson and the Roberts Foundation had learned since launching the Homeless Economic Development Fund (HEDF) in 1989. HEDF was designed to test the idea of nonprofits running businesses to have a positive impact on the lives of disadvantaged individuals by providing training and employment in market-based ventures. In some ways, Emerson and Twersky’s work was narrower than that of Skloot, Boschee, Steckel and Shore, in that it focused only on a subset of nonprofit business ventures, namely those that employed the disadvantaged. However, it played a crucial role in promoting the idea of business methods as a path to more effective, not just better-funded, social-sector organizations. It was about the integration of social and economic value.⁷ Coming on the heels of Boschee’s article on “Social Entrepreneurship,” “The New Social Entrepreneurs” also reinforced the use of this relatively new term “social entrepreneurship.” Dropping the word “nonprofit” from this description was both symbolically and substantively important. It came at a time when we were seeing more for-profits enter the social sector in areas such as eco-tourism, charter school management, welfare-to-work job training, community development financial institutions, and others.

Since that time, numerous institutions, initiatives, and consulting practices have emerged to support the social enterprise “industry.” Perhaps the largest, the Social Enterprise Alliance, has its roots in the National Gathering of Social Entrepreneurs, which Boschee, Emerson, Shore, and Steckel helped launch in 1998.⁸ Other related initiatives have included the National Center for Nonprofit Enterprise, the Nonprofit Enterprise and Self-sustainability Team (NESsT), the Yale School of Management-Goldman Sachs Foundation Partnership on Nonprofit Ventures, Social Enterprise London (SEL), and the Global Social Venture Competition, hosted annually by Columbia Business School, the Haas School of Business at UC-Berkeley, and London Business School. While most of these initiatives are focused on the nonprofit sector, the last two embrace for-profit social ventures as well. Social Enterprise London has adopted a definition of social enterprise constructed by the United Kingdom Department of Industry and Trade, which is “a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximize profit for shareholders and owners.”⁹ With this definition in mind, in 2005, SEL launched the new *Social Enterprise Journal* to set a research agenda and provide an outlet for work on social enterprise (Haugh, 2005).

⁷In this regard, it laid the foundation for Emerson’s most recent work that urges all organizations to consider the blended value (social, economic, and environmental) that they create. See Emerson and Bonini (2004).

⁸Other members of the founding team included Gary Mulhair and John Riggan.

⁹This is very similar to a definition of “social purpose business ventures” developed for the Ford Foundation in a report by the consulting firm Brody and Weiser and Martha Rose in 1990.

While much of the activity and focus of the Social Enterprise School has centered on earned-income activity by nonprofits, from the beginning, many of the leaders in this arena blurred the lines between the business and social sectors and sought to align economic and social value creation. The spirit of this movement was expressed recently by America Online founder Steve Case (2005) in a *Wall Street Journal* article that he wrote after speaking at the Social Enterprise Alliance national conference:

Too many people still act as if the private sector and the social sector should operate on different axes, where one is all about making money and the other is all about serving society. A better approach is to integrate these missions, with businesses that are “not-only-for-profit” and social service groups with their own earned income all contributing to positive, durable, significant social change.

It is this sector-bending activity, and the associated experimentation with market-based solutions to social problems, that distinguishes the Social Enterprise School from simply being one element in the study of nonprofit finance.

The Social Innovation School of Thought. While it is commonplace to think of an entrepreneur as someone who starts and runs a business, the term actually has its origins in economic theory. It was introduced by French economists in the 18th century. According to Jean Baptiste Say (1803), “entrepreneurs” were the value creators who shifted economic resources from areas of lower and into areas of higher productivity and yield. Twentieth century Austrian economist Joseph Schumpeter (1934) took the idea further, suggesting that entrepreneurs perform their value creating function through innovations, the carrying out of “new combinations” (pp. 65-66). He declared, “the function of entrepreneurs is to reform or revolutionize the pattern of production” (p.132). Since then, Schumpeter’s definition has dominated theoretical discussion of entrepreneurship (see e.g., Swedberg (2000), Baumol (2002)),¹⁰ and it provides the conceptual foundation for the Social Innovation School of social entrepreneurship. According to this view, social entrepreneurs are individuals who reform or revolutionize the patterns of producing social value, shifting resources into areas of higher yield for society.

Though many people and organizations have advanced the Social Innovation School, one person and his organization have been the primary driving force, namely Bill Drayton and Ashoka. In 1980, just when Edward Skloot was creating New Ventures, Bill Drayton founded Ashoka: Innovators for the Public. As Drayton framed the mission, Ashoka “finds and supports outstanding individuals with pattern setting ideas for social change” (Drayton and MacDonald, 1993, p.i). Though he occasionally used the term “social entrepreneur” to describe these individuals in Ashoka’s early days, Drayton (and Ashoka’s official literature) more commonly referred to them as “public entrepreneurs” until the mid-1990s, when Ashoka officially adopted the term “social entrepreneur.”

Drayton’s conception of these public entrepreneurs as innovators was reinforced during Ashoka’s early years when Peter Drucker published *Innovation and*

¹⁰ It also played a key role in early writing about entrepreneurship in the nonprofit sector. See, for instance, Young 1983, 1986, 1987.

Entrepreneurship (1985). Drucker not only pressed the connection between entrepreneurship and innovation, he pointed out that entrepreneurship could happen in any sphere, including public service. His concept of a public service entrepreneur was strikingly similar to Drayton's.¹¹

Picking up on the trend started by Ashoka, *The Chronicle of Philanthropy* ran a cover story in 1995 entitled "Good Works' Venture Capitalists: Foundations and charities back 'social entrepreneurs' who have ideas for curing the ills of society" (Gray and Greene, 1995). Along with Ashoka, the article featured Echoing Green and the Fund for Social Entrepreneurs at Youth Service America. Echoing Green was started in 1989 by actual venture capitalists at the firm General Atlantic, along with support from the affiliated Atlantic Philanthropies. From the beginning, Echoing Green "wanted to create a foundation that adopted a venture capital approach to philanthropy" in order to support "young entrepreneurial leaders" with a public service orientation, later described as "social entrepreneurs" (Cohen, 1995). In a similar vein, the Fund for Social Entrepreneurs at Youth Service America was established in 1994. This Fund was created explicitly as a "venture capital program that trains, promotes, and invests in talented and visionary young entrepreneurs who are launching innovative and effective youth service organizations" (Youth Service America, 1997).

The use of the term "social entrepreneur" by these organizations to describe innovators pursuing social change helped reinforce the idea that social entrepreneurship need not be framed in terms of income. It could be more about outcomes, about social change. This understanding was reinforced at a more conceptual level by Charles Leadbeater when *Demos*, a British think tank, published *The Rise of the Social Entrepreneur*. According to Leadbeater (1997), "Social entrepreneurs identify underutilized resources—people, buildings, equipment—and find ways of putting them to use to satisfy unmet social needs. They innovate new welfare services and new ways of delivering existing services" (p. 8). Themes from both Say (shifting resources) and Schumpeter (innovation) are incorporated in this perspective. Drawing on several case studies, Leadbeater proposed that social entrepreneurs are entrepreneurial, innovative, and transforming in their approach to promoting health, welfare, and well-being.

In a similar spirit, one of the authors of this paper drafted a short essay on "The Meaning of 'Social Entrepreneurship'," in 1998 (Dees, 1998b). Drawing on the academic literature on entrepreneurship, including Say, Schumpeter, and Drucker, as well as an understanding of the entrepreneurial process mapped out by Howard Stevenson (Stevenson and Gumpert, 1985), Dees focused on five factors, stating:

Social entrepreneurs play the role of change agents in the social sector, by:

- Adopting a mission to create and sustain social value (not just private value),
- Recognizing and relentlessly pursuing new opportunities to serve that mission,
- Engaging in a process of continuous innovation, adaptation, and learning,
- Acting boldly without being limited by resources currently in hand, and
- Exhibiting a heightened sense of accountability to the constituencies served and for the outcomes created.

¹¹ Drucker (1993, 1994) was also one of the first to speak of a "social sector" in which citizens address social needs and problems through different forms of organization.

In 2003, Sarah Alvord, Chris Letts, and David Brown took the idea of social innovation even further, arguing for more of an emphasis on fundamental social change. Inspired by Drayton's work, they suggested that social entrepreneurship is "a way to catalyze social transformation well beyond the solutions of the social problems that are the initial focus of concern" (Alvord et al., 2003, p. 137). Transformation, in this sense, involves changing the pattern of production not only in one place or around one narrowly defined social problem, but also at a broader societal level.¹² This theme of "transformation" was echoed in 2004 when the Social Innovation School received a major boost with the publication of David Bornstein's book *How to Change the World: Social Entrepreneurs and the Power of New Ideas*. In profiling Bill Drayton and numerous Ashoka Fellows, Bornstein portrayed social entrepreneurs as "*transformative forces*: people with new ideas to address major problems who are relentless in the pursuit of their visions, people who will simply not take 'no' for an answer, who will not give up until they have spread their ideas as far as they possibly can" (p. 1).

In a recent attempt to capture the distinctive spirit of the Social Innovation School, Mark Kramer (2005) has suggested that we define a social entrepreneur as "One who has created and leads an organization, whether for-profit or not, that is aimed at creating large-scale, lasting, and systemic change through the introduction of new ideas, methodologies, and changes in attitude" (p. 6). On this understanding, social entrepreneurship is not about generating earned income or even about incremental innovations in the social sector. It is about innovations that have the potential for major societal impact by, for instance, addressing the root causes of a social problem, reducing particular social needs, and preventing undesirable outcomes.

Numerous organizations have arisen to embrace the concept of social entrepreneurs as innovators and serve to push this school of thought forward. The basic idea behind this concept has been embraced by many of those involved in "venture philanthropy."¹³ In addition to the thought-leading organizations already mentioned, the "field" has been enriched and given visibility by the Schwab Foundation for Social Entrepreneurs (1998), the Skoll Foundation (1999), and the Manhattan Institute's Social Entrepreneurship Initiative (2001). Each has embraced the idea that innovation is central to social entrepreneurship. Together, they have strengthened this school by identifying and celebrating leading social entrepreneurs, creating vehicles (such as Skoll's SocialEdge website) to facilitate communication among practitioners and thought leaders, supporting writing and research on this topic, and generating visibility for social entrepreneurs with world leaders (e.g., by inviting social entrepreneurs to the World Economic Forum) and with the public at large (e.g., through Skoll's "New Heroes" series aired on PBS).

¹² These authors propose "social transformation" as another school of social entrepreneurship, beyond "innovation," but it can be seen as more dramatic and far-reaching social innovation for purposes of this paper.

¹³ For an overview of the venture philanthropy field, readers should see Arrillaga and Hoyt (2005). Venture Philanthropy Partners has also published many reports documenting the evolution of venture and high-engagement philanthropy, see <http://www.vppartners.org/learning/reports/index.html>.

The Potential for Convergence

Despite occasional tensions between these schools,¹⁴ there are encouraging signs of convergence. Furthermore, a strong case can be made that neither of these schools on its own justifies the creation of a new field of academic inquiry. They simply involve applications of current knowledge. However, focusing on the convergence of these two schools holds greater promise, both socially and academically. Innovations that cross old sector boundaries raise a distinctive set of intellectual questions whose answers have a very high potential payoff for society.

Limits of the Schools Taken Separately. Beyond practice, social enterprise without at least some element of innovation is not particularly interesting from a theoretical point of view. It is even difficult to regard it as “entrepreneurial.” As Bill Shore (1999), a pillar of the Social Enterprise School, acknowledges, “Being an entrepreneur, social or otherwise, requires something more [than passion]. It must be defined as doing things that have not been done before” (p.134). There is nothing wrong with studying common revenue-generating activities, but the questions they raise are more practical than theoretical.¹⁵ Exploring how better to start a museum shop, sell branded nonprofit merchandise, or operate a thrift store could be of value to some nonprofit managers and might yield more valuable “how-to” manuals and tools for practitioners. But this type of research rarely adds any substantive new theoretical knowledge. Nor does it raise many interesting intellectual questions about how best to deliver social value, thus limiting its appeal to those focused exclusively on nonprofit management and financing. Moreover, we have a rather large and rich literature on “commercialization” in the nonprofit sector already. There is no need for a new field of “social entrepreneurship” to cover that ground. Indeed, without some element of innovation, social enterprise is and should be a sub-topic in a broader theory of nonprofit finance.

What elevates the Social Enterprise School of thought above the status of simply one kind of nonprofit funding strategy is the intriguing idea of using business methods in *new ways* to serve social objectives. As Kim Alter (2005), who has been working in and writing about the social enterprise field for several years, recently concluded, “The beauty of social entrepreneurship is that commuting business practices to effect social change offers so much more possibility than just money. New paradigms should stress mission as the cornerstone of the social enterprise and focus on operational models that maximize social impact” (p. 34).

Social innovation without enterprise holds out more promise as the basis of a field of academic study. Nonetheless, taken alone, it may not raise sufficiently distinctive questions. A great deal of work has already been produced on innovation in general. In fact, some important existing work already incorporates social innovation into its theory development. We have already mentioned Drucker’s (1985) inclusion of public

¹⁴ See, for example, Boschee and McClurg (2003), Dees (2004), and comments about Bornstein’s book in Skloot (2005).

¹⁵ This would explain why much of the booming literature in this field takes the form of practical “how-to” manuals.

service innovation in his book *Innovation and Entrepreneurship*. Rogers' (1995, original version published in 1962) now classic work on diffusion of innovation includes examples of social innovations, such as the development, diffusion, and re-invention of the anti-drug program D.A.R.E. (p. 228ff). In a similar vein, Malcolm Gladwell's (2000) analysis of *The Tipping Point*, which is also relevant to the dissemination issue, includes a range of pertinent examples from the spread of illnesses to the educational television series Sesame Street. And in a recent book on *Seeing What's Next*, Clayton Christensen (2004) applies his concept of disruptive innovations to higher education and health care (Christensen, 1997). This type of work applying innovation theory to social innovations is important, but it does not merit a new academic field.

Social innovation is much more promising as a field of research and theory when it embraces the sector-bending element common in social enterprise (Dees and Anderson, 2004). "New combinations" that cut across sectors provide fertile intellectual ground, raising important questions about markets, business methods, and the linkage between social and economic issues. Fortunately, many in the Social Innovation School have openly embraced the idea of blurring sector boundaries and adapting business practices for social impact. From its early days, the YSA Fund for Social Entrepreneurs (circa 1996) called for "disseminating broad-based for-profit knowledge skills that are invaluable to the entire nonprofit sector," and journalists observed, "That market savvy approach to social change is a typical trait of a social entrepreneur" (Gray and Greene, 1995, p.14).

Bill Drayton has long been urging Ashoka Fellows to learn lessons from their business counterparts, encouraging "entrepreneur-to-entrepreneur" exchanges. Recently, he has been calling for the creation of a financial services industry for social entrepreneurs that mirrors the kinds of services available for business entrepreneurs (Drayton, 2004). And Ashoka has also started explicitly to seek promising "market-based strategies" for addressing social problems through contests on its affiliated website ChangeMakers.net. These efforts are consistent with the assertion of the Schwab Foundation that "social entrepreneurship" is "a term that captures a unique approach to economic and social problems, an approach that cuts across sectors and disciplines."¹⁶ This spirit is also captured in Kramer's (2005) aforementioned study in which he notes that social entrepreneurs "have broken down the barrier between nonprofit and for-profit sectors, insisting that both vehicles can be effective for achieving social change, and adopting the freedom to use either or both financial structures to reach their goals" (p. 5). We are suggesting that the most intriguing examples of social entrepreneurship, as well as the ones that provide the greatest basis for building a field of study, are innovations that use elements from both sectors to create social value.

Value to Society in Looking at the Intersection of the Schools. Not only does the combination of social innovation and social enterprise raise important intellectual questions, the study of this phenomenon has the potential to be enormously beneficial

¹⁶This quotation was taken from the website for the Schwab Foundation for Social Entrepreneurship as it appeared in the fall of 2005. The link at that time was: <http://www.schwabfound.org/whatis.htm>.

to society, either by helping us see new possibilities for improving social conditions or by preventing us from heading down a dangerous road without understanding the risks.

Most would agree that we should constantly strive for new and better solutions to social problems. Thoughtful observers have long recognized that many social problems have important economic dimensions. Charitable responses that neglect the economic context are likened to “band-aids” that simply cover the problem. Muhammad Yunus (1999), founder of Grameen Bank and a leading social entrepreneur according to both schools, has expressed his concerns about “charitable” responses:

When we want to help the poor, we usually offer them charity. Most often we use charity to avoid recognizing the problem and finding a solution for it. Charity becomes a way to shrug off our responsibility. Charity is no solution to poverty. Charity only perpetuates poverty by taking the initiative away from the poor. Charity allows us to go ahead with our own lives without worrying about those of the poor. It appeases our consciences (p. 237).

Long-term sustainable solutions to poverty are likely to depend on an economic component that helps to bring more low-income people into the economy. Yunus and others in the world of community development financial institutions accomplish this task by providing affordable access to financial services and markets. Other social entrepreneurs have responded by starting businesses to train and employ disadvantaged people. (See Emerson and Twersky (1996), Boschee (1995) for some examples.) This move toward blending economic and social approaches is illustrated powerfully in *Building Wealth: The New Asset-Based Approach to Solving Social and Economic Problems* (Democracy Collaborative, 2005).

Notably, the potential value of blended approaches extends beyond social issues, such as poverty, that have obvious direct economic components. Consider environmental preservation. Using donated funds to purchase land for conservation may be an essential element in protecting biodiversity and reducing environmental harms, but, as John Sawhill discovered when he was leading The Nature Conservancy, this approach alone is not a viable long-term solution (Howard and Magretta, 1995). Fundamentally, there are not enough philanthropic resources available to purchase all of the land necessary to stop environmental degradation. Of even greater societal importance, preventing land from being used for economically-productive purposes often harms the surrounding communities, including the poor in those communities. At the same time, the economic activity being conducted nearby, upstream, or upwind has a major impact on the preservation of species on the “protected” land. The Nature Conservancy realized that more sustainable, long-term solutions would require creative combinations of conservation with environmentally-friendly economic activity. It has experimented, not always successfully, with various ways to integrate economic and environmental strategies (Birchard, 2005).¹⁷ Similar examples could be developed in just about every social-sector arena, including health care, education, the arts, various social services, and beyond.

¹⁷ For more examples in the environmental arena, see Smith (1988), Anderson (1997), Anderson and Leal (2001).

The reality is that it is difficult to imagine addressing many of the most challenging, complex problems without solutions that work economically as well. Alvord, Brown, and Letts (2003) assert, “Sustainable social transformations include *both* the innovations for social impact and the concern for ongoing streams of resources that characterize the other two perspectives on social entrepreneurship” (p. 137). If social entrepreneurs aspire to create lasting, large-scale change, as Kramer (2005) claims, they would be wise to look across sector boundaries to find solutions that attend to economic and social factors.

Thus, it is not surprising that many social entrepreneurs are looking to business for inspiration. They want to use whatever tools are most likely to mobilize resources and create sustainable improvements in society. They do not want to be limited to a particular legal form of organization, a sector labeled “nonprofit” or “charitable,” or a repertoire of tools conventionally deemed appropriate for that sector. They recognize that social and economic issues are often intertwined. Solutions that align them are growing more popular and merit serious study.

Focusing research and theory development on this arena is also important to prevent missteps as cross-sector approaches gain in popularity. Even proponents will agree that this work is far from easy. Many experiments have failed, and no doubt more will fail. The jury is still out on a number of cross-sector innovations. A shift such as this one certainly poses some risks that need to be understood and managed. The W.K. Kellogg Foundation has raised a cautionary note in a report aptly titled, “Blurred Boundaries and Muddled Motives” (Kellogg, 2003). The conclusion of the report is that we are headed into a time of increasingly blurred sector boundaries, like it or not. This reality raises very serious questions about the future of philanthropy and the social sector that merit intense exploration. We need to understand the promise, limits, and risks of these blended approaches to assure better outcomes for society.

Focusing on Enterprising Social Innovation. Though we want to focus attention on the intersection between social enterprise and social innovation, we are not proposing a comprehensive new definition of “social entrepreneurship” that would be embraced by both schools, nor do we intend to reconcile their differences, as continued debate and discourse can 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 Schumpeter’s (1950) 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. Returning again to Schumpeter, these innovations represent “new combinations” for delivering a new good or service or delivering an old one in a new way (Schumpeter, 1950).

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.

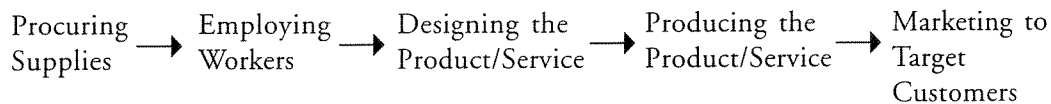
To explore this area a little further, it is helpful to consider the “Social Enterprise Spectrum” (see Dees 1996, 1998a).

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
Key Stakeholders			
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

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.

Create social value. 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 Michael Porter’s (1985) value chain framework could be used to identify the major activities through which a business can create social value (Dees and Anderson, 2003a). 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 might 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. The ventures of HEDF mentioned earlier 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 represent this concept.

CaféDirect. With company standards for purchasing from small growers around the world at rates that match or exceed the Fairtrade industry standards, CafeDirect has become the UK’s leading Fairtrade hot drinks company and the sixth-largest coffee brand in the country. Beyond paying fair prices, CafeDirect also puts a percentage of its profits back into the growers’ organizations to support a wide range of activities, including market information, management training, and any other elements required to grow their business. At the core of its business model is an innovative social network of growers, shareholders, and consumers committed to the company’s social mission.

Delancey Street Foundation. Mimi Silbert envisioned a new kind of rehabilitation program for substance abusers, former felons, and others 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 tax-paying 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 (Dabson et al., 2001). 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 (Birchard, 2005).

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.

These examples help illustrate the range of enterprising social innovations. They occur in all fields of the social sector. They vary widely with regard to their methods of creating social value and the particular mix of commercial and philanthropic elements. They have attained different degrees of scale through various means, and while Delancey Street Foundation and Habitat for Humanity effect sustainable positive change in the lives of their residents and homeowners, the others either have or have aimed to effect or demonstrate the potential for systemic change. Moreover, these innovations also vary with respect to legal structure. They can be carried out through for-profit, nonprofit, or hybrid organizations. As Drucker (1994) put it when he introduced the concept of a “social sector,” “What matters is not the legal basis but that the social-sector institutions have a certain kind of purpose . . . The task of social-sector organizations is to create human health and well-being” (p. 76). The variety of possibilities for enterprising social innovation makes this field intellectually rich.

Theoretical Issues Raised by Enterprising Social Innovation. Framing social entrepreneurship in terms of enterprising social innovation poses a rich set of theoretical questions that arise when old sector boundaries are violated (Dees and Anderson, 2004). Many of our existing theories were developed with the sector boundaries firmly in mind. Prior work that was focused on nonprofits will certainly inform social entrepreneurship theory, but it makes assumptions that will be challenged in this new conception.

Acknowledging the Role of Markets in the Social Sector. Reframing questions to focus on social entrepreneurship that blends business and philanthropic methods forces us to avoid the false dichotomies and artificial distinctions of past theory building. For instance, the social sciences often distinguish “the market” and “economic” institutions from other social contexts and organizations. Social sector organizations, particularly nonprofits, tend to be seen as if they are outside of “the market.”¹⁸ This perception exists in part because the relationships between staffs, clients, donors, and volunteers are not seen as the kind of exchange relationships typical of commercial markets. However, this dichotomy between market and non-market is false. Reality is more like a continuum with many shades of gray. Nonprofits clearly operate in markets, competing for staff, donors, volunteers, and clients. Nonprofit firms present their “value propositions” to these stakeholders, just as businesses do to their key stakeholders. The values may include more intangibles and the choices may be more expressive, but these differences between social sector and commercial markets are differences in degree, not kind (Frumkin, 2002). Even in commercial markets, people often buy intangibles, such as prestige or image, and they make expressive choices. One of the more extensive analytic treatments of “expressive choice” uses soft drinks as an example of marketing that appeals to expressive values (Schuessler, 2000). Choice of cars, clothes, music, coffee, and much more have an expressive component. Expressive values may be stronger in the social sector, but they are not unique to the social sector. Indeed, business firms are advised to have a mission that is more than making money, in part to appeal to the expressive motivations of employees (Collins and Porras, 1994). The terms of competition may be different than in commercial markets, but social-purpose organizations do operate in markets, and social-sector leaders are often engaged in “selling” their causes, organizations, and services. As competition increases and stakeholders become more informed and demanding, the differences between commercial and social sector markets will continue to diminish.

Enterprising social innovation challenges the old dividing line between markets and non-markets. In the same spirit, it challenges the idea of dividing the social sector into “donative” versus “commercial” organizations, which represents another false dichotomy (Hansmann, 1980). As illustrated earlier in the social enterprise spectrum (Table 1), social entrepreneurs face a wide continuum of choices, not a dichotomy. Even the most “donative” nonprofits tend to operate in some commercial markets, as well as some more philanthropic markets. Social entrepreneurs have to decide how they will approach the markets for resources and the markets for their services or

¹⁸Of course, scholars have written about nonprofits in a market economy (Hammack and Young, 1993) and about economic decision-making by nonprofits (Young, 2003), but much of this work is very recent and some work seems to present nonprofits as a kind of alien presence in a hostile market environment.

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.

Though we suggest rejecting the dichotomy of nonprofit versus for-profit, recognizing the possibility for structures that include elements of both, we do not mean to imply the choice of legal form of organization is of no consequence. We would not go as far as Drucker (1994) in saying of social sector organizations, “Whether they are organized as nonprofit or not is actually irrelevant to their function and behavior” (p. 76). The choice of legal form does matter, in terms of the options it makes available and the legal constraints imposed, but this choice is a strategic decision, not a defining characteristic (Dees and Anderson, 2004). Moreover, it varies from country to country depending on the legal system. In a global world, we should not be developing theories that revolve around the forms of organization that happen to be currently available in a given country. New forms will be developed over time, as they have been in the past.¹⁹ Finding the right economic structure to implement a specific social impact theory in a given context is the dominant consideration. The decision on legal form will follow.

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

¹⁹It is worth noting that the United Kingdom introduced a new form of organization in 2004 to accommodate social enterprise. It is called the “community interest company.” (See <http://www.dti.gov.uk/cics/>.)

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? 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 "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 "double bottom line" is involved, how does an investor decide what is an optimal mix of economic and social return?²⁰ How can social entrepreneurs and supporters measure and reinforce the social aspect of the "double bottom line"?

Some literature exists on these kinds of hybrid entrepreneurial activities, but it is just emerging. (See, for instance, Waddell 1995, Young 2001, esp. pp. 151-155, Kelley 2005.) Much more work is needed.

Connections with Other Research Fields. Naturally, the study of enterprising social innovations will inform and be informed by research on nonprofit organizations, but the perspective will be different. The work will not start with the presumption that we are talking about one specific legal form of organization. It will put purpose before structure. As a result, this approach to social entrepreneurship will also be complementary to other fields of inquiry. The fit with the study of innovation has already been discussed, and we will mention just three other examples: social marketing, corporate social engagement, and even some recent work in economic theory.

Social Marketing. Like social entrepreneurship, social marketing cuts across sector boundaries by focusing on the explicit role marketing can play in achieving social impact goals. Kotler and Zaltman (1971) first formally defined social marketing as

²⁰Some initial work has been done to explore "double-bottom-line" investing. See Clark and Gaillard.

“the design, implementation, and control of programs calculated to influence the acceptability of social change ideas and involving considerations of product planning, pricing, communication, distribution, and marketing research” (p.5). Since then, many diverse examples have been examined in academic literature and prominent marketing academics have published articles and texts and developed theories around both the similarities and dissimilarities with conventional marketing.²¹ Much of this work has the potential to inform theories of social entrepreneurship, as well as to serve as examples of cross-sector theory building.

Consider, for example, a framework offered by Rangan, Karim, and Sandberg in a 1996 *Harvard Business Review* article. Rangan and his colleagues construct a two-by-two matrix to help in the development of social-marketing strategies. One dimension concerns the nature of the benefits created: tangible and personal versus intangible and societal. The other concerns the costs imposed on target beneficiaries or clients for adopting socially desirable behavior: low versus high. These costs include time, energy, psychological discomfort, social stigma, lost opportunities, or change in routines. The four squares created by this matrix help social entrepreneurs select the most promising methods for achieving their impact, changing behavior, and generating income. Though the authors do not focus on this aspect, one possible conclusion is that fee-based commercial methods are more likely to work best when benefits are tangible/personal and the adoption or participation costs are relatively low. When the benefits are intangible/societal and the non-monetary costs are high, charging participants is likely to pose more of a problem.

The logic described above is congruent with the work by Brenda Zimmerman and Raymond Dart (1998), who offered a framework for determining when a commercial mode of operation is most viable. They also consider personal versus collective benefit. Instead of the cost dimension, however, their matrix includes a time dimension regarding the realization of benefits: short-time horizon versus a long lag. The long lag also works against commercial methods. If we add third-party payers to the mix, the logic gets a bit more complex, but this kind of framework provides a starting point for a theory of the conditions that facilitate enterprising social innovations. Similarly, other work in social marketing has the potential to enrich the study of enterprising social innovation.

Corporate Social Engagement. Though corporate social engagement research focuses exclusively on for-profit companies, recent work in this area raises many of the theoretical questions posed above. A couple of years ago, Lynn Paine (2003) suggested that companies evaluate their performance on a matrix with two dimensions: moral and financial (p. 136). If we substitute “social impact” for “moral,” this matrix is identical to the one commonly used to evaluate an organization’s social programs on mission impact and financial impact (Gruber and Mohr, 1982; Oster, 1995; Boschee, 1998). Understanding what it takes to align social and financial impact may help us better understand the alignment between ethical and financial performance. More recently, Josh Margolis and Jim Walsh (2004) have suggested that we reframe research

²¹ For an overview of the origins and evolution of social marketing, with a particular focus on the transfer of commercial marketing concepts and tools to the nonprofit sector, see Andreasen (2001).

on corporate social engagement in pragmatic terms. For-profit corporations are being pressured to provide strong financial returns and to help address social ills. To determine the appropriate role for corporations, they suggest that we take these expectations as given and ask what companies can do well. They pose a “fundamental question” for theorists and managers: “How can business organizations respond to human misery while also sustaining their legitimacy, securing vital resources, and enhancing financial performance?” (p. 284).²² Margolis and Walsh suggest investigating a range of responses that include “make” options in which the company addresses the social problems directly, “buy” options in which it contributes to social-purpose organizations that address the problems, and “hybrid” options in which the company partners with a social-purpose organization (p. 289). Though Margolis and Walsh do not say as much, these questions cannot be answered convincingly without considering the relative capacities of other organizations that might be used to serve social purposes. The pragmatic organizational design question is relevant to social entrepreneurs and corporate leaders. We need to consider the full range of organizational structures for serving social purposes, mapping the relative strengths and weaknesses of each. A strong case can be made for comparative social-impact research that would look at the role of all kinds of organizations in achieving desirable social objectives.

It is not simply the ethicists and specialists in corporate social responsibility who are raising these questions about corporate social impact. We are also witnessing a revival of William Norris’ call for business to find profit opportunities in social needs. Two recent books by prominent business strategy professors emphasize this theme: C. K. Prahalad’s *Fortune at the Bottom of the Pyramid* (2004) and Stuart Hart’s *Capitalism at the Crossroads* (2005). Hart’s subtitle indicates the thrust of these books, “The Unlimited Business Opportunities in Solving the World’s Most Difficult Problems.” The echoes of Norris are clear. Though this strategy did not work well for Control Data, the analytic rigor Hart and Prahalad bring to this arena could help improve the chances of success (Colonna, 1989). Research on social entrepreneurship defined in terms of enterprising social innovation will benefit from this work as well as inform it, as we look at the role innovative economic strategies and organizational structures can play in addressing social problems and needs.

Of course, one need not accept the claim that all businesses must adopt a social orientation to be interested in creating hybrid economic-social institutions. The successful founder of Grameen Bank, Muhammad Yunus (2004), provides a vision that allows for different models.

We need to reconceptualize the business world to make sure it contributes to the creation of a humane society, not aggravate the problems around us. We need to recognize two types of businesses and offer equal opportunities to both. These two types of business are: (a) business to make money, i.e. conventional business, and (b) business to do good for the people, or social business.

²² A mirror question for the social sector might be, “How can social sector organizations address the economic factors that influence social problems while securing vital resources and cost-effectively serving their social objectives?”

Social business enterprises are a new kind of non-loss organization which aims to solve social, health, and environmental problems utilizing the market mechanism. We need to give opportunities to the social business entrepreneurs similar to the institutional and policy support system that the world has built over the years for the conventional businesses.

Experimentation may be necessary to decide how well and to what extent social-purpose business enterprises can address our most pressing social problems and needs. Whether profit-seeking companies can find the fortune they desire in solving social problems remains to be seen. Perhaps social motives and methods will have a key role to play in this process. Either way, the research agenda for enterprising social innovations dovetails with recent work on corporate social impact.

Economic Behavior. A research agenda that looks broadly at how we can combine philanthropic and economic motivations to better solve social problems could also inform economic theory. With the rise of behavioral economics and, more recently, “neuro-economics,” the door is opening for relaxing the simple model of rational self-interested behavior that has been central to economic theory. A few maverick economists have been raising questions about how economics can take into account a broader range of motivations, including social motivations. Robert Frank (for instance, 1988 and 2004) has been leading the charge, arguing that social and ethical preferences play a significant role in economic behavior. Increasingly, some other mainstream economists have been exploring the inclusion of complex social motivations in economic analysis. Writing in the *Journal of Economic Perspectives*, George Akerlof and Rachel Kranton (2005) explore the role of worker self-image and identity as a factor in organizational economics. Timothy Besley and Maitreesh Ghatak (2005) pick up on a similar theme in their *American Economic Review* article that looks at the differences between “profit-seeking” and “mission-focused” workers. Social entrepreneurship could provide a terrific venue for exploring, testing, and refining the hypotheses generated in this work.

On the “neuro-economics” front, researcher Gregory Berns (2005) describes experiments that demonstrate that people prefer to work for their rewards rather than to get them for free. (Zink et al., 2004) These human neurological experiments reinforce much older findings from animal experiments (Carder and Berkowitz, 1970). As Berns (2005) puts it, “Given a choice, even rats prefer to work for their food than to get it for free” (p. 45). This is a modest finding, but it raises interesting questions, for instance, about whether recipients of charity would rather work than receive money, or food, or clothing as a gift. As an extension, would people rather pay for support and services that they need than get it for free? These issues could have implications for the use of enterprise strategies by social entrepreneurs that cut against old assumptions about the appropriateness of giving to the poor.

Social entrepreneurship, conceived in a way that blends business and social elements, provides an excellent laboratory for exploring the interaction of different motivations and the use of organizational structures to harness those motivations for the benefit of society. Even social motivations can be channeled into ineffective, wasteful, perhaps even harmful behavior. This sector-blurring arena could help economists get a better understanding of the differences between standard commercial

markets and non-standard “markets,” such as philanthropic funding markets or the market for volunteers. Furthermore, as economists get smarter about incorporating a richer understanding of human behavior and motivation, that field could prove much more useful as a source of guidance for social entrepreneurs. Already, some behavioral economists are looking at social issues, such as poverty (see Thaler and Benzarti, 2004; Bertrand, Mullainathan, and Shafir, 2004). It is likely that more of this work will come, and the relationship between social entrepreneurship and new approaches to economics is likely to be mutually beneficial.

In addition to nonprofit and innovation research, social marketing, corporate social engagement, and economic behavior represent three important arenas that are complementary to the kind of research we are suggesting on social entrepreneurship. No doubt there are other areas for fruitful sharing and collaborations.²³

Concluding Thoughts

In this paper, we have argued that academics should focus on social entrepreneurship that combines elements of the two main schools that make up the field today—Social Enterprise and Social Innovation. By focusing on enterprising social innovation, the common ground between the two schools, we can provide practical guidance, raise intellectually challenging questions, and address a topic that could prove crucial for society.

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. Instead of looking at the world through the lens of a particular legal form of organization, with all the attendant assumptions and biases, we should look across these old boundaries to find the best paths for improving social conditions. Of course, we are not suggesting the abolition of nonprofit management and finance as fields of inquiry, any more than we are suggesting that we abolish the study of business management or of innovation in general. These fields of inquiry have value in themselves, and advances in each will inform the new field of social entrepreneurship.

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

²³ See Emerson and Bonini, 2004, for a detailed map of several fields grappling with this overlap between economic, social, and environmental values.

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 both schools of thought and academia well; more importantly, it will be of great value to society.

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