RESEARCH ON SOCIAL ENTREPRENEURSHIP: UNDERSTANDING AND CONTRIBUTING TO AN EMERGING FIELD

ARNOVA Occasional Paper Series
Volume 1, Number 3

Rachel Mosher-Williams, Editor
The Aspen Institute
Washington, D.C.

RESEARCH ON SOCIAL ENTREPRENEURSHIP: UNDERSTANDING AND CONTRIBUTING TO AN EMERGING FIELD

Table of Contents

About the Authors

Beth Battle Anderson is lecturer and managing director at the Center for the Advancement of Social Entrepreneurship (CASE) at Duke University's Fuqua School of Business. At Duke, in addition to managing CASE, Anderson teaches a course on achieving impact in social-purpose organizations. Previously, she served as a research associate and acting administrative director at Stanford Business School's Center for Social Innovation and as a summer associate at McKinsey & Company. With Professor Greg Dees, she has co-authored papers and chapters on the theory of social entrepreneurship, blurring sector boundaries, for-profit social enterprise, scaling social innovations, developing earned-income strategies, and the process of social entrepreneurship. She has also supervised, researched, written and edited several cases on social entrepreneurship and philanthropy. She received her M.B.A from Stanford after working for five years in the nonprofit sector and graduating with a B.A. in classics from Williams College. Email: banders@duke.edu

Leslie R. Crutchfield is a director at Ashoka, currently on part-time leave co-authoring a book about America's fast-growth, high-impact organizations led by social entrepreneurs (Jossey-Bass/John Wiley & Sons, publisher). As a grantee of The Aspen Institute Nonprofit Sector and Philanthropy Program, Crutchfield conducted research for the book in coordination with Duke University's Center for the Advancement of Social Entrepreneurship (CASE) and The Aspen Institute NSPP. Prior to joining Ashoka in 2001, she provided strategic consulting to clients such as The Pew Charitable Trusts, Kauffman Foundation, The Morino Institute, and City Year. Her publishing experience includes co-founding and editing *Who Cares: The Tool Kit for Social Change*, a national magazine reaching 50,000 readers in circulation from 1993—2000. She earned her M.B.A. and A.B. from Harvard University. Email: lcrutchfield@ashoka.org

J. Gregory Dees is faculty director and adjunct professor at the Center for the Advancement of Social Entrepreneurship (CASE) at Duke University's Fuqua School of Business. Dees previously served as the Miriam and Peter Haas Centennial Professor in Public Service and co-director of the Center for Social Innovation at Stanford Business School. Prior to Stanford, he taught at Harvard Business School, where he helped launch the Initiative on Social Enterprise, and at the Yale School of Management. He has also served as entrepreneur-in-residence with the Kauffman Foundation's Center for Entrepreneurial Leadership, worked on rural economic development at the Mountain Association for Community Economic Development, and served as a management consultant with McKinsey & Company. He holds a master's in public and private management from Yale and a Ph.D. in philosophy from Johns Hopkins. He has written extensively on social entrepreneurship and is co-editor of *Enterprising Nonprofits* (Wiley, 2001) and *Strategic Tools for Social Entrepreneurs*, (Wiley, 2002). Email: jgregdees@yahoo.com

Janelle A. Kerlin is a research associate in the Center on Nonprofits and Philanthropy at The Urban Institute in Washington, D.C., where she conducts research on politics and policy related to nonprofit development and operation. Kerlin's current research focuses on the conceptualization and legal and environmental context for social enterprise in different world regions, the development of performance-measurement indicators for nonprofits, and nonprofits in international development. She has published several chapters in edited volumes and is the author of *Social Service Reform in the Postcommunist State: Decentralization in Poland.* Among other awards, she was the recipient of a Fulbright-Hays Doctoral Research Abroad Fellowship and an East European Studies Research Scholar at the Woodrow Wilson International Center for Scholars. She holds a master's degree in social work from Columbia University and a Ph.D. in political science from the Maxwell School of Citizenship and Public Affairs, Syracuse University. E-mail: jkerlin@ui.urban.org

Noga Leviner is a program associate with Ashoka's Global and Latin America Venture programs. She currently manages Ashoka's Measuring Effectiveness program and has carried out case studies on the impact of social entrepreneurs in Latin America. She graduated with a B.A. in Human Biology from Stanford University in 2003. Email: nleviner@ashoka.org

Paul C. Light is Paulette Goddard Professor of Public Service at New York University's (NYU) Wagner School of Public Service. Before joining NYU, Light was vice president and director of governmental studies at the Brookings Institution, and founding director of its Center for Public Service. He has published extensively on American government, the presidency, government reform, nonprofit performance, and organizational excellence, and is the author of 20 books. He has held teaching posts at the University of Virginia, University of Minnesota, and Harvard University's John F. Kennedy School of Government. He was also senior adviser to the U.S. Senate Governmental Affairs Committee, and director of the public policy grant program at The Pew Charitable Trusts. Email: paul.light@nyu.edu

Cynthia W. Massarsky is president of SocialReturns, Inc., a nonprofit that operates the Social Enterprise Business Plan Competition and the University Consortium on Social Enterprise and Entrepreneurship. Immediately prior, Massarsky was creator and co-director of the former Partnership on Nonprofit Ventures for the Yale School of Management, The Goldman Sachs Foundation, and The Pew Charitable Trusts. She is also the principal of CWM Marketing Group, a management consulting firm specializing in new business development, marketing, and evaluation services. Widely published, her credits include *Generating and Sustaining Nonprofit Earned Income: A Guide to Successful Enterprise Strategies* (Jossey-Bass, 2004); "Enterprise Strategies for Generating Revenue" in *The Jossey-Bass Handbook of Nonprofit Leadership and Management* (2005); and "Enterprising Nonprofits: Revenue Generation in the Nonprofit Sector" (commissioned by The Pew Charitable Trusts, 2002). She earned a bachelor's degree from Simmons College and an M.B.A. from Cornell University. Email: cynthia.massarsky@socialreturns.org

Rachel Mosher-Williams is a project director at the Nonprofit Sector and Philanthropy Program at The Aspen Institute, where she leads the program's research initiatives on foundation policy and practice, social enterprise, and nonprofit-business relations. Previously, she was a research associate at the Urban Institute, where she studied foundations, with a focus on transparency and accountability, and the role of nonprofits in public policy. Before that, Mosher-Williams was a program associate at the National Council of Nonprofit Associations. She is co-editor of *Who Speaks for America's Children?* (Urban Institute Press, 2001) and co-author of the volume's chapter on the organizational characteristics of nonprofits engaged in child advocacy. Her co-authored article on defining, classifying, and extracting data on nonprofit advocacy organizations was published in *Nonprofit and Voluntary Sector Quarterly* (Dec. 1998). She received her master of public administration degree from the George Washington University and her B.A. in English from the College of William and Mary. Email: rwilliams@aspeninstitute.org

Jennifer A. Wade is an assistant professor of nonprofit and public management at the University of Colorado at Denver and Health Sciences Center's Graduate School of Public Affairs. In 2005, Wade was appointed by the Provost to serve as the Faculty Fellow for Inclusion for the Downtown Denver Campus. She also holds the David Stevenson Fellowship awarded by the Nonprofit Academic Centers Council. Prior to coming to Colorado, she was employed as a researcher for the University of Georgia's Carl Vinson Institute of Government. During this time, she worked on several state projects including the Department of Human Resources' Mental Health, Mental Retardation, and Substance Abuse performance evaluations and revenue projects, the Department of Labor's Workforce Development Initiative, and a briefing for former Governor (and current state Senator) Zell Miller. Wade received a bachelor of arts degree in American government from Wesleyan University (CT), and her master's and doctoral degrees in public administration from the University of Georgia. Email: jennifer.wade@cudenver.edu

Diana Wells is currently co-president of Ashoka: Innovators for the Public. She previously served as Ashoka's vice-president for Venture, the organization's global program for the search and selection of leading social entrepreneurs, and founded Ashoka's Fellowship Support Services and Measuring Effectiveness programs. Wells earned a B.A. in South Asian studies from Brown University and a Ph.D. in social anthropology from New York University, receiving a Fulbright for her dissertation research exploring the emergence of a cross-ethnic women's movement that challenged prevailing ethnic politics in Trinidad. Her publications have appeared in international feminist and academic journals. She has taught in the anthropology department at Georgetown University and has worked in the publishing industry. Email: dwells@ashoka.org

INTRODUCTION

Rachel Mosher-Williams

"So what is a social entrepreneur anyway?" "And what *exactly* is the difference between social entrepreneurship and social enterprise?" Those who study, work with, invest in, or write about *social entrepreneurs* are asked—and ask themselves—these questions constantly. Scholars and practitioners in such diverse fields as sociology, business, law, and public administration are observing the convergence of market and mission throughout the world and are anxiously trying to find a common language to describe this burgeoning area of activity so that it can be better understood and harnessed.

We do know that over the past few decades, the nonprofit and for-profit sectors have become more alike, undertaking mixed commercial and social programming in response to dramatic changes in the cultural and economic context. This new landscape includes constantly evolving demographics; instant and interactive technology; downsized and devolved governments; a global marketplace; a volatile economy; and a commercial presence that reaches into almost every aspect of life. Faced with these challenges, nonprofit organizations are becoming more market-oriented—generating fee-based revenue to support their missions and participating in financial markets—while businesses are working harder to benefit communities as well as stockholders, in some part to combat lingering consumer visions of Enron and new mistrust of large oil companies. Preliminary statistics on these emerging hybrid entities are spotty, but suggest that commercial revenue earned by nonprofits has increased by 600 percent in the past 20 years (Social Enterprise Alliance, 2003) and that assets held by nonprofit social enterprise total over $500 million (Aspen Institute, 2005).

Excellent. We know this new "space" exists and its momentum seems to be building. But what else do we know about it? Despite some initial efforts to better understand the broad range of social enterprise activity that is taking place in all sectors, there remain major gaps in our knowledge about the organizations and people that drive the work and about their potential to solve major economic and social problems. These gaps are slowing the work of social entrepreneurs and are ultimately hindering the ability of policymakers to make informed public policy regarding this emerging field.

Now back to the original question: What precisely is meant by a *social entrepreneur?* In the interest of shedding light first on the true complexity of establishing a single answer to this question, and second, on the most promising new responses from both academics and practitioners, the Association for Research on Nonprofit Organizations and Voluntary Action undertook this volume of papers and selected me to serve as editor. Since the study of social entrepreneurship is in its infancy, a volume on the current research issues might include many more than seven chapters. Indeed, this could be volume one in a six-volume set.

Nevertheless, I narrowed the range of potential topics to the following, which represent a combination of the *most promising issues for academic research* and *opportunities to familiarize the research community with pressing practice issues*:

■ developing an evidence-based definition of social entrepreneurship;
■ a theory of social entrepreneurship for research purposes;
■ the current state of the field;
■ methods for assessing the impact of social entrepreneurs' work;
■ a comparison of social entrepreneurship in the United States and abroad; and
■ a case study on a specific social enterprise.

With these topics in hand, I extended an invitation to several potential authors and was accepted by a diverse group made up of renowned scholars, like Paul Light and Greg Dees; emerging scholars, like Janelle Kerlin and Jennifer Wade; and, very appropriately, those who are practicing in the field but who are also reflecting on the practices and impacts of this emerging sector, like Noga Leviner, Leslie R. Crutchfield, Diana Wells, and Cynthia Massarsky.

Preview

In the first chapter, Paul Light explores the many uses of the term "social entrepreneur," offering a typology for sorting out the many competing definitions and concluding with a new description that addresses the "who," "what," "why," "where," and "when" questions of socially-entrepreneurial activity. Light argues that the practice and research fields have, to their detriment, been too exclusive–limiting definitions and support to individuals who launch new, high-impact social ventures. Through a new definition that allows for variation in the intensity (constant vs. periodic), location (across networks and teams, and within all sectors), activity (market-based vs. other approaches), product (system vs. product innovation), and outcome (success or failure) of social entrepreneurship, Light proposes that social entrepreneurs will be better served by both the practice networks that support them and the researchers working to understand them.

The second chapter, by Beth Anderson and J. Gregory Dees, also proposes a new definition of social entrepreneurship in order to improve the literature on the field, but goes farther to offer a theoretical framework that comprehensively reflects the practical and intellectual elements of this emerging field. Chapter two maps the origins and evolution of social entrepreneurship and describes the two main schools

of practice and thought—the "Social Enterprise" and "Social Innovation" Schools—that have emerged. Anderson and Dees propose that academic inquiry focus on the intersection of these two schools of practice and thought, what they call "enterprising social innovations." A theoretical frame that looks for all innovations blending business and philanthropic methods to create social value is, the authors argue, a reflection of the sector-blurring forces at work in society now. Basing future research on this definition of social entrepreneurship will yield better instruction for improving the effectiveness of organizations dedicated to addressing social needs in this blended way.

In the third chapter, Cynthia Massarsky profiles the state of the social enterprise field today and considers the extent to which it has become institutionalized, through academic and practice literature, through consultancies and other infrastructure, and through media and public interest. Asserting that social enterprise is a social movement, not just an activity, the chapter discusses the criteria that define movements and highlights the conditions (events, concerns, interests) that paved the way for social enterprise to reach its "tipping point," becoming a full-fledged social movement moving toward addressing legal and public policy changes. Massarsky concludes with research and practice recommendations for the future.

The fourth chapter, authored by Noga Leviner, Leslie R. Crutchfield, and Diana Wells, addresses the "million-dollar" question of how to measure social entrepreneurs' impact. The existing methodologies for assessing the impact of nonprofit organizations tend to focus on easily-quantifiable figures such as programmatic outputs (6,000 homeless people fed, for example) and financial ratios (fee to grant revenue). But these measures miss what the authors consider to be the most important and meaningful product of a social entrepreneur's work—systemic social change. Beginning with an overview of performance measurement techniques in the nonprofit sector, the chapter presents Ashoka's Measuring Effectiveness project and shares results from the first seven years of surveys and case studies. The chapter includes the definitions of "social entrepreneurship" and "systemic change" that were developed as a prerequisite to the creation of the measurement effort, and analyzes the benefits and challenges of the Ashoka approach in the context of other methodologies designed to track large groups of social entrepreneurs' progress toward systemic change over time.

Chapter five, by Janelle Kerlin, compares and contrasts the conceptualization of social enterprise in the United States and Western Europe, examining the forces that shape and reinforce the movement in each region. For over two decades, social enterprise movements in and outside the United States have taken on growing importance. But to date, little has been written comparing American and international conceptions of social enterprise. This has resulted, argues Kerlin, in difficulty communicating on the topic and missed opportunities to learn and build on foreign experience. Research has found that while *definitions* of social enterprise tend to vary within world regions themselves, even broader divisions exist among regions in terms of *understanding, use, context,* and *policy* for social enterprise. Broadly defining social enterprise as the use of non-governmental, market-based approaches to address social issues, this chapter explores the different historical and

current factors shaping the emergence of social enterprise in the United States and several countries within Western Europe; the varying legal and institutional environments; and the different challenges facing social entrepreneurs here and abroad. The chapter concludes with lessons from and for each region.

The sixth chapter, written by Jennifer Wade, presents a case study of a social enterprise—The Visiting Nurse Health System, Inc. (VNHS) of Atlanta, Ga. This case examines the costs and benefits of implementing commercial activity within an *existing* nonprofit organization, rather than a social enterprise start-up, thereby providing a new framework for understanding how nonprofit organizations may engage in commercial activity and the potential impact of these ventures on organizations. In discussing how enterprise was placed on VNHS' agenda as an alternative method of generating funds, the chapter focuses its analysis on the organization's context—constituents, programmatic expertise and track-record, and physical, financial, and human resources. Challenges in gaining the staff's, board of directors', and public's acceptance of the commercial activity are highlighted, as are budgetary and administrative arrangements related to VNHS' corporate restructuring. Finally, the paper offers lessons learned through the case—about organizational culture, external perceptions, leadership and governance, and legal considerations. This kind of analysis, Wade hopes, will increase researchers' and funders' interest in learning more about whether commercial activity is a valid method for attaining nonprofit financial solvency and success.

In the concluding chapter, I offer recommendations for several promising areas of social entrepreneurship research, including new legal forms for hybrid organizations, capitalization of enterprise activity, the state of education for the next generation of social entrepreneurs, and international comparisons of social enterprise models.

Acknowledgments

My biggest thanks are reserved for all of the authors; their enthusiasm for the topic, their passion for the field, and their patience with this process is much appreciated. Each one of them is an established scholarly presence in which lies incredible promise for expanding and improving the literature on social entrepreneurship.

No matter how you define it, practice in social entrepreneurship is exploding and this practice will have—and has already had—a significant impact on the nonprofit sector. Interest and participation in this activity will continue whether research catches up to it or not, and the academic community needs a bridge to this practice. I hope *Research on Social Entrepreneurship: Understanding and Contributing to an Emerging Field* serves as a first span between the two.

Rachel Mosher-Williams
Washington, D.C.
April 2006

References

Social Enterprise Alliance. (2003). Funding Them To Fish: The Case for Supporting the Earned Income Activities of Nonprofits. Retrieved on April 2006 from http://www.se-alliance.org/making_the_case_final.pdf.

The Democracy Collaborative at the University of Maryland. (2005). *Building Wealth: The New Asset-Based Approach to Solving Social and Economic Problems.* Washington, DC: The Aspen Institute.

SEARCHING FOR SOCIAL ENTREPRENEURS: WHO THEY MIGHT BE, WHERE THEY MIGHT BE FOUND, WHAT THEY DO

Paul C. Light

There is plenty of evidence that social entrepreneurs exist, particularly as measured by the rapidly increasing number of scholars, case studies, and funders interested in the topic.

Social entrepreneurs clearly exist in widely read magazines such as *Fast Company* and are featured in nationally recognized documentaries such as the Public Broadcasting System's "New Heroes" documentary hosted by Robert Redford. They meet in rapidly growing associations such as the Social Enterprise Alliance, Social Venture Network, and Young Women Social Entrepreneurs.

Their work is sparked and expanded by long-standing fellowship programs sponsored by Ashoka and Echoing Green, incubated by small organizations such as the Blue Ridge Foundation, and supported by philanthropies such as the Catherine B. Reynolds Foundation, Draper Richards Foundation, Ewing Marion Kaufman Foundation, Skoll Foundation, and Schwab Foundation for Social Entrepreneurship.[1]

They can also be identified by name in books such as David Bornstein's *How to Change the World: Social Entrepreneurs and the Power of New Ideas* and Charles Leadbeater's *The Rise of the Social Entrepreneur,* and in case studies by scholars such as J. Gregory Dees, Jed Emerson, and Peter Economy. And they can be found in undergraduate and graduate programs across the globe, including New York University's Robert F. Wagner Graduate School of Public Service.[2]

---

[2] They are also enrolled at NYU's Stern School of Business, as well as at the University of California, Berkeley's Haas School of Business, Columbia University's RISE Initiative on Social Entrepreneurship, Duke University's Fuqua School of Business, Harvard University's John F. Kennedy School of Government in collaboration with Harvard University's Business School, Oxford University's Said School of Business, and the England-based School for Social Entrepreneurs.

The question for this paper is not whether social entrepreneurs exist, however, but whether the field of social entrepreneurship is too exclusive for its own good. The field has mostly defined social entrepreneurs as individuals who launch entirely new social-purpose nonprofit ventures. In doing so, the field may have excluded large numbers of individuals and entities that are equally deserving of the support, networking, and training now reserved for individuals who meet both the current definitional tests of a social entrepreneur and the ever-growing list of exemplars.

Not only does this definition deny the possibility that the intensity and quantity of social entrepreneurship might vary over time and across individuals and entities, it also substantially reduces the population of entrepreneurs who might form the basis for the kind of evidence-based, large-sample, control-group research needed to determine what truly matters to successful social entrepreneurship.

Defining Terms

The field of social entrepreneurship has not come to complete closure on the basic definition of social entrepreneurship. Indeed, the field continues to mix and match a range of terms to describe social entrepreneurship, including nonprofit ventures, social enterprise, social-purpose endeavor, corporate social responsibility, and social innovation. Although it has been almost three decades since the Surdna Foundation's Edward Skloot first used the term "nonprofit venture" and Ashoka's Bill Drayton adopted the term "social entrepreneurship," there is still considerable debate about when and where the term applies.

The field of business entrepreneurship has struggled with similar definitional challenges. According to Murray Low, one of the fathers of the field, the study of entrepreneurship is still in its adolescence. While acknowledging that "it is much easier to be a critic than a producer of quality research," Murray (2001) concludes that his field has not come far enough, fast enough: "Today, as the field struggles with the challenges of adolescence, it is time for straight talk. Students of entrepreneurship need to make something of this field, or face the reality that we have missed the opportunity" (p. 17).

Murray's greatest concern is the continued lack of a fully-developed definition of entrepreneurship. As Murray and Ian MacMillan wrote in a 1988 literature review,

> The phenomenon of entrepreneurship is intertwined with a complex set of contiguous and overlapping constructs such as management of change, innovation, technological and environmental turbulence, new product development, small business management, individualism and industry evolution. Furthermore, the phenomenon can be productively investigated from disciplines as varied as economics, sociology, finance, history, psychology, and anthropology, each of which uses its own concepts and operates within its own terms of reference. Indeed, it seems likely that the desire of common definitions and a clearly defined area of inquiry will remain unfulfilled in the foreseeable future (p. 141).

Murray quotes this passage in full in 2001 because "it remains as true today as when it was written" (p. 19).

Early Research on Social Entrepreneurship. As the number of scholars, funders, and opinion leaders has grown, the field of social entrepreneurship is currently confronting its own definitional conundrum, albeit one that is moving forward with each research contribution. The field of social entrepreneurship is hardly new, however.

In 1986, for example, Dennis R. Young distinguished the nonprofit entrepreneur from the ordinary manager as one who "is engaged in breaking new ground in his administrative or organizational role rather than engaging simply in customary managerial practices or ordinary decision-making. Thus, entrepreneurs are the innovators who found new organizations, develop and implement new programs and methods, organize and expand new services, and redirect the activities of faltering organizations" (p. 162).

Young's definition was merely the precursor to a long discussion of the nature of a potential field that screened entrepreneurs by field/industry and sector. But by field/industry, he focused exclusively on nonprofits, reliance on hierarchy, the service ethic embedded in volunteerism, charity, community, and career mobility. For Young, nonprofit entrepreneurs can gain important experience in government or nonprofits for future income-generating endeavors in the private sector.

Young's primary interest was not just in defining a possible typology of nonprofit entrepreneurs, but in laying out a framework for future research. His questions are still relevant 20 years later, and will be raised in one form or another later in this chapter:

> For example, it remains to be determined what specific conditions are responsible for igniting such initiative, what kinds of boundaries are set on enterprise by constituent and regulating groups, and how the initial intent of entrepreneurs becomes dispersed or diffused over time. But the screening and motivation processes described here may be a reasonable starting point. In particular, each variety of entrepreneurs—potentially selected into or out of the nonprofit sector—has been seen to imply a particular behavior pattern (i.e., one that is less inspiring of trust and sensitive to current exigencies as expressed by economic demands) (p. 182).

Although Young mixes terms here and there—e.g., enterprise versus entrepreneurship—his work is well worth reading as a starting point in the history of the field.

Five years later, in 1991, Sandra Waddock and James E. Post advanced the field with a tighter definition of entrepreneurs as private-sector leaders "who play critical roles in bringing about 'catalytic changes' in the public sector agenda and the perception of certain social issues" (p. 393). Using the leaders of the Partnership for a Drug-Free America and Hands Across America as their cases, both of which were blended government/nonprofit initiatives, Waddock and Post argued that there are three characteristics essential for successful social entrepreneurs:

> First, and probably most significant, is that the social problem is characterized by extreme *complexity*, which the social entrepreneur is somehow able to bound into a "vision" that has the potential to reshape public attitudes when implemented. Second, the social entrepreneur is an individual with significant personal *credibility*,

which he or she uses to tap critical resources and actually build the necessary network of participating organizations. Third, the social entrepreneur generates followers' *commitment* to the project by framing it in terms of important social values, rather than purely economic terms, which results in a sense of *collective purpose* among the social entrepreneur and those who join the effort (p. 394).

The field has advanced significantly since these early contributions, driven in large measure by case studies of successful social entrepreneurs.

In 2001, for example, John Thompson, Geoff Alvy, and Ann Lees defined the term as a form of business entrepreneurship by arguing that the traits and behaviors of successful social entrepreneurs closely mirror characteristics of successful business entrepreneurs, but require an extra dose of visionary ideas, leadership skills, and a commitment to helping others. As such, social entrepreneurs are "people who realize where there is an opportunity to satisfy some unmet need that the state welfare will not or cannot meet, and who gather together the necessary resources (generally people, often volunteers, money and premises) and use these to 'make a difference'" (p. 328).

The focus is not on incremental adjustment, however, but what they call the "True entrepreneurs who create sea-change movements, either quickly or over time, and have a major impact" (p. 336). Although the authors did argue that "micro-entrepreneurs have limited, but still valuable impacts," the primary focus remains on large-scale change, which yields a significant task for researchers: "The challenge we face is one of blending people with ideas with people with the will, as is the case for entrepreneurship generally. Training and development for this sector needs to include a focus on confidence building and leadership skills, probably using people who have already achieved in the field—and (which would be typical) who are happy and willing to share their learning" (p. 337).

A year later, Thompson (2002) extended his definition of social entrepreneurs to include "people with the qualities and behaviors we associate with the business entrepreneur but who operate in the community and are more concerned with caring and helping than 'making money'" (p. 413). Using a database of organizations funded by the Duke of York's Community Initiative, Thompson found significant differences between activities involving "outstanding creativity" and impact and those involving "less ambition and little true entrepreneurship," thereby augmenting the growing list of traits and behaviors that are essential for defining social entrepreneurs from their non-entrepreneurial peers (p. 433).

Peter Frumkin advanced the field in the same year with the publication of his award-winning *On Being Nonprofit.* Having distinguished between the expressive and instrumental dimensions of nonprofit and voluntary action, Frumkin (2002) defined social entrepreneurship as a combination of the supply-side orientation and the instrumental rational, providing "a vehicle for entrepreneurship" that "creates social enterprises that combine commercial and charitable goals" (p. 130). It is a means to an end, not an end in itself.

Via this definition, social entrepreneurs operate within the nonprofit sector as the "place where new projects can be designed and implemented by people who are willing to take a chance. Almost anyone with an idea or vision can found a nonprofit or voluntary organization quickly" (p. 129). With such a low barrier for entry,

entrepreneurs can easily find alternative financing tools. As such, Frumkin's definition of social entrepreneurship feels much more like recent definitions of social enterprise, which is primarily an alternative to dependency on government or charitable giving. "Instead of relying on private grants or government assistance, many new organizations are conceived from the start as self-supporting operations that generate fees and commercial revenues to support their charitable missions. In this sense, the rise of nonprofit entrepreneurship has been followed closely by a rising tide of fee-for-service and commercial enterprises of all sorts" (p. 130).

Two years later, in 2004, Sarah Alvord, David Brown, and Christine Letts drew upon a sample of seven well-established organizations to define social entrepreneurs in an entirely different way as catalysts for social transformation.[3] This exploratory work suggested that successful social entrepreneur leaders need two types of skills: the capacity to bridge diverse stakeholder communities, and long-term adaptive skills in response to changing circumstances.

According to Alvord, Brown, and Letts, most of the organizations in their small sample of cases were led by individuals or groups with "backgrounds and experiences that enabled them to build effective links with very diverse actors" (p. 274). Similarly, many of these leaders "expanded their own repertoires to provide new visions for growing their organizations over many years."

Finally, and most recently, Lynn Barendsen and Howard Gardner (2004) ask whether the social entrepreneur is a new type of leader. Arguing that social entrepreneurship is a new version of long-existing terms such as "changemaker," the authors suggest that entrepreneurs are both similar and different from their peers. "Like many of us, social entrepreneurs have deeply rooted beliefs, and like many of us, these beliefs are formed early. Social entrepreneurs are exceptional, however, in *what* they believe and *how* these beliefs originate" (p. 44). Building upon deep interviews with very small samples of social, business, and healthcare entrepreneurs, Barendsen and Gardner highlight the notion that social entrepreneurs are unusual "in terms of their compelling personal histories, their distinctive profile of beliefs, and their impressive accomplishments in the face of odds" (p. 50).

Building a Research Base

Unfortunately, the field of social entrepreneurship has yet to emerge from its infancy, let alone reach the adolescence that Murray sees in the study of business entrepreneurship.

Much of the difficulty surrounds two basic questions that have yet to be fully resolved. First, what exactly is social entrepreneurship, and how is it different from entrepreneurship more generally? Second, how would researchers know a social entrepreneur if they saw one? The field must tackle these questions if it is to move beyond collections of rigorous case studies, regardless of how interesting and provocative such studies can be.

---

[3] The seven organizations were the Bangladesh Rural Advancement Committee, the Grameen Bank, the Green Belt Movement, the Highlander Research and Education Center, Plan Pueblo, the Self-Employed Women's Association, and Se Server de la Saison en Savanna et au Shale (Six S).

Defining Terms Again. The field of social entrepreneurship does not suffer from a lack of definitions. The Skoll Foundation defines social entrepreneurs as "the change agents for society, seizing opportunities others miss, and improving systems, inventing new approaches, and creating sustainable solutions to change society for the better." In turn, the Schwab Foundation defines a social entrepreneur as a different kind of leader who "identifies and applies practical solutions to social problems by combining innovation, resourcefulness, and opportunities." In turn again, Ashoka defines social entrepreneurs as individuals with "the committed vision and inexhaustible determination to persist until they have transformed an entire system," who "go beyond the immediate problem to fundamentally change communities, societies, and the world."[4]

These definitions come to life in the exemplary entrepreneurs identified by Ashoka, the Blue Ridge Foundation, Draper Richards Foundation, Echoing Green, and the Ewing Marion Kauffman, Schwab, and Skoll foundations. Using these exemplars to enrich their funding guidelines, six of the seven mostly celebrate ideas that embrace innovation, show resourcefulness, and demonstrate a commitment to growth and widespread impact. One also focuses on exemplars who take fully accountable action, another on those who take risks even in the absence of resources, another on those who adopt research-based initiatives and technology, another on those who tackle the root causes of social problems, and a last on individuals who connect people to the opportunities, resources, and support they need to improve their lives and fulfill their potential.

This focus on exemplars with certain characteristics and operating styles are easy to identify elsewhere in the social entrepreneurship community. As one might expect, for example, business schools that teach social entrepreneurship tend to emphasize the use of business skills to create innovation. New York University's Stern School focuses on innovative approaches to solving social problems, for example, but also stresses the use of successful business practices, identification of market opportunities, taking of bold action without regard for resources currently in hand, and continuous improvement to bring the concept to reality.

Despite the generally tight focus on creating social change, the available definitions and exemplars operate from several starting points that may limit the search for a broad sample of social entrepreneurs that might support deeper analysis:

1. Social entrepreneurs are almost always defined as individuals, no doubt in part because individuals are easier to find and are so visibly committed to social change. Relatively few exemplars are groups or teams of individuals, networks, organizations, or even communities, although the Washington, D.C., Maya Angelou school was founded and continues to operate with two co-founders.

2. Social entrepreneurs almost always reside in the nonprofit sector, perhaps because private foundations must give their dollars to tax-exempt public charities and therefore celebrate the grantees therein. However, at least some scholars have come to focus on the world in-between private and nonprofit, most notably the Center for the

---

[4] I am grateful to Carmen Marie Rogers, a doctoral student at my home institution, for assembling these many definitions, and providing an initial coding.

Advancement of Social Entrepreneurship at Duke University's Fuqua School of Business. In their seminal article on "sector bending," for example, J. Gregory Dees and Beth Battle Anderson (2003) write of the increasing number of profits and nonprofits that are moving into social entrepreneurship by linking the market to social missions, a point more forcefully made in Dees' and Anderson's reconceptualization of social entrepreneurship as "enterprising social innovation" that is presented in this volume.

3. Social entrepreneurs are almost always defined as the starting point of the change process. Most definitions and examples focus on the supply-side of entrepreneurs by asking how to identify and encourage individuals to make the leap into making change, while generally ignoring the demand-side of entrepreneurship that might create the incentives for individuals and other entities to take advantage of the available opportunities to make a difference. Hence, Wendy Kopp remains one of the great exemplars for starting Teach for America and bringing it "to scale," a phrase the field uses to define widespread impact.

4. Social entrepreneurs are almost always seen as interested in new solutions to intractable problems, meaning that they focus on the programmatic, or "what" side of innovation. Although there are examples of entrepreneurs who focus on organizational or administrative change, meaning the technical, or "how" side of innovation, the primary interest is on addressing intractable social problems through new ideas and their scale-up to maximum impact. Whatever is new to an individual is not necessarily new to a field. For every study of the use of traditional micro-finance by the Grameen Bank to solve poverty, there seem to be dozens of studies of new interventions for changing individual behavior and improving job readiness.

5. Social entrepreneurs are almost always defined as using high-performance management practices such as continuous improvement, quality management, strong financial controls, and a general focus on high accountability, but few definitions or examples embed such practices as essential ingredients of early success. The exceptions to this rule are organizations such as the Local Initiative Support Corporation, which uses closely-monitored housing finance to attack homelessness, and other long-established organizations that have used the market to generate revenues for social entrepreneurship.

6. Social entrepreneurs are generally seen as building programs and organizations from scratch, not as individuals who might refine an existing program or overhaul an organization, and only rarely as an existing organization that might recruit a change agent(s) for a specific initiative. Although the field does recognize such efforts as a form of "intrapreneurship," such organizational transformation is rarely considered a socially-entrepreneurial goal. Even scholars who focus on the demand-side of entrepreneurship tend to do so in an effort to understand the pre-conditions of start-up.[5]

7. Finally, and perhaps most importantly, most social entrepreneurs are seen as all

[5] See Patricia H. Thorton, "The Sociology of Entrepreneurship," *Annual Review of Sociology*, Vol. 25, No. 1, 1999, 19-46.

entrepreneurial, all of the time. Few of the most visible definitions and examples of social entrepreneurs focus on individuals who might accelerate and decelerate their entrepreneurial activities over time—one only rarely, if ever, finds examples of social entrepreneurs who are only somewhat entrepreneurial, for example, nor of those that have a fair amount of entrepreneurial energy, but not a great amount. The question, of course, is whether a small group of somewhat entrepreneurial individuals or entities might actually equal or exceed the impact of one greatly entrepreneurial individual.

Given these constraints, it is not surprising that social entrepreneurs are seen as the rare exception to the rule, which is perhaps why so many funders look for the kinds of individuals that Ashoka founder Bill Drayton describes as "the ones who will have a giant impact, leave a scratch on history, and be role models for the field. If all goes well, we will have a relationship with them throughout their careers" (Holmstrom, 1999).

Nor is it surprising to think that social entrepreneurs might be hard to find and study. Although many scholars start their search for entrepreneurs with organizations such as Teach for America, Share Our Strength, the Grameen Bank, and so forth, most eventually wind their way back to the founding leader and what he/she/they did to launch the idea, build organizational capacity, and achieve impact.

Identifying Social Entrepreneurs. This focus on the high-committed, "happy-and-willing-to-share" exemplars has led many researchers to search for certain life experiences, demographic differences, entrepreneurial intent, tactics and strategies, cognitive biases, and idea-management skills that might distinguish social entrepreneurs from their less entrepreneurial peers. Although some of the research discussed below involves large and small samples of business entrepreneurs, the body of work does provide a foundation for those interested in both finding social entrepreneurs and providing the resources needed for maximum impact.

If social entrepreneurship comes from early life experiences, for example, researchers may be right that social entrepreneurs are rare, indeed. However, if it involves specific behaviors that can be illustrated, simulated, taught, and rehearsed after leaving home, they could be quite wrong. If social entrepreneurship comes from demographic differences based on gender and race, they could be right. However, if it comes from motivations and behaviors that can be identified and encouraged, they could be wrong. And so it goes, down the possible sources of entrepreneurial activity. Some sources appear almost impossible to change, while others appear to be quite malleable. Table 1 (at right) illustrates the potential variation.

If the table is correct, the level of social entrepreneurship at any given time in any given society will depend in large measure on a relatively fixed pool of potential entrepreneurs. Where there is a smaller pool of potential social entrepreneurs, advocates would be well-advised to focus on questions of emergence and early career choice; where there is a much greater pool, advocates might focus on questions of picking and supporting the very best ideas. However, as the following pages suggest, societies have at least some tools that may increase the odds that any pool, no matter how limited, will yield the greatest number of social entrepreneurs possible.

Table 1: Sources of Entrepreneurial Intent

Source of Entrepreneurial Intent	Impact on the Pool of Potential Entrepreneurs	Impact on Spread of Socially-Entrepreneurial Activity
Life Experiences	Decrease (difficult to alter as experiences accumulate over the life span)	High (depends on size of initial pool of individuals with needed experiences)
Demographic Differences	Decrease (reflects prevailing social conditions that may change)	High (depends on size of initial pool with requisite demographic experience)
Entrepreneurial Intent	Decrease (identity and motivation are often established in childhood, but may be changeable with opportunity and incentives)	High (depends on size of initial pool with requisite intent)
Tactics and Strategies	Increase (can be illustrated, simulated, taught, and rehearsed)	Moderate (depends on access to education and training)
Cognitive Biases	Increase (can be identified and altered, but may be essential at different stages of entrepreneurial activity)	Moderate (depends on access to education and training, and avoidance of unintended consequences of reducing risk)
Idea-Management Skills	Increase (can be illustrated, simulated, taught and rehearsed)	Low (depends on access to education and training)

Life Experiences. Much of the early work on business entrepreneurship focused on basic personality traits such as achievement motivation, tolerance for ambiguity, optimism, intelligence, talent, and so forth. The focus was not on what the entrepreneur does, but who the entrepreneur is (Gartner, 1988). In 1991, for example, J. Barton Cunningham and Joe Lischeron argued that the "personality school of entrepreneurship" looks for generally stable characteristics such as honesty, duty, responsibility, and ethical behaviors essential for ultimate success. Almost by definition, these characteristics cannot be taught in the classroom. Rather, they develop over time "primarily through relationships with parents and teachers early in life" (p. 49). As the authors write:

> Values and ideals, fostered in one's family, school, church, community, and even culture, stay with the individual and guide him or her for a lifetime. These values are learned and internalized, and reflect the process of socialization into a culture. Personal values are basic to the way an individual behaves and will be expressed regardless of the situation (p. 49).

Unfortunately for those in search of easily-measured criteria for giving awards and fellowships, the early search for personality differences produced little supporting evidence. Although more recent work has revealed differences in self-efficacy and

overall "proclivity" for entrepreneurship, these characteristics are not necessarily embedded in deep personality dispositions.

Despite this mixed record and need for further research, the role of personality has anchored a number of recent conversations about the future of social entrepreneurship, some serious, some playful. In the playful category, consider the five questions *Alliance Magazine* asked of its readers in 2005:

■ Do you regularly take three weeks of vacation?

■ Do you give any thought to what you will do when you retire, looking longingly at the time when you will no longer be in the office from nine to five—or often much later?

■ Does the thought of not having a regular monthly paycheck drive you to the medicine cabinet in search of a tranquilizer?

■ Do you need to feel that your friends and co-workers approve of what you are doing?

■ Do you spend any less than 24 hours a day obsessing over new ways to transform society? (Hartigan and Billimoria, 2005, p. 1)

As the authors conclude, "If you have answered 'yes' to at least two of those questions, chances are that you are not a social entrepreneur. But before you put down this issue of *Alliance* because you have decided it obviously has nothing to do with you, we want to assure you that very few people are social entrepreneurs" (p. 1).

In the more serious category, Howard Gardner and his Good Work Project at Harvard University assume that specific experiences, many of them early in life, help explain social entrepreneurship. Although the effort is based on very small sample sizes and deep interviews, early results suggest that social entrepreneurs have a much higher incidence of childhood trauma and parents with high levels of social and/or political engagement. Arguing that business skills can be taught, but the entrepreneurial mindset cannot, Barendsen and Gardner argue that the feeling of isolation is a foundation for the outsider role that many social entrepreneurs take.

Barendsen and Gardner (2004) also argue that many social entrepreneurs experienced some kind of trauma in early life.[6] "Priorities suddenly become clear when life seems short or when one faces a stark choice," they write. "Under such circumstances, a calling may be discovered" (p. 44). Thus, half of the social entrepreneurs in the study sample, which is not well-described, had what the authors describe as "a traumatic or deeply transformative experience at an early age" (p. 45), be it the loss of a significant other or a troubled family environment. "This is not true of business entrepreneurs" (p. 450), they argue.

Similarly, many of the social entrepreneurs in their sample expressed an interest in social issues at an early age, whether through politically-active parents, or volunteer work with nonprofit organizations. "By contrast," the authors write, "fewer than half of the business entrepreneurs mention early evidence of their entrepreneurial tendencies" (p. 45). Barendsen and Gardner's study does not end with early experiences, however. They also examine personality traits, noting that social

---

[6] The larger study from which the article was drawn is described in Lynn Barendsen, *The Business of Caring: A Study of Young Social Entrepreneurs*, Cambridge, MA: GoodWork Project, February, 2004.

entrepreneurs are "energetic, persistent, and unusually confident, with an ability to inspire others to join them in their work" (p. 45). They are also deeply committed to their cause, very independent, and able to explain the link between their specific goals and a broader picture of an alternative world. Almost all are also spiritual or religious, and "believe in human potential, or the possibility of change" (p. 47).

Demographic Differences. Personal experiences do not provide the only markers of interest in finding social entrepreneurs, however. Scholars rightly care about demographic characteristics such as age, gender, race, class, income, marital status, and so forth, particularly when these characteristics are related to broader economic and social context.

Gender is seen as so important to entrepreneurship, for example, that the U.S. National Science Foundation set aside additional funds to assure an over-sample of women in the path-breaking 1998-2003 Panel Study of Entrepreneurial Dynamics, which involved a sample of 64,000 adults.[7] According to further analysis of the voluminous database, gender helps explain access to individual assets such as human and financial capital, as well as access to opportunity. In turn, these assets help explain social networks, which in turn again, help explain the success of new ventures.

Moreover, gender helps explain differing entrepreneurial intentions, behaviors, biases, and skills. As Nancy M. Carter and Candida G. Brush (2004) explain, there are a number of reasons why women might be less likely to become entrepreneurs (defined by the Panel Study as anyone who starts a new business): self-efficacy, work values, financial capital, access to opportunity and entrepreneurial intentions. "Gender differences occur not in the composition of opportunity structures," Carter and Brush write, "but in access to those structures...In addition to education and experience disparities, women are more likely to have careers frequently interrupted or work only part-time. These labor force interruptions can disadvantage an individual and they miss opportunities to gain new job skills or incur erosion in previously attained skills" (p. 16).

Similarly, women's intentions to launch and manage decision-making also vary with men. "Research shows that men stress the desire to be their own boss in starting a new business, women stress the desire to be personally challenged or to create employment in which they can balance work and family. Women tend to deal with career or manage a business and family simultaneously, often with mixed success" (p. 16).

Somewhat different patterns hold for race and ethnicity. On the one hand, earlier research on entrepreneurial intent showed that Blacks and Hispanics were starting new businesses at rates that far exceeded Whites. On the other hand, Whites were much more likely to own an operating business. Although it is too early to know what causes so many Blacks and Hispanics to drop out before their businesses actually reach operating velocity, the initial research suggests that these nascent entrepreneurs face many of the same barriers as women. According to Patricia G. Greene and Margaret M. Owen (2004), strong social networks and fewer existing job opportunities within

---

[7] See William B. Gartner, Kelly G. Shaver, Nancy M. Carter, and Paul D. Reynolds, eds., *Handbook of Entrepreneurial Dynamics: The Process of Business Creation*, Thousand Oaks, California: Sage, 2004.

minority communities may encourage higher levels of entrepreneurial intent, while lower-levels of education, less access to start-up capital, and limited markets for small businesses may act as significant barriers.

These are hardly the only demographic differences that shape entrepreneurship, however. Age, marital status, household income and net worth, residential tenure, family background, and early work experience all work their will on start-ups of new ventures. But the research on why these demographic differences matter is only the beginning of a much more effective research strategy—scholars must also ask how the early start-ups could have made a difference if only they had received essential early investments.

Assuming that these patterns hold for social entrepreneurship, the question is not why so many ventures fail, but whether the failed ventures are fundamentally different in their pattern-breaking potential than those that succeeded. Were they more innovative? Could they have made a bigger difference? How much initial funding would have increased the odds of success? By focusing so much attention on the survivors, the field may be missing the tremendous value of saving more start-ups.

Entrepreneurial Intent. Two interrelated schools of research have focused on entrepreneurial intent.

The first school deals with social identity, which Shalei V. K. Simms and Jeffrey Robinson (2005) have defined as an individual's core answer to the question, "Who am I?" According to the authors, social entrepreneurs have at least two identities: the entrepreneur and the activist.

Although the two identities can and do co-exist, social entrepreneurs must decide which comes first. "They must answer the question 'how can I make a living enacting social change?' In some ways, they must decide whether they are profiting from a problem, or contributing to the solution" (p. 12). Simms and Robinson hypothesize that founders with a primary activist identity will be more likely to create nonprofit organizations, while those with a primary entrepreneurial identity are more likely to create for-profit entities.

Presented with an opportunity, entrepreneurs and activists alike ask a series of questions: "What are the risks of going after this opportunity for me and others? Do I have the resources to take advantage of the opportunity? What are the risks? Are there any barriers to me pursuing this opportunity?" (p. 16-17). But the perceptions of benefits and risk are driven by very different goals—i.e., income and financial independence or social impact and recognition. Moreover, as the authors suggest, social entrepreneurs who view themselves as activists first may miss important opportunities for change, particularly the opportunities that involve financial gains and market tools that they deem as secondary or unimportant.

Whether social entrepreneurs put activism or entrepreneurship first may well depend on where society has put them—if they are denied opportunities through gender, race, and class, they may be more likely to seek them through activist-identity social entrepreneurship. But if they are denied resources and the chance to earn income through the same demographic identity, they may be more likely to emphasize entrepreneur-identity social entrepreneurship. Only further research will tell.

This first school is closely related to a much deeper body of work on entrepreneurial motivation, which is rooted in Joseph Schumpeter's distinction between entrepreneurs and ordinary managers in the drive for new ideas, David C. McClelland's research on how societies inculcate the need for achievement, and more recent studies that focus specifically on social entrepreneurs. As Schumpeter argued, entrepreneurs are motivated first by "the dream and the will to found a private kingdom, usually, although not necessarily, a dynasty...", then by "the will to conquer, the impulse to fight, to prove oneself superior to others to succeed for the sake not of the fruits of success, but of success itself..., and finally, by "the joy of creating, of getting things done, or simply exercising one's energy and ingenuity" (1952, p. 72).

In contrast, McClelland (1961) looked to broad social forces that deepen the pool of entrepreneurs in society as a whole. Defining the achievement motive as the driving force for entrepreneurship, McClelland argued that a society's need for achievement is rooted in childhood experiences. Measuring the amount of achievement imagery in childhood textbooks, McClelland predicted that high-achievement societies would experience more rapid economic growth than low-achievement societies, largely because children with high achievement would become entrepreneurs. As McClelland wrote, "The achievement motive should lead individuals to seek out situations which provide moderate challenge to their skills, to perform better in such situations, and to have great confidence in the likelihood of their success. It should make them conservative where things are completely beyond their control, as in game of chance, and happier where they have some opportunity of influencing a series of events by their own actions and of knowing concretely what those actions have accomplished" (p. 358-39).

Although Schumpeter and McClelland focused almost entirely on business entrepreneurship, Young laid the groundwork for much of the contemporary research on social entrepreneurship in his 1986 framework. According to Young, there are at least seven types of nonprofit entrepreneurs, each with a somewhat different motivation for action.

1. Independents who seek small organizations in corners of the sector where new entry is relatively easy.

2. Searchers who want their freedom from cumbersome organizations and inflexible rules.

3. Power-seekers who value the opportunities for advancement provided by large organizations.

4. Conservers who concentrate on large, stable, and mature organizations that provide security and established traditions.

5. Professionals who search for organizations with the resources to pursue their endeavors.

6. Artists who pursue organizations large enough to support their work, yet small enough to give them a chance to be recognized.

7. Income-seekers who have no goals other than to enhance their income potential, be it in a large organization or small.

These goals obviously lead in very different entrepreneurial directions—some

would produce intentionally high levels of social innovation through goals such as freedom, professional advancement, and artistry, while others would produce innovation to the extent it is instrumental to a primary goal such as power, security, or income. As with social identity, the choice of sector, organization, and specialty varies greatly with the primary goal. For social investors, the lesson is clear: Beware the folly of rewarding one goal while hoping for another.[8]

Tactics and Strategies. Compared to the personality research, the work on the behavioral tactics and strategies of social entrepreneurs is mountainous. Virtually every paper, article, and definition contains at least some behavioral indicators of social entrepreneurship. As the Skoll Foundation notes, for example, social entrepreneurs are ambitious, mission-driven, strategic, resourceful, and result-oriented. "Ultimately, social entrepreneurs are driven to produce measurable returns," Skoll's website notes of a core behavior. "These results transform existing realities, open up new pathways for the marginalized and disadvantaged, and unlock society's potential to affect social change." In turn, Dees (2001) identified five characteristics as essential to successful social entrepreneurship:

    ■ 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 heightened accountability to the constituencies served and for the outcomes created (p. 4).

According to Dees, "social sector leaders will exemplify these characteristics in different ways and to different degrees. The closer a person gets to satisfying all these conditions, the more that person fits the model of a social entrepreneur" (p. 3). Dees is no doubt right that behaviors such as relentlessly pursuing new opportunities, engaging in continuous innovation, adaptation, and learning, and acting boldly without worrying about resources currently in hand are "exceptional." "Social entrepreneurs are one special breed of leader, and they should be recognized as such" (p. 5).

The question, however, is whether these behaviors have to exist in just one individual to create the needed effect. If so, social entrepreneurs are likely to remain what Dees describes as a "rare breed," a conclusion built in part on the field's early belief that social entrepreneurship should be a term restricted to truly catalytic change, not whatever happens to be new to an organization or industry.

Some scholars have argued otherwise, however. According to the work by Thompson, Alvy, and Lees (2000) cited earlier, social entrepreneurship requires a combination of different kinds of individuals who complement each other. Writing of natural and latent entrepreneurs, the authors argue that "social entrepreneurship requires a combination of people with visionary ideas, people with leadership skills and a commitment to make things happen, and people committed to helping others" (p. 332).

---

[8] See Steven Kerr, "On the Folly of Rewarding A, While Hoping for B," *Academy of Management Executive,* Vol. 9, No. 1, 2005, 7-16.

This mix of behaviors and skills can exist in what these authors called the "true entrepreneur," but can also emerge when "enterprising or intrapreneurial people are linked up with the visionary idea and opportunity. Arguably, if the idea or need is strong enough, the appropriate champion will be attracted" (p. 332).

The notion that ideas might emerge before champions is a staple of the agenda-setting literatures in political science. As John Kingdon has argued, the policy-making environment consists of a number of "streams" that move through institutions such as Congress and the presidency simultaneously. Some contain solutions, others contain participants, and still others contain problems, resources, and organizations. The agenda gets set as these streams come together. Focusing on "ideas whose time has come" (2002, p. 1), Kingdon refers to a primeval soup that produces opportunities for action in which ideas, participants, and problems finally join.

Social entrepreneurship might follow a very similar track in which ideas find champions, or vice versa, or in which solutions find resources, or vice versa. If true, the most effective social entrepreneur might be one who simply ties the streams together and stands aside—e.g., the Bill and Melinda Gates Foundation, which has married available ideas, markets, researchers, and institutions to address long-standing global problems such as malaria. The key behavior is not in creating the organization and developing the idea, but in recognizing the need and creating the opportunity.

This is not to argue that the individual or group is unimportant to agenda-setting. Indeed, they may well be the "stuff" that holds the various streams together. This notion is clearly part of Young's 1986 description of entrepreneurial motivations, which in turn may be related to life experiences, demographics and identity, which in turn may be related to opportunities.

Cognitive Biases. Frustrated by the lack of progress in identifying stable personality characteristics that might explain business entrepreneurship, researchers have turned to cognitive biases as a source of entrepreneurial energy (e.g., the tendency to underestimate risk, over-rely on small samples of exemplars for inspiration, and avoid counter-factual thinking that might weaken confidence).

Building on very large samples of entrepreneurs and non-entrepreneurs, this research has provided some of the most promising insights to date on what makes the entrepreneurs different. As Daniel J. Forbes summarized the research in 1999, scholars had already produced a number of important insights on how entrepreneurs think.

First, Forbes notes that business entrepreneurs do, in fact, base their decisions to act on real information about perceived feasibility. Contrary to the conventional wisdom that entrepreneurs are born, not made, the literature actually suggests that educators, civic leaders, and investors can strengthen the demand-side of entrepreneurship by increasing the odds of success.

Second, Forbes concludes that entrepreneurs prefer informal sources of information, which may explain why some may never apply for awards and fellowships, or seek management assistance. The lonely life of the social entrepreneur could be made far less lonely by building stronger networks among entrepreneurs through events such as the Skoll World Forum.

Third, Forbes finds that entrepreneurs use a distinctive set of thought processes to

interpret data, some of which may lead to self-destructive behaviors. Business entrepreneurs tend to interpret equivocal situations favorably, for example, and under-estimate risk. Entrepreneurs also overestimate their chances for success, and overuse what scholars call the representativeness heuristic, or rule of thumb, by relying on small sample sizes to inform decisions and simple extrapolations of past experience to predict the future.

These biases can be corrected by training and more structured decision systems, but may be essential for taking the first step toward social impact. It is little wonder, for example, that entrepreneurs might underestimate risk or avoid second-guessing. If they were truly rational about the odds of success, social entrepreneurs might never launch their efforts at all. Similarly, if social entrepreneurs actually engaged in aggressive counter-factual thinking, they might discover so many threats that they would never launch.

Idea-Management Skills. Many of the definitions discussed above contain either implicit or explicit lists of management skills for successful entrepreneurship, including the ability to activate the public, raise capital, negotiate results, and manage the difficult transitions involving scale-up to full maturity. Although skills cannot create ambition and perseverance, for example, they can lower the thresholds governing just how much ambition and perseverance are necessary for success.

Despite relatively little research on which skills matter most to success, there is tantalizing evidence that skills can be both defined and taught, thereby raising the possibility that social entrepreneurship need not be so rare in the future.

There is equally tantalizing work in the field of business entrepreneurship where scholars are increasingly interested in the relationship of social skills to financial success. According to Robert Baron and Gideon Markman (2003), both professors at the Rensselaer Polytechnic Institute's Lally School of Management, social competence in interacting with others was an important predictor of success in two very different industries—cosmetics and high-tech.

This work is less about *who* becomes an entrepreneur, and much more about *why* some entrepreneurs are more successful than others. Hypothesizing that "all other factors being equal, the higher the entrepreneurs' social competence, the greater their financial success," Baron and Markman surveyed 230 entrepreneurs using a questionnaire containing 30 items designed to assess mastery of four different skills: (1) social perception (e.g., "I can usually read others well—tell how they are feeling in a situation."), (2) social adaptability (e.g., "I can adjust to any social situation," "I can talk to anybody about anything."), (3) expressiveness (e.g., "What I feel inside shows outside."), and (4) impression management (e.g., "I'm good at flattery and can use it to my advantage.") (p. 49).

The research suggests that social perception is a significant predictor of financial success in both industries, while social adaptability was only significant in the cosmetics industry and expressiveness only significant in the high-tech industry. Social adaptability was an insignificant predictor in both industries.

The importance of social skills is echoed in the Panel Study of Entrepreneurial Dynamics. Looking at the range of data generated by the huge sample of entrepreneurs and non-entrepreneurs, Baron (2004) found that accuracy in

understanding others, the "fine art of looking good," persuasiveness, and influencing the emotions of others are all significant predictors of entrepreneurial success. Baron also suggests that existing training programs might be modified to help "entrepreneurs avoid the costly social errors that can result in failure even when their ideas are sound and their motivation, talent, and experience are high. Given the importance of entrepreneurs in creating wealth for their societies as well as themselves, this would appear to be a highly desirable outcome and one with important social benefits" (p. 231).

This kind of exploratory research is important for building the field of social entrepreneurship, especially given the burgeoning number of undergraduate and graduate programs. Social skills can be taught, as can entrepreneurial behaviors. So can financial and managerial skills such as fundraising, results-based evaluation, continuous improvement, and strategic planning. Even if the number of contemporary social entrepreneurs is as low as Drayton and others suggest, the number of future entrepreneurs may be quite elastic as the research and training base expands.

As Gillian Mort, Jay Weerawardena, and Kashonia Carnegie (2003) caution, however, skills alone do not make the entrepreneurship. Instead, social entrepreneurship resides in the intersection of a Venn diagram that combines virtuousness (life experiences?), social opportunity recognition (demographics and identity?), judgmental capacity (behaviors?), risk tolerance (biases?), and innovativeness (skills?). Opportunities cannot yield social entrepreneurship absent judgment and virtue, just as risk tolerance cannot yield social entrepreneurship without innovativeness.

Finding Social Entrepreneurs

Social entrepreneurship may be the most exciting and frustrating field in public service today. On the one hand, it offers the excitement of breakthrough thinking, compelling life stories, and potentially dramatic progress against daunting global problems such as hunger, poverty, and disease. It also offers the kind of research opportunities described above.

On the other hand, the field offers few evidence-based insights on how social entrepreneurs can improve the odds of impact. Given few tools for separating the wheat from the chaff, social entrepreneurs are left with long menus of advice. As a result, they often reinvent the wheel as they struggle to discern lessons from a relatively small number of exemplary peers.

By often defining social entrepreneurs as a rare breed, advocates may have created a self-fulfilling prophecy in which these rare breeds toil in relative isolation and obscurity for decades, hoping for scale-up and full impact. Although entrepreneurs can find plenty of colleagues at international meetings such as the Skoll World Forum on Social Entrepreneurship, the supply of high-quality research has not kept up with the demand, in part because the demand has accelerated much faster than research rewards such as academic recognition and tenure.

Toward a Broader Definition of Social Entrepreneurship. It is not yet clear whether there is more social entrepreneurship in the U.S. and the world today than

one might assume given the contemporary focus on a relatively small number of exemplars. What is clear is that past exemplars have mostly been solo entrepreneurs who launch, nurture, and grow a programmatic innovation into full impact.

One way to broaden the number of exemplars is to expand the definition of social entrepreneurship to expand the locus of socially-entrepreneurial activity, while being more explicit about the kinds of activity that qualify as entrepreneurial. The following definition attempts to do both:

A social entrepreneur is an individual, group, network, organization, or alliance of organizations that seeks sustainable, large-scale change through pattern-breaking ideas in what governments, nonprofits, and businesses do to address significant social problems.

This definition contains eight basic assumptions about the sources, goals and strategies of social entrepreneurs; the socially-entrepreneurial organizations they either build or inherit; or the less-entrepreneurial organizations they change to full-blown socially-entrepreneurial purposes.

1. Social entrepreneurs do not have to be individuals—they can also be small groups or teams of individuals, organizations, networks, or even communities that band together to create pattern-breaking change. This assumption moves the field away from individual-centered study, while expanding the number of potential social entrepreneurs that might already exist.

2. Social entrepreneurs seek sustainable, large-scale change. This assumption, which adopts the prevailing goal-oriented nature of the contemporary debate, nonetheless moves the field away from questions about *who* becomes an entrepreneur to *what* they seek, while again expanding the number of potential social entrepreneurs that might exist.

3. Social entrepreneurship can involve pattern-breaking ideas in either how or what gets done to address significant social problems. This assumption moves the field toward a broader definition of social entrepreneurship that includes organizational and administrative reforms, as well as "using old stuff in new ways."[9] It also embraces Dees' definition of "enterprising social innovation" as a blend of the social enterprise (or market-driven) school of thought with the "social innovation" school.

4. Social entrepreneurs exist in and between all sectors. This assumption opens the discussion beyond nonprofits to include other sectors and multi-sectoral entities. Social entrepreneurship may be more difficult to launch and sustain in government, for example, where the penalties for risk-taking are immediate, but it exists nonetheless. Again, it also embraces Dees' and Anderson's notion of "sector-bending" organizations that use elements of nonprofit and for-profit thinking.

5. Social entrepreneurs need not engage in social enterprise or use market-based tools to be successful. This assumption breaks the necessary-but-not-sufficient

---

[9] This term was invented to describe some forms of government innovation, and is discussed in Mary Bryna Sanger and Martin Levin, "Using Old Stuff in New Ways: Innovation as a Case of Evolutionary Tinkering," *Journal of Policy Analysis and Management*, Vol. 10, No. 4, Fall, 1991.

relationship between social enterprise and social entrepreneurship by rendering earned income as one of many possible means to a social-purpose end. As Dees (2004) recently writes, "Successful social entrepreneurs will use the most effective structures, strategies, and funding mechanisms to achieve their social objectives. Social entrepreneurship should not be seen as a funding strategy, and it should not be tied to the idea of business ventures...At its heart, entrepreneurship is about establishing new and better ways to create value" (p. 17). It is important to note that Dees' more recent work suggests that the use of market-driven tools such as micro-finance may be a way of distinguishing between different types of social innovation.

6. The quantity of social entrepreneurship can vary greatly across individuals and entities. Some social entrepreneurs will be very entrepreneurial compared to others, while others may restrict their entrepreneurial activity to a particular program or unit. This assumption allows for comparisons across individuals and entities that are very, fairly, or only somewhat entrepreneurial, which may yield valuable knowledge on the conditions that might permit greater activity, as well as the conditions that might make lower levels of entrepreneurship quite appropriate.

7. The intensity of social entrepreneurship can and does ebb and flow over time as circumstances change. This assumption allows further study of the economic, political, social, and organizational conditions that might explain stall points, pauses, stops, and restarts in socially-entrepreneurial activity. Under this assumption, social entrepreneurs can occasionally look very non-entrepreneurial as they consolidate, retrench, or respond to inevitable external pressures. Challenge the conventional wisdom, and the conventional wisdom will almost always challenge back.

8. Social entrepreneurs sometimes fail, though at as-yet-to-be-determined rates. Much as they may *seek* to create pattern-breaking change, they face serious barriers to success, not the least of which is the tendency of the status quo to push back against pattern-breaking change. That is, after all, the way the status quo endures.

It is easy to see how this definition might produce a longer list of both successful and less-successful cases. Not only does the definition assume social entrepreneurship occurs in many places (governments, nonprofits, businesses, and in between), it is also quite explicit about the potential role of technical innovation such as low-cost, wireless, crank-powered computers for citizens in less-developed countries through partnerships between nonprofit funders and for-profit businesses.

Large federations such as Habitat for Humanity, Girl Scouts, and the Red Cross have very entrepreneurial chapters and non-entrepreneurial chapters alike, sometimes in contiguous districts. In turn, large, multi-purpose organizations such as Chicago's Heartland Alliance, Minneapolis' Project for Pride in Living, and New York's Environmental Defense may have a blend of entrepreneurial and non-entrepreneurial activities underway at any given time. In addition, long-established organizations such as CARE International can change directions under new leaders such as Peter Bell, while others such as the Nature Conservancy may stop entrepreneuring for a time as they face external pressures such as the recent congressional investigation of land conservation policies.

Consider, for example, a simple two-by-two table that compares the level of support for social entrepreneurship with the intensity of commitment at the individual, group, organizational, network, and/or community level. As Table 2 suggests, such a classification scheme would allow for empirical investigation of what moves individuals and organizations upward toward the highest level of entrepreneurship, and what might explain movement downward toward slowdowns and pauses.

Table 2: **Comparing Intensity and Support for Entrepreneurship**

Intensity of entrepreneurial activity	Support for entrepreneurial activity	
	High	Low
High	Full-entrepreneurship	Rebellious-entrepreneurship
Low	Diffuse-entrepreneurship	False-entrepreneurship

It may be, for example, that: rebellious entrepreneurship, despite organizational resistance, is an essential first step toward full organizational commitment or a future spin-off; that false-entrepreneurship is not worth the trouble, let alone the funding, encouragement, or training; and that top-down diffuse entrepreneurship can ignite an organization toward great social impact, especially given the resources that a large organization might invest. Understanding movement within such a classification scheme requires analysis of the markets in which entrepreneurs operate, as well as the barriers to success.

Some researchers are already engaged in just such work. As Jeffrey A. Robinson (2006) argues in his emerging work on markets and institutional barriers, the field will not advance beyond "journalistic accounts" until it confronts the economic, social, and organizational structures that surround entrepreneurial opportunities:

First, social entrepreneurship opportunities are different from other types of opportunities because they are highly influenced by the social and institutional structures in a market/community.

Second, social entrepreneurship is not only a process by which social problems are solved using entrepreneurial strategies, but it is also a process of navigating social and institutional barriers to the markets/community the entrepreneurs want to impact. Social entrepreneurs are successful because they are able to *execute* and *navigate.* The ability to do both well is part of what makes social entrepreneurs and social entrepreneurship so special.

Third, social entrepreneurs find opportunities in areas and under circumstances they understand. I argue that an interaction takes place between the personal experiences and/or work experiences of the social entrepreneur and the characteristics of the market/community they are attempting to enter. This navigation process is one that is not understood by entrepreneurship scholars but is clearly an essential step toward the establishment of the venture (pp. 14-15).

Such patterns will not emerge until scholars collect enough cases and conduct the needed histories to sort social entrepreneurs appropriately. Assuming that such a

sorting can be done, one can easily imagine how the resulting knowledge might lead toward the development of signposts of impending change, and appropriate hedging and shaping actions that might help social entrepreneurs choose the right strategies to achieve the hoped-for, pattern-breaking impact.

This sorting would also help answer the kinds of questions that Alvord, Brown, and Letts (2004) posit in their study of the seven well-established social entrepreneurships, including "when or how strategically timed financial support can make a pivotal difference to the emergence of a successful social innovation" and "what contextual patterns encourage or hinder the emergence of different kinds of innovations..." (p. 280).

A Research Methodology. The problem with my expanded definition of social entrepreneurship is clear. Suddenly, social entrepreneurship can be found almost everywhere. Although award and fellowship programs might yield long lists of names and organizations for possible study, such lists would not contain the "sometimes-entrepreneurs" or "on-hold entrepreneurs" out there. Similarly, case studies might miss the moribund organizations that have suddenly rediscovered themselves, or the self-effacing, non-media savvy entrepreneurs who prefer to remain anonymous.

By adding these social entrepreneurs into the sample, the study of social entrepreneurship can move beyond a search for the proverbial needle in the haystack to methodologies for sorting piles and piles of hay. Some of those piles would clearly contain individuals and entities that are definitely *not* social entrepreneurs, while others would contain partial or transitional entrepreneurs, and still others would contain the ideal type defined in the more restrictive definitions discussed earlier in this paper.

One way to sort this entrepreneurial hay is by using what some social scientists call a modus operandi approach. Simply asked: What kinds of clues do social entrepreneurs leave as they do their work? How do they operate? What do they emphasize? How do they change over time?

The first and most important clue that social entrepreneurs leave is a commitment to solving significant social problems through pattern-breaking ideas, even if that commitment is currently on hold due to changing conditions. These pattern-breaking ideas should be visible through actual endeavor, and revealed in innovative programs or methods for solving a given problem.

Pattern-breaking may be in the eye of the beholder, however. Must it focus on a dramatic innovation, or a relatively small, but significant change in existing procedures? Must it be entirely new, or a blend of old ideas used in new combinations? Must it be shockingly novel, or merely a small variation? For now, the search should remain inclusive. After all, some of the most important breakthroughs can involve relatively small adjustments at the front-end of a program process that yield dramatic impacts far down the chain of results.

The second essential clue is a commitment to sustainable, large-scale impact. The individual or entity should be unmistakably committed to taking the pattern-breaking idea to scale, which means moving beyond research and development to full execution and evaluation. This commitment must be evident in efforts to grow the idea, and measurable through tangible indicators such as budget, organizational size, outputs,

and ultimate outcomes.

Scale is also in the eye of the beholder. Must the goal be to change the world, or just a few city blocks? Must the idea have a global reach, or focus on a single community? Must it be to change laws, regulations, and prevailing practices within an entire field, or alter the wisdom in a relatively narrow band of endeavor? For now, the search should be inclusive. Certainly large-scale change focuses first and foremost on the idea, not the organization that holds it. The more replicated, grown, or copied through what institutional sociologists call isomorphism, the larger the scale.

Next Steps. Assuming that these two markers can be found in enough ideas, including successes, near-successes, and failures, researchers might consider a mix of approaches for explaining variation in social entrepreneurship. And it is variation that should produce insights on what might be done to increase the odds of success.

Although many of the key questions involve standard inventories of how individuals and organizations manage themselves, such questions are useless without a deeper understanding of the entrepreneurial idea and its impact. Such variables constitute the "who," "what," "where," "when," and "how" of the entrepreneurial idea:

1. *The entrepreneur.* Was the generator an individual team, organization, network, and so forth? How much demographic diversity was involved? What is the entrepreneur's primary social identity? What are the key life experiences, biases, and skills in the development, launch, and ongoing expansion of the idea? Is the entrepreneur charismatic, decisive, curious, smart, spiritual, honest, ethical, skeptical, trustworthy, innovative, risk-taking, physically and emotionally fit, and so forth?

2. *The idea itself.* Does the idea focus on administrative (how), technical (what), or blended innovation? What is its theory of change—e.g., use of the market, advocacy, or social movement? Who are its targets—e.g., individuals, communities, or nation-states? How much can it grow over time? Can it be sustained, disseminated, and protected over time? What were and are the barriers to change? What is its history both in its current form or earlier variations? If it has been tried before, what makes it different now? How much momentum has it gained?

3. *The organizational home.* Where did the idea emerge—i.e., the nonprofit, governmental, or for-profit sector, among one or more, or in between two or more? What is its current home—e.g., an organization as a whole, a separate unit, a "skunk works" designed to generate new ideas, or an outside incubator of some kind? And is the current home its original home? How tolerant is the organization toward new ideas? How much interest did it express? How does it scan its environment and plan its future? How is it structured—e.g., tall or flat, centralized or decentralized, and so forth? How does it delegate authority, motivate employees, and manage itself? And how strong are its governance, finance, evaluation, training, information, and planning systems? Where is it in organizational time—i.e., at the organic or start-up phase, the enterprising or expansion phase, the intentional or focusing stage, or the robust or smoothly-operating phase?

4. *The preparation for change.* Were the entrepreneurs prepared for pattern-

breaking change? How much capacity building/technical assistance have they received? Are they receiving help now? Did they receive any accelerants from the external environment such as fellowships, mentoring, and venture funding? How was the idea launched? Were there any transitions, spin-offs, mergers, departures, and so forth involved? And how long will the idea last—i.e., Was it designed as a short-, medium-, or long-term effort, or designed to last in perpetuity?

5. *The development and launch.* How was the idea financed, who financed it, and how has the source of funding changed? Did it begin as an experiment, the use of old ideas in new ways? Did luck or accidents play a positive and/or negative role? How long was the start-up phase? Has the idea expanded? How fast and how broadly? Was the idea developed on a 24/7/365 timeline or during spare time? Has it ever been put on hold?

6. *The impact.* Was the idea successful? And how is success measured?

As this list suggests, the larger the sample, the more varied the investigation. Moreover, the larger the sample, the more likely researchers can find and compare high-performing social entrepreneurs with their high-performing, non-entrepreneurial peers. The key for now is to start with an ecumenical approach to developing the sample, build careful records on each entrepreneur in the sample, then proceed with a rigorous search for differences and similarities.

The key to research success lies in the last question about the idea: Was it successful? Unless researchers are willing to make an effort to measure the impact of the idea, they will be unable to use these long lists of variables to discover any patterns that might actually improve the odds of success for future efforts. It is only by looking at successes *and* failures that the researcher can learn what matters and what does not. It may be, for example, that participatory leadership is nice to have, but utterly irrelevant to success. It may also be that fellowships, mentoring, and venture funding are hard to get, but absolutely essential to impact. The only way to know is to test the variables against an ultimate measure of success.

Conclusion

This paper embraces the hope, if not the reality, that there are more social entrepreneurs that the field has yet to discover. Some of these entrepreneurs may need help to become fully engaged, full-time. Others may simply need a boost in visibility and financial support to move through scale-up and sustained impact. And still others may be doing well as they are.

The challenge is not to define social entrepreneurship so broadly that it becomes just another word that gets bandied about in funding proposals and niche-building. Other terms, such as innovation, have gone that route, and may never be rescued from overuse. At the same time, social entrepreneurship should not be defined so narrowly that it becomes the province of the special few that crowd out potential support and assistance for individuals and entities that are just as special, but less well-known.

In the end, the research goal should be to uncover the factors that make social entrepreneurship a reality. If these factors suggest that social entrepreneurship is truly

the work of a rare breed that must struggle mightily to succeed, so be it. At least the conclusion would yield insights on how to make the struggle easier. If, however, the research suggests that social entrepreneurship can be a more natural act by a much larger number of individuals and entities, all the better. Then the field can move forward to create the conditions under which social entrepreneurship can flourish and work its will on solving the great intractable problems of our times.

References

Alvord, Sarah H., L. David Brown and Christine W. Letts. (2004). "Social Entrepreneurship and Societal Transformation: An Exploratory Study." *The Journal of Applied Behavioral Science*, 40:3, 260-282.

Barendsen, Lynn and Howard Gardner. (2004). "Is the Social Entrepreneur a New Type of Leader?" *Leader to Leader*, V. 34, 43-50.

Baron, Robert A. and Gideon D. Markman. (2003). "Beyond Social Capital: The Role of Entrepreneurs' Social Competence in Their Financial Success." *Journal of Business Venturing*, 18:1, 41-60.

Baron, Robert. (2004). "Social Skills." In Gartner, et al. (Eds.), *Handbook of Entrepreneurial Dynamics*, 220-233. Thousand Oaks, CA: SAGE Publications.

Carter, Nancy M. and Candida G. Brush. (2004). "Gender." In Gartner, et al. (Eds.), *Handbook of Entrepreneurial Dynamics*, 12-25. Thousand Oaks, CA: SAGE Publications.

Cunningham, J. Barton and Joe Lischeron. (1991, January). "Defining Entrepreneurship." *Journal of Small Business Management*, 29:1, 45-61.

Dees, J. Gregory and Beth Battle Anderson. (2003). "Sector-Bending: Blurring Lines Between Nonprofit and For-Profit." *Society*, 40:4, 16-27. Reprinted in Peter Frumkin and Jonathan Imber (eds.), 2004, *In Search of the Nonprofit Sector,* Transaction Publishers.

Dees, J. Gregory. (2001). "The Meaning of 'Social Entrepreneurship,'" draft paper. Accessed at http://www.fuqua.duke.edu/centers/case/documents/dees_SE.pdf on August 30, 2005.

Dees, J. Gregory. (2004). "Putting Nonprofit Ventures in Perspective." In Sharon M. Oster, Cynthia W. Massarsky, and Samantha L. Beinhacker. *Generating and Sustaining Nonprofit Earned Income*, 3-18. San Francisco: Jossey-Bass.

Forbes, Daniel P. (1999). "Cognitive Approaches to New Venture Creation." *International Journal of Management Reviews*, 1:4, 419-439.

Frumpkin, Peter. (2002). *On Being Nonprofit: A Conceptual and Policy Primer,* Cambridge, MA: Harvard University Press, 2002.

Gartner, William B. (1988). "'Who is an entrepreneur?' is the wrong question." *American Journal of Small Business*, 12:4, 11-31.

Greene, Patricia G. and Margaret M. Owen. (2004). "Race and Gender." In Gartner, et al. (Eds.), *Handbook of Entrepreneurial Dynamics*, 26-38. Thousand Oaks, CA: SAGE Publications

Hartigan, Pamela and Jeroo Billimoria. (2005, March). "Social Entrepreneurship: An Overview," *Alliance Magazine*. Accessed at http://www.allavida.org/alliance/mar05f.html on June 28, 2005.

Holmstrom, David. (1999, February 10). "Change happens, one entrepreneur at a time." *Christian Science Monitor.* Accessed at http://web.lexis-nexis.com/universe/document?_m=32a5e3396b6d9ce1fbf52d67353266a5&_docnum=1&wchp=dGLzVzz-zSkVA&_md5=b1ab20d559996c99e5c967c51db3dc54 on June 27, 2005.

Kingdon, John. (2002). *Agendas, Alternatives, and Public Policies.* (2nd ed.) New York: Longman.

Low, Murray B. (2001). "The Adolescence of Entrepreneurship Research: Specification and Purpose." *Entrepreneurship Theory and Practice,* 25:4, 17-25.

Low, Murray B. and Ian. C. MacMilan. (1988). "Entrepreneurship: Past Research and Future Challenges." *Journal of Management,* 14:2, 139-161.

McClelland, David C. (1961). *The Achieving Society.* New York: Free Press.

Mort, Gillian Sullivan, Jay Weerawardena, and Kashonia Carnegie. (2003). "Social Entrepreneurship: Towards Conceptualization." *International Journal of Nonprofit and Voluntary Sector Marketing,* 8:1, pp. 76-82.

Robinson, Jeffrey A. (2006). "Navigating Social and Institutional Barriers to Markets: How Social Entrepreneurs Identify and Evaluate Opportunities." Draft chapter to be published in J. Mair, Jeffrey A. Robinson, and K. Hockerts, eds., *Social Entrepreneurship,* London: Palgrave.

Schumpeter, Joseph. (1952). *Can Capitalism Survive?* New York: Harper and Row.

Simms, Shalei V. K. and Jeffrey Robinson. (2005). "Activist or Entrepreneur? An Identity-Based Model of Social Entrepreneurship," paper submitted to the United States Association for Small Business and Entrepreneurship 2006 Conference.

Thompson, John L. (2002). "The World of the Social Entrepreneur." *The International Journal of Public Sector Management,* 15:4/5, 412-431.

Thompson, John, Geoff Alvy, and Ann Lees. (2000). "Social Entrepreneurship—A New Look at the People and Potential." *Management Decision,* 38:5, 328-338.

Waddock, Sandra and James E. Post. (1991). "Social Entrepreneurs and Catalytic Change." *Public Administration Review,* 51:5, 393-401.

Young, Dennis R. (1986). "Entrepreneurship and the Behavior of Nonprofit Organizations: Elements of a Theory." in S. Rose-Ackerman, *The Economics of Nonprofit Institutions: Studies in Structure and Policy,* New York: Oxford University Press.

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

J. Gregory Dees and Beth Battle Anderson

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

---

[2] For 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 Bhide (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

---

[3] We 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 Entrepreneurs[6] 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).

---

[7] In 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).

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

[9] This 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

---

[16]This 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.

<u>Focusing on Enterprising Social Innovation.</u> 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
<u>**Key Stakeholders**</u>			
Targeted Customers	Pay nothing	Subsidized rates, and/or mix of full payers and those who pay nothing	Pay full market rates
Capital Providers	Donations and Grants	Below-market capital and/or mix of donations and market rates capital	Market rate capital
Work Force	Volunteers	Below-market wages and/or mix of volunteers and fully paid staff	Market rate compensation
Suppliers	Make in-kind donations	Special discounts and/or mix of in-kind and full price	Charge full market prices

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.

Procuring Supplies → Employing Workers → Designing the Product/Service → Producing the Product/Service → Marketing to Target Customers
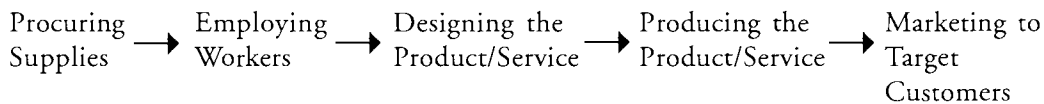
Social entrepreneurs might create social value at any of these steps in the process. Fair trade organizations create social value in how and from whom they purchase the goods they sell. The ventures of HEDF mentioned earlier create value through employing disadvantaged populations. With hospice care, 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.

<u>Theoretical Issues Raised by Enterprising Social Innovation.</u> 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

---

[18] Of 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

[19] It 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

---

[20] Some 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.

References

Akerlof, G. A. & Kranton, R. E. (2005). Identity and the economics of organization. *Journal of Economic Perspectives,* 19(1), 9-32.

Alpha Center for Public/Private Initiatives. (1986). Self-published brochure. New York and Minneapolis: Author.

Alter, K. S. (2005) Social enterprise models and their mission and money relationships. Draft. Forthcoming in Alex Nichols (Ed.), *Social Entrepreneurship: New Paradigms of Sustainable Social Change,* Oxford: Oxford University Press, expected in 2006. Page numbers refer to the draft.

Alvord, S.H., Brown, L.D. & Letts, C.W. (2003). Social entrepreneurship and social transformation: An exploratory study. *The Journal of Applied Behavioral Science,* 40(3), 260-282.

Andreasen, A. (2001) Intersector transfer of marketing knowledge. In P. N. Bloom & G. T. Gundlach (Eds.), *Handbook of marketing & society.* Thousand Oaks: CA: Sage Publications, Inc.

Arrillaga, L. & Hoyt, D. (2005) *2004 Venture Philanthropy Summit Overview.* Stanford Graduate School of Business, Case SI-73.

Baumol, W. J. (2002). *The free-market innovation machine: Analyzing the growth miracle of capitalism.* Princeton, NJ: Princeton University Press.

Berns, G.S. (2005). *Satisfaction: the science of finding true fulfillment.* New York: Henry Holt & Company.

Bertrand, M., Mullainathan, S., & Shafir, E. (2004). A behavioral economics view of poverty. *American Economic Association Papers and Proceedings,* 94(2), 419-423.

Besley, T. & Ghatak, M. (2005). Competition and incentives with motivated agents. *American Economic Review,* 95 (3), 616-636.

Bhide, A. V. (2000). *The origin and evolution of new business ventures.* New York: Oxford University Press.

Birchard, B. (2005). *Nature's keepers: The remarkable story of how the Nature Conservancy became the largest environmental organization in the world.* San Francisco, CA: Jossey-Bass.

Bornstein, D. (2004). *How to change the world: Social entrepreneurs and the power of new ideas.* New York: Oxford University Press.

Boschee, J. (1995). Social entrepreneurship. *Across the Board,* March, 20-25.

Boschee, J. (1998). *Merging mission and money: A board members guide to social entrepreneurship.* Washington, DC: National Center for Nonprofit Boards.

Boschee, J. & McClurg, J. (2003). *Toward a better understanding of social entrepreneurship: Some important distinctions.* Draft. See http://www.se-alliance.org/better_understanding.pdf.

Cagnon, C. (1982). *Business ventures of citizen groups.* Helena, Montana: Northern Rockies Action Group.

Carder, B. & Berkowitz, K. (1970). Rats' preference for earned in comparison with free food. *Science,* 167, 1273-1274.

Case, S. (2005, May 10). Purpose and profits go together. *The Wall Street Journal,* May 10, B2.

Clark, C. & Gaillard. (2003). *RISE capital market report: The double bottom line private equity landscape in 2002-2003.* New York: Research Initiative on Social Enterprise, Columbia Business School.

Clark, C., Rosenzweig, W., Long, D. & Olsen, S. (2004). *Double bottom line project report: Assessing impact in double bottom line ventures.* New York: Research Initiative on Social Entrepreneurship, Columbia Business School.

Colonna, J.D. (1989). Control data's dream runs aground. *Business & Society Review,* 94(Spring), 34-38.

Crimmins, J. C. & Keil, M. (1983). *Enterprise in the nonprofit sector.* Washington, DC: Partners for Livable Places.

Christensen, C. M. (1997). *The innovator's dilemma: When new technologies cause great firms to fail.* Boston, MA: Harvard Business School Publishing.

Christensen, C. M. (2004). *Seeing what's next? Using theories of innovation to predict industry change.* Boston, MA: Harvard Business School Publishing.

Cohen, E. (1995). *Echoing green: building institutions, impacting policy, creating community.* Self-published progress report. New York: Echoing Green.

Collins, J. C. & Porras, J. I. (1994). *Built to last: Successful habits of visionary companies.* New York: HarperCollins Publishers.

Dabson, B., Plastrik, P., & Turner, R. (2001) *Lessons from the life and death of the Virginia Eastern Shore Corporation.* Washington, DC: Corporation for Enterprise Development.

Dees, J. G. (1996). *The social enterprise spectrum: Philanthropy to commerce.* Boston: Harvard Business School, Publishing Division, 9-396-343.

Dees, J. G. (1998a). Enterprising nonprofits. *Harvard Business Review,* 76(1), 55-66. Reprinted in 1999 *Harvard Business Review on Nonprofits.* Boston: Harvard Business School Press.

Dees, J. G. (1998b). *The meaning of social entrepreneurship.* Revised May 2001, original draft, available at http://www.fuqua.duke.edu/centers/case/documents/Dees_SEdef.pdf.

Dees, J. G. (2004). Putting nonprofit business ventures in perspective. In S. M. Oster, C. W. Massarsky, & S. L. Beinhacker (Eds.), *Generating and sustaining nonprofit earned income: A guide to successful enterprise strategies,* San Francisco: Jossey-Bass, 2004.

Dees J. G. & Anderson, B.B. (2003a). For-profit social ventures. In M. L. Kourilsky & W. B. Walstad (Eds.), *Social Entrepreneurship.* Dublin, Ireland: Senate Hall Academic Publishing. A special issue of the *International Journal of*

Entrepreneurship Education, 2, 1-26.

Dees J. G. & Anderson, B. B. (2003b). Sector bending: blurring the lines between nonprofit and for-profit. *Society (Social Sciences and Modern Society)*, 40(4), 16-27. Reprinted in 2004 (with references) in P. Frumkin and J. Imber (Eds.), *In search of the nonprofit sector*. Somerset, NJ: Transaction Publishers.

Dees, J. G. & Backman, E. (1995). *Social enterprise: private initiatives for the common good*. Boston: Harvard Business School, Publishing Division, 9-395-116.

Democracy Collaborative at the University of Maryland. (2005). *Building wealth: The new asset-based approach to solving social and economic problems*. Washington, DC: Aspen Institute.

Drayton, W. & MacDonald, S. (1993). *Leading public entrepreneurs*. Arlington, VA: Ashoka: Innovators for the Public.

Drayton, W. (2004) Needed: a new financial services industry. *Alliance*, 9(1), 40-41.

Drucker, P. (1985). *Innovation and entrepreneurship*. New York: Harper & Row.

Drucker, P. (1993). *Post-capitalist society*. New York: HarperCollins.

Drucker, P. (1994, November). The age of social transformation. *The Atlantic Monthly*, November, 53-80.

Duncan, W. A. (1982). *Looking at income generating businesses for small nonprofits*. Washington, DC: Center for Community Change.

Emerson, J. & Bonini, S. (2004). *The blended value map: Tracking the intersects and opportunities of economic, social, and environmental value creation*. Draft. Available at http://www.blendedvalue.org/.

Emerson, J. & Twersky, F. (1996). *New social entrepreneurs: The success, challenge and lessons of non-profit enterprise creation*. San Francisco, CA: Roberts Foundation.

Frank, R. H. (1988). *Passions within reason: The strategic role of the emotions*. New York: W. W. Norton & Company.

Frank, R.H. (2004). *What price is the moral high ground? Ethical dilemmas in competitive environments*. Princeton, NJ: Princeton University Press.

Frumkin, P. (2002). *On being nonprofit: A conceptual and policy primer*. Boston: Harvard University Press.

Gladwell, M. (2000). *The tipping point: How little things can make a big difference*. Boston, MA: Little, Brown and Company.

Gray, S. & Greene, E. (1995, August 10). Good works' venture capitalists: Foundations and charities back 'social entrepreneurs' who have ideas for curing ills of society. *The Chronicle of Philanthropy*, 7(21), 1,12,14.

Gruber, R. E., & Mohr, M. (1982). Strategic management for multiprogram nonprofit organizations. *California Management Review*, 24 (3), 15-22.

Hahn, R. (2005). Social enterprise goes to school: Campus based programs advance the field. *Social Enterprise Reporter*, April.

Hammack, D. & Young, D. (Eds.). (1993). *Nonprofit Organizations in a Market Economy: Understanding New Roles, Issues, and Trends*. San Francisco: Jossey-Bass.

Hansmann, H. (1980). The role of nonprofit enterprise. *Yale Law Journal*, 89, 835-901.

Hart, S. (2005). *Capitalism at the crossroads: The unlimited business opportunities in solving the world's problems*. Upper Saddle River, NJ: Wharton School Publishing.

Haugh, H. (2005). A research agenda for social entrepreneurship. *Social Enterprise Journal*, 1(1), 1-12.

Howard, A. & Magretta, J. (1995). Surviving success: An interview with the Nature Conservancy's John Sawhill. *Harvard Business Review*, 73(5), 109-118.

Kellogg Foundation, W.K. (2003). *Blurred boundaries and muddled motives: a world of shifting social responsibilities*. Battle Creek, MI: Kellogg Foundation. (Prepared by Stephanie Colhesy and the Kellogg Foundation communications team under the direction of Tom Reis)

Kelley, T. (2005). Rediscovering Vulgar Charity: A Historical Analysis of America's Tangled Nonprofit Law. *Fordham Law Review*, 73(6), 2437-2499.

Kotler, P. & Zaltman, G. (1971) Social marketing: An approach to planned social change. *Journal of Marketing*, 35(July), 3-12.

Kramer, M. (2005). *Measuring innovation: evaluation in the field of social entrepreneurship*. Boston, MA: Foundation Strategy Group.

Leadbeater, C. (1997). *The rise of the social entrepreneur.* London: Demos.

Margolis, J. D. & Walsh, J. P. (2003). Misery loves companies: rethinking social initiatives by business. *Administrative Science Quarterly*, vol. 48, pp. 268-305.

Norris, W. C. (1981, Sept. 13). Profit and Public Service: Let's let business help run the cities. *The New York Times*, Sept. 13, 1981, Sect. III, 2.

Norris, W. C. (1983). *New frontiers for business leadership*. Minneapolis, MN: Dorn Books.

Oster, S. M. (1995). *Strategic management for nonprofit organizations: theory and cases.* New York: Oxford University Press.

Oster, S. M, Massarsky, C. & Beinhacker, S. (Eds.) (2004), *Generating and sustaining nonprofit earned income: A guide to successful enterprise strategies*. San Francisco: Jossey-Bass.

Paine, L. S. (2003). *Value shift: why companies must merge social and financial imperatives to achieve superior performance*. New York: McGraw-Hill.

Prahalad, C. K. (2005). *The fortune at the bottom of the pyramid: Eradicating poverty through profits*. Upper Saddle River, NJ: Wharton School Publishing.

Porter, M. E. (1985). *Competitive advantage: creating and sustaining superior performance*. New York: The Free Press.

Rangan, V. K., Karim, S. & Sandberg, S. (1996). Do better at doing good. *Harvard Business Review*. 74(3), 42-51.

Rogers, E. M. (1995). *Diffusion of innovations.* 4th edition. New York: The Free Press.

Say, J. B. (1803). *Traité d'économie politique, ou simple exposition de la manière dont se forment, se distribuent et se consomment les richesses* (1st edition 1803, Paris: Deterville).

Schuessler, A. A. (2000). A logic of expressive choice. Princeton, NJ: Princeton University Press.

Schultz, M. & Hatch, M. J. (2005). Building theory from practice. *Strategic Organization*, 3(3), 337-348.

Schumpeter, J. A. (1934). *The theory of economic development: an Inquiry into profits, capital, credit, interest, and the business cycle* (translated by Redvers Opie, with a special preface by the author). Cambridge, MA: Harvard University Press.

Schumpeter, J. A. (1950). *Capitalism, socialism and democracy.* New York: Harper & Brothers, Enlarged 3rd edition.

Shore, B. (1995). *Revolution of the heart: A new strategy for creating wealth and meaningful change.* New York: Riverhead Books.

Shore, B. (1999 and 2001). *The cathedral within.* New York: Random House.

Skloot, E. (1983) Should not-for-profits go into business? *Harvard Business Review,* 61(1), 20-27.

Skloot, E. (1987). Enterprise and commerce in nonprofit organizations. In W. W. Powell (Ed.), *The nonprofit sector: A research handbook.* New Haven, CT: Yale University Press.

Skloot, E. (1988). Introduction: The growth of and rationale for nonprofit enterprise. In E. Skloot (Ed.). *The nonprofit entrepreneur: Creating ventures to earn income.* New York: The Foundation Center.

Skloot, E. (2005, April 19). *Twenty-five years of social entrepreneurship in twenty-five minutes.* Acceptance speech , Social Enterprise Award for Leadership in Financing, Social Enterprise Alliance, Annual Conference. Milwaukee, WI.

Stevenson, H. H. (2000). *Why entrepreneurship has won.* USASBE Plenary Address. Available at http://www.usasbe.org/pdf/CWP-2000-stevenson.pdf.

Stevenson, H. H. & Gumpert, D. E. (1985) The heart of entrepreneurship. *Harvard Business Review,* 63(2), 85-95.

Stevenson, H. H. & Jarillo, J. C. (1990). A paradigm of entrepreneurship: Entrepreneurial management. *Strategic Management Journal,* Special Issue: Corporate Entrepreneurship, 11(Summer), 17-27.

Swedberg R. (2000). *Entrepreneurship: The social science view.* (Ed.) New York: Oxford University Press.

Thaler, R. H. & Benzarti, S. (2004). Save more tomorrow: using behavioral economics to increase employee savings. *Journal of Political Economy,* 112(1), S164-S187.

Waddell, S. (1995). Emerging social-economic institutions in the venture capital industry: An appraisal. *American Journal of Economics and Sociology,* 54(3).

Wiewel, W., Ridker, J. H., Meier, R., & Giloth, R. (1982). *Business spin-offs: Planning the organizational structure of business activities, a manual for not-for-profit organizations.* Chicago, IL: Center for Urban Economic Development, University of Illinois at Chicago Circle.

Williams, R. (1983). *Why don't we start a profit-making subsidiary?* Grantsmanship Center News, 10, 14-23.

Worthy, J. (1987). *William Norris: Portrait of a maverick.* Cambridge, MA: Ballinger.

Young, D. R. (1983). *If not for profit, for what?* Lexington, MA: D. C. Heath.

Young, D. R. (1986). Entrepreneurship and the behavior of nonprofit organizations: Elements of a theory. In S. R. Ackerman (Ed.). *The economics of nonprofit institutions: Studies in structure and policy.* New York: Oxford University Press.

Young, D. R. (1987). Executive leadership in nonprofit organizations. In W. W. Powell (Ed.), *The nonprofit sector: A research handbook.* New Haven, CT: Yale University Press.

Young, D. R. (2001). Organizational Identity in Nonprofit Organizations: Strategic and Structural Implications. *Nonprofit Management & Leadership*, 12(2), 139-157.

Young, D. R. (2003). *Effective economic decision making by nonprofit organizations.* New York: The Foundation Center.

Youth Service America. (1997, June 16). *Young social entrepreneurs honored for solving social problems their way.* Press release. Washington, DC.

Yunus, M. (2004). Petersburg Prize Acceptance Speech. Available at http://www.grameen-info.org/bank/Acceptance.html. (The prize is given by the Development Gateway Foundation, Washington, D.C.)

Yunus, M. (1999). *Banker to the poor: Micro-lending and the battle against world poverty.* New York: Public Affairs.

Zimmerman, B. & Dart, R. (1998). *Charities Doing Commercial Ventures: Societal and Organizational Implications.* Ottawa, ON: Canadian Policy Research Networks, Inc.

COMING OF AGE: SOCIAL ENTERPRISE REACHES ITS TIPPING POINT

Cynthia W. Massarsky

According to Malcolm Gladwell, author of the best-selling book, *The Tipping Point*, there is a point in time when a product or service, or even an idea, reaches a plateau that can be considered its "tipping point." Gladwell says it is "the moment of critical mass, the threshold, the boiling point" (2002, p. 12). It is when something is at the crossroads—when it is primed to take off. Further, he notes that,

> ...the best way to understand the emergence of fashion trends, the ebb and flow of crime waves, or, for that matter, the transformation of unknown books into bestsellers, or the rise of teenage smoking, or the phenomena of word of mouth, or any number of the other mysterious changes that mark everyday life is to think of them as epidemics. Ideas and products and messages and behaviors spread just like viruses do (Gladwell, 2002, p. 7).

Characterized by changes that happen at the margin, tipping points are incremental, yet can have very dramatic effects because the epidemics that bring them about involve contagious but different behavior. Epidemics tip when they are "jolted out of equilibrium, because something has happened, some change has occurred" (Gladwell, 2002, p. 19).

Gladwell refers to *The Tipping Point* as the biography of an idea. His book details a number of very different examples or "epidemics" that illustrate the point—from Paul Revere's ride and public television's *Sesame Street*, to Hush Puppies shoes and New York City crime.

This paper is also the biography of an idea—social enterprise—and the events that caused it to tip.

To put the concept in context, this paper begins with several examples of social movements and highlights the points at which they "tipped." Ten criteria that define a social movement are then proposed in the interest of showing that the social enterprise field has indeed achieved the status of a "social movement," and that it has reached its tipping point as well. The paper includes an overview of social enterprise, a discussion of the conditions that paved the way for social enterprise to reach its tipping point, and an explanation of the event that caused it to tip. The paper concludes with a discussion of the movement's current status and recommendations for the future.

Social Movements and Their Tipping Points

How does the tipping point relate to the nonprofit sector? In general terms, how do we recognize when a tipping point has occurred? One possibility is to talk about a tipping point within the context of a "social movement," and to consider that the tipping point for a social movement occurs when a critical mass of people or institutions participate in an event that dramatically alters the landscape in which the movement operates.

Social movements are often accompanied by a push for a change in behavior. According to one definition, a social movement is the effort of "a group of people with a common ideology who try together to achieve certain general goals" (WordNet 2.0, 2003).

To explore this further, let us look briefly at some of the underpinnings of social movements by considering three of them: the gay rights movement; the environmental movement; and, the community economic development movement.

The gay rights movement is generally characterized by the presence of both individuals and special-interest groups that strive to obtain the same rights for marginalized or disenfranchised people that are afforded to more "accepted" others. The movement's constituents have joined together to seek acceptance, tolerance, and equality for non-heterosexual and transgender people.

The environmental movement, by comparison, is directed not at people but rather towards preservation, restoration, or enhancement of the natural environment. As is the case with the gay rights movement, the environmental movement receives support from numerous groups with which it loosely associates, including animal rights, anti-nuclear, environmental health (nutrition and preventative medicine), ecology (value of the earth and the relationship between science and human responsibility), and groups that work on behalf of sustainable agriculture or to prevent climate change.

The community economic development movement involves the coordination of public, private, and nonprofit sector organizations within cities and towns across the country to revive, support, and sustain community wealth. Creative partnerships encourage the growth of new business to drive revenue into an ailing community and simultaneously support the community's fundamental need for good health, quality education, affordable housing, and a safe environment in which to live.

It is helpful to ask what it takes for an area of inquiry, study, or practice to be designated a social movement: What common characteristics do the above examples share that would give them this status? And, what signals indicate whether each has reached its tipping point and, if so, when did that occur?

At the simplest level, some might say that an area of inquiry or study or a particular activity or practice is a social movement when it seems that everyone recognizes, understands, and identifies with the term or title that describes it. In other words, it exists when fewer and fewer people ask, "What do you mean by that?"

This begs the question, however, of what specifically causes people to stop questioning the meaning of a term. The answer, in fact, leads us to a more descriptive definition of a "social movement." One possibility is that people stop questioning the meaning of a term or issue when there are shared values and a shared vision regarding

it. In other words, there is collective mobilization on a subject—a significant number of people who are, in an organized way, developing theories, conducting research, and designing and implementing new strategies to address it. Implicit here is the notion that this critical mass of people is ready to take on the challenge, that the issue is gathering momentum, and that because of these two factors, the group will have the ability to be actively and continuously engaged, and will draw others into the process.

According to McAdam and Snow (1997), there are many definitions of social movements:

> ...conceptual efforts (of social movements) include the following elements: (1) collective or joint action; (2) change-oriented goals; (3) some degree of organization; (4) some degree of temporal continuity; and (5) some extrainstitutional collective action, or at least a mixture of extrainstitutional (protesting in the streets) and institutional (political lobbying) activity. Blending these elements together, we can define a social movement as a collectivity acting with some degree of organization and continuity outside of institutional channels for the purpose of promoting or resisting change in the group, society, or world order of which it is a part (p. 18).

Applying this to the first of our three examples, many would consider the Stonewall riots of 1969 as the tipping point for the modern gay rights movement in the United States, when a number of "underground changes reached a breaking point, and gay people organized on a large scale to gain social recognition and equality" (LaborLawTalk.com, accessed Oct. 18, 2005). The Stonewall riots took place in June 1969 after a police raid on an illegal gay bar in New York City. In protesting the raid, a number of groups formed in an effort to repeal laws prohibiting consensual homosexual conduct; for legislation barring discrimination against gays in housing and employment; and for greater acceptance of homosexuals among the rest of the population.

With the environmental movement, we see a history that dates back to the mid-1800s with Henry David Thoreau and Walden Pond, to the late-1800s when the Audubon Society and the Appalachian Mountain and Sierra Clubs were founded, and when Congress established the first national parks and forest reserves. These events might be considered as heralding the tipping point for the environmental movement.

Yet if we look towards acts of protest as a signal, we might say the movement reached its tipping point in 1948 when the town of Donora was held under a cloud of gas from the Donora Zinc Works, and 20 people died. Public outcry over the incident led to the government's study of the causes, effects of air pollution, and control, which then led to the Air Pollution Control Act of 1955. Or we might say it tipped with the establishment of the federal Environmental Protection Agency some 14 years later.

Determining the tipping point for the community economic development movement is even more difficult. Community economic development involves disciplines as varied as human services, economics, civil rights, city planning, banking, and housing. In many ways, key markers can be found in the grassroots efforts of people at the local level—efforts that led to the creation of important state and federal policies. Yet the movement's timeline also highlights the settlement house era and the emergence of housing codes, the creation of federal welfare programs, the War on

Poverty, the role of faith-based and labor organizations, new institutions like Head Start and VISTA, practices like redlining, and the Community Reinvestment Act—all of which have given shape to the community development movement. Clearly, it is a difficult task to identify a single point in time that designates when the Community Economic Development Movement tipped.

More Criteria to Help Define a Social Movement

These criteria, however, are not the only ones to consider for determining when a cause or issue becomes a social movement and for pinpointing its tipping point. I would contend that in addition to **collective action**, there are nine other characteristics that help to define social movements, particularly those movements that have a foundation in the nonprofit sector.

1. Adoption of specific language and a common terminology. This is the development of a lexicon that becomes part of the culture surrounding the subject matter. Here, specific phraseology is adopted—buzz words, if you will—and the language is defined relative to the conceptual framework or "frame."

For the purpose of our three examples, this certainly occurred when the terms "gay rights," "environmental," and "community economic development" were coined and accepted generally by their constituents, if not the public at-large. But additional vocabulary was also evident, and it was the incorporation of this language that helped to frame the discussion. The word "civil union" took on new meaning when used in the context of the gay rights movement; "deforestation" and "sustainable agriculture" in the context of the environmental movement; and "capacity building" and "affordable housing" in the context of the community economic development movement.

2. Presence of debate or differences of opinion on the issue. The debate can range from whether or not the issue is good or bad, to what are the most efficient and effective ways to address it. With the environmental movement, for example, there was and continues to be a seeming unending debate over the importance of protecting endangered species and preserving open spaces versus the desire to increase economic wealth through housing and new business development.

3&4. Increases in publishing and media attention. These characteristics often go hand-in-hand, and serve to bring the subject into public view even more. The arguments presented in the debate characteristic mentioned above are at once memorialized through the media. As more and more people participate in activities on the subject, we begin to see greater numbers of papers, scholarly journals, books and magazines. We also typically see an increase in media attention—from articles in the local and national press to interviews in broadcast, print and electronic media. News broadcasters and talk shows pick up on it, and use case examples to interest an audience and to tell the story. And, lately, with our penchant for electronic communication, we also see an increase in communications through such vehicles as listservs and blogs. Clearly, there is no shortage of published information about any of our three case examples.

5. <u>Increase in resources available to support the issue or idea</u>. This usually exists in the form of intellectual capital, but also often comes via financial resources. Depending on the circumstances, we might also witness the development and implementation of new financial instruments and other techniques that provide direct support. In the case of the community economic development movement, Community Development Financing Institutions (CDFIs)—private-sector-financial intermediaries that provide business development loans; offer accounts for people with poor credit history; assume subordinated debt positions; and create other mechanisms to invigorate disadvantaged communities—were created some years ago.

6. <u>A set of projected or actual changes in behavior</u>. As a result of the environmental movement, for instance, we see real changes today in the exploitation of our natural resources: people are conserving water; automobile manufacturers are developing hybrid cars that cut down on gasoline and fuel emissions; and, farmers are using fewer pesticides and are growing organic foods.

7. <u>New policies or new legislation</u>. When policymakers see that the subject matter is taking hold and affecting a significant number of people in positive ways, they begin to pay attention and, frequently, amend current policy or adopt new legislation. This move brings the public sector into the strategy for affecting positive social change.

The New Markets Tax Credits Program is an example of legislation enacted in great part as a result of the efforts of Community Development Corporations within the context of the community economic development movement. The legislation, enacted in 2002, offers tax credits to the private sector for qualified investments made to a select number of community development programs.

8. <u>Increase in activity among university faculty and administrators</u>. At about the same time as we see new policies or legislation, we often witness the involvement of the academic community. In a number of instances, we have seen students and even alumni influence faculty to design curricula around an issue or social movement. Universities have followed suit by declaring new majors or concentrations, and thereby making the subject a legitimate area for research and study.

Of course, sometimes academic involvement is evident earlier on. In these cases, it is typically research-based work that propels the subject into the media and prompts policy debate and new legislation. We find an example of this in the Environmental Movement, where research on the effect of pollution on wildlife led to significant media attention that ultimately resulted in legislation that prohibited companies from dumping raw sewage and chemicals into rivers, lakes, and streams.

9. <u>Tools and metrics to measure impact or effectiveness</u>. These are developed by policymakers, researchers, practitioners, and others to track progress. With the community economic development movement, for example, measures include the number of new business start-ups and the number and size of loans made to new businesses in distressed communities.

In sum, then, we can characterize a social movement as an issue, cause, or problem

that is recognized by a significant number of people (critical mass); is acted upon through various methodologies; has a solution that is achievable and measurable, and usually requires a change in behavior on the part of individuals or organizations; has adopted a specific language or common terminology; generates debate among various stakeholders; involves the academic community; spurs new publishing and receives increasing amounts of attention from the media; is leveraged through the availability of financial and intellectual resources; and usually stimulates new strategies, policies or legislation.

With this description in hand, let us now turn to how this applies to social enterprise.

From Earned Income to Revenue Generation to Social Enterprise: The Making of the Social Enterprise Movement

Many people refer to social enterprise as a "program," some call it a "project" or "activity," and still others have designated it a "field." This paper asserts that social enterprise is, in fact, a social movement—a movement that reached its tipping point about four years ago with the start of the National Business Plan Competition for Nonprofit Organization.

To examine this assertion, we must look back to the beginnings of social enterprise, trace its evolution, and assess where it stands regarding the 10 characteristics described above.

Defining Social Enterprise. To examine the roots of social enterprise in the nonprofit sector,[1] it is important to first define the term for the purpose of this paper: *business ventures initiated by nonprofit organizations for the purpose of generating net income to support their mission and programs, and often incorporating job training and employment, as well as other potential benefits, for their constituents.* This definition is quite similar to that adopted by the Social Enterprise Alliance and other scholars and practitioners.

If we look back in time, we find that the term "social enterprise" is the third in a series of terms that have been used over the years. Prior to 2000, people referred to social enterprise as "revenue generation" and "earned income." I would suggest that, in all likelihood, the term "revenue generation" was derived from the desire of nonprofits to declare this a rigorous, rather than passive, activity. It was, perhaps, a precursor to using the word "business"—a word that was unacceptable in nonprofit circles until very recently.

In addition to these terms, we also see the emergence of the word "venture(s)," which signifies a step towards a terminology that implies an undertaking that is new and perhaps a bit of a risk or gamble. By the end of the 1990s, many people had adopted the phrase "social enterprise," demonstrating greater acceptance of the notion of business (enterprise) among nonprofit organizations, yet adding the word "social" to emphasize that the focus is on business with a social purpose. In his paper, *The*

---

[1] The reader should distinguish "social enterprise" from "social entrepreneurship," where the latter is more complicated to define and does not necessarily incorporate a business entity, as does "social enterprise." The reader should also note that a growing number of social enterprises exist in the private sector as well.

Meaning of "Social Entrepreneurship," J. Gregory Dees (2001) referred to social enterprise as "the passion of a social mission with an image of business-like discipline, innovation, and determination."

Categorizing Types of Social Enterprise. Social enterprise has been around for 200 years. A look back in time reveals a growing sophistication in the types of social enterprise in which nonprofits have engaged. All of the sub-sectors in the nonprofit world, i.e., health, education, social service, arts and culture, etc., and many of the organizations within them incorporated some form of social enterprise.

In the period prior to the 1980s, we find a pretty standard set of earned income ventures: gift shops associated with museums and other arts and cultural organizations; tuition associated with classes and educational institutions; thrift shops associated with social service organizations; fees associated with medical treatments and hospital stays; membership charges associated with athletic facilities at YMCAs; and, of course, the ever-popular cookies associated with the Girl Scouts of the USA. Most of the enterprises at this time were not created to earn income for an organization, but to benefit an organization's members or constituents.

In the 1990s, these types of enterprises remained, but nonprofits also designed more innovative strategies for earning income. During the last 20 years, several organizations have emerged as true leaders in this regard: Save the Children with its ties; UNICEF with its greeting cards; Pioneer Human Services with its light-metal-fabrication facility (a producer of aircraft parts for Boeing Corp.); and Greyston Bakery with its confectionary business (a supplier of brownie chunks for Ben & Jerry's ice cream).

In the 1990s, earned income was classified by type of venture rather than by the organization that operated it. Classifications defined whether the enterprise was a program-related product or service, a service that used staff and client resources and expertise; real estate-related property (such as renting a parking lot, dorm or cafeteria space, or a gymnasium); or soft property (such as the sale or rental of copyrights, patents, trademarks and mailing lists). Licensing and cause-related marketing categories came into vogue too, with a well-known licensing example in Sesame Street (licensing of its characters and designs to the manufacturers of hundreds of children's products) and a model cause-marketing example in the Statue of Liberty (restoration of the landmark by American Express and the Ellis Island Foundation).

Writing About Social Enterprise. A review of the literature beginning in the early 1980s also highlights the evolution of thought and practice among the key players and provides a useful map of social-purpose business venturing. Over time, one can see a shift in the concerns of nonprofits, the methods they employed to diversify their sources of revenue to build overall organizational capacity, and in the mechanics of distributing philanthropic monies for these purposes.

In the early 1980s through the mid-1990s, nonprofit organizations oftentimes engaged in earned-income venturing on a "wing and a prayer." That is to say, many demonstrated tremendous willingness to launch business ventures, but, unfortunately, jumped in before they had thoroughly evaluated their readiness. Most of the literature of the early period provides checklists and how-to steps, but offers little hands-on

guidance on how to build an organization's operational capacity. More recent literature suggests that capacity-building efforts, organizational development and support, and access to capital are critically needed ingredients to build sustainable, enduring organizations—whether or not they are operating business ventures.

Literature from 1980-1994

Much of the literature from this period was based on nonprofits' interest in becoming more commercial, and can be described as "prescriptive," as it focuses on the mechanics of starting a business that will earn income for a nonprofit organization. The audience was the practitioner, with most publications written by consultants, including Edward Skloot (*The Nonprofit Entrepreneur*), Laura Landy (*Something Ventured, Something Gained*), and Cynthia Massarsky (*Business Planning for Nonprofit Enterprise*). Attorneys such as Bruce Hopkins (*Law of Tax Exempt Organizations*) and social science researchers such as Crimmins and Keil (*Enterprise in the Nonprofit Sector*) also published during this period.

According to Zimmerman and Dart (1998), this body of literature "essentially goes from the premise that charities can/should undertake commercial ventures and here is how they can do it."

Literature from 1995-2000

Beginning in the mid-1990s, research and writing about social enterprise shifted away from a prescriptive focus toward an emphasis on how nonprofit organizations might be more entrepreneurial and manage a "double-bottom line." These new works looked at a variety of strategies employed by nonprofit organizations that included revenue generation, but not exclusively. The transition was marked by the introduction of concepts such as "social entrepreneurs," "social purpose enterprises," "nonprofit entrepreneurs," and "entrepreneurial nonprofits." As J. Gregory Dees (1998) suggested,

> Social entrepreneurial behavior is characterized by those who apply innovative approaches in their work and their funding methods, pursue opportunities to create and sustain social value, and exhibit a heightened sense of accountability to the various constituencies they serve and the outcomes they create.

The most prominent authors during this period were Jed Emerson (*New Social Entrepreneurs*), Dees (*Enterprising Nonprofits: What Do You Do When Traditional Sources of Funding Fall Short?*), Sutia Kim Alter (*Managing the Double Bottom Line: A Business Plan for Social Enterprises*), Jerr Boschee (*Merging Mission and Money: A Board Member's Guide to Social Entrepreneurship*), Dennis Young (*A Reader in Social Enterprise*), Peter Brinckerhoff (*Social Entrepreneurship: The Art of Mission-Based Venture Development*), and Burton Weisbrod (*To Profit or Not to Profit: The Commercial Transformation of the Nonprofit Sector*). While some experts still voiced concern about unrelated business income (income that was unrelated to the mission of the organization and usually taxed), for the most part, they were not preoccupied with these consequences.

Literature from 2000 to Today

Beginning in the late 1990s and concurrent with the unprecedented wealth

generated by the New Economy,[2] a new approach to philanthropic giving surfaced within the nonprofit sector: "venture philanthropy," "engaged philanthropy," and "social venture capital."

The theories of venture philanthropy were modeled after the practices employed by venture capitalists. The shift in language describing the new philanthropy was reflected in terms such as "investor" rather than "funder," "measurement" rather than "evaluation," and "business plan" rather than "grant proposal." The literature included the writings of foundations and other funding bodies practicing venture philanthropy, academics explaining the philanthropic model, and practitioners describing their experiences with venture philanthropists. Also prominent were arguments from those who debated the merits of the approach.

As it continues to do today, the literature has also attempted to identify and define the characteristics of entrepreneurial organizations. The literature suggests that most organizations that viewed themselves as entrepreneurial focused on sustainability, capacity-building, efforts to strengthen leadership and organizational capabilities, and their tolerance for risk.

During this period, writings reflected efforts among practitioners to quantify social outcomes beyond financial gain, with the addition of theories and processes to account for the benefits and true costs of social enterprise, often called Social Return on Investment (SROI). Another noteworthy development during this period was the use of new media, especially the Internet, to disseminate information about current thought and practice, and to aid in the distribution of publications and materials.

Some prominent contributors during this period who remain vocal in the field today are: thought leaders Jed Emerson and Bill Shore; academics Beth Anderson, Alan Andreason, Greg Dees, Christine Letts, Sharon Oster, William Ryan, and Dennis Young; venture philanthropists and funders Kristin Majeska, Mario Morino, Tom Reis, Edward Skloot, and Melinda Tuan; and consultants Samantha Beinhacker, Jeffrey Bradach, Stephanie Clohesy, Andrew Horsnell, Rolfe Larson, Cynthia Massarsky, and Warren Tranquada. Leadership has also come from nonprofit organizations such as Community Wealth Ventures, Brody-Weiser-Burns, NESsT, and Seedco; and from funding entities such as Social Venture Partners International and the Roberts Enterprise Development Fund (REDF).

Researching and Collecting Data on Social Enterprise. Prior to the late 1990s, there was very little concrete data collected on social enterprise, and most of what was collected was purely anecdotal. One of the earliest efforts was a 1982 survey conducted by James Crimmins and Mary Keil (1983), two researchers who were eager to learn about the income-producing activities of small- to medium-sized nonprofit organizations. Their book, *Enterprise in the Nonprofit Sector* (Crimmins and Keil, 1983), examined key success factors of nonprofit enterprise in the early 1980s.

Following publication of the Crimmins and Keil book, however, there was little organized research and data collection until New York University initiated the Institute on Nonprofit Entrepreneurship (INE) as part of its Center for Entrepreneurial Studies, which focused on corporate venturing and the parallels between private-sector and

---

[2] The New Economy is defined here as globalization and innovations in information technology.

nonprofit-sector businesses. One of INE's mandates was to conduct research on social enterprise and, through a relational database, display quantitative data that would describe the universe of nonprofits engaged in income-generating activities.

INE's research, trainings, and conferences made important contributions to the sector, but in spite of its organized effort, the Institute was not successful in constructing the database. Like others, INE was able to generate useful anecdotal information, but was unable to capture reliable quantitative data because the sector lacked standard metrics and criteria for analyzing social enterprise, and because there were huge variations in the way nonprofits reported their activities.[3] After about 10 years, INE ceased operations.

The First Nonprofit Consulting Firm Appears on the Scene. At about the same time that NYU created INE, the Rockefeller Brothers Fund—the grantmaker that initiated the Crimmins and Keil book—was also instrumental in jump-starting a nonprofit consulting firm called New Business Ventures for Nonprofit Organizations, or "New Ventures" as it was more commonly known. Based in New York City, home to hundreds of nonprofit organizations, New Ventures was founded in 1980 and run by Edward Skloot,[4] a former assistant to the Mayor of New York City. The firm was the first of its kind to work exclusively with income-generating nonprofit organizations.

New Ventures' mission was to help nonprofits investigate potential businesses and learn the mechanics of operating them, with the goal of generating revenue to support their mission-driven programs. The consulting firm was supported through grants from independent foundations and corporate giving offices, as well as through client fees-for-service, which were frequently paid by third-party independent foundations. In fact, New Ventures' existence was so dependent on grantmakers that it was not unusual for the firm to help potential nonprofit clients obtain foundation dollars that would ultimately fund its own consulting work.

New Ventures clients included nonprofits of various sizes and sub-sectors, from Planned Parenthood to The Children's Art Carnival in Harlem. The firm grew to seven people and earned about 50 percent of its revenue, but nonprofits were slow to pay their bills, marketing was difficult at best, and foundation funding was beginning to wane. After nine years of operating, New Ventures closed its doors. It was not until five years later that a firm with more than one or two consultants entered the social enterprise marketplace.

Workshops on Earning Income Make Their Debut. During the 1980s and early 1990s, it was common for associations and other membership organizations to sponsor workshops on earned income. From time to time, some grantmakers offered these for their grantees as well. The workshops were typically half- or full-day events that covered the key aspects of the topic including: the history of nonprofit ventures, legal and tax ramifications for venturing nonprofits, and types of enterprises that nonprofits can create, as well as the "how-tos" for brainstorming ideas, conducting

---

[3] Perhaps the greatest barrier to creating the database was that nonprofits differed widely in the way they accounted for profit and loss.

[4] Ed Skloot is the current executive director of the Surdna Foundation, also based in New York City.

research and feasibility studies, writing business plans, and generating financial support for start-up. Participants typically left these rather intensive sessions armed with more information than they could handle, but also with a better sense of whether revenue generation was something their organizations could and would pursue.

An increase in the number of workshops for large numbers of people was mostly in response to the prohibitive costs of providing one-on-one consulting and a way to educate as many nonprofits as possible. Yet many consultants struggled with the notion that this was truly an effective way to share their expertise, believing that nonprofits might not really benefit from their knowledge since they were training such large groups. They worried further that the participants might not be the best at relaying what they had learned to their colleagues, since the volume of the material was so great and the details often complicated. They also knew that, in casting their nets widely, they would have to speak in generalities and rarely to the very specific needs of the participants and their particular business ventures. This method proved frustrating to nonprofits and the consultant trainers as well.

Slowly but Surely, the Number of Social Enterprises Begins to Grow[5].
Nevertheless, an increase in the number and types of supports for nonprofits interested in earning income were indicative of the growing number of forward-thinking nonprofits that were exploring and creating ventures. Early on, there were a few highly creative organizations that ventured out beyond the norm—groups like public television's Sesame Street that licensed educational toys and stuffed animals based on the characters in its series; the Denver Children's Museum that developed corporate-sponsored traveling exhibits, publications and special events; and the Bronx Frontier Development Corporation that marketed Zoo Doo, a deluxe fertilizer for houseplants and gardens, to Bloomingdale's and zoos around the country.

But these organizations were not representative of all nonprofits engaged in social enterprise and it became clear that social enterprise was not appropriate for many organizations. Some learned this the hard way, by moving forward and failing, and often losing significant money and their good reputation as well. Others had trouble getting the go-ahead from a board of directors, were concerned about paying unrelated business income tax and losing nonprofit tax status or had differences of opinion on structuring and governing the new enterprise. There were issues around finding sufficient time and expertise to test the feasibility of a venture and to plan for it in advance of start-up, arguments around potentially differing pay scales for the staff of the business versus the parent organization, and obstacles in integrating the culture and requirements of business with those of the nonprofit.

Yet in spite of the many barriers that nonprofit entrepreneurs faced, it appeared that a stronger and wider base of social enterprises was forming. Virtually all types and sizes of nonprofit organizations were entering the social enterprise arena, many with very creative ventures that reflected a long list of categories and business types. Emerging ventures were in areas as diverse as manufacturing and environment and

---

[5] The reference to an increasing number of social enterprises is based on anecdotal information, since only a few attempts had been made to count the number of social enterprises and these efforts proved either unsuccessful or unreliable.

technology, and they operated on a multitude of platforms in locations around the globe.

Word of Nonprofits in Business Reaches the Media. By the mid-1980s, the media began to pay a bit more attention to nonprofits and their business ventures, but mostly in the form of special interest stories that highlighted the more creative ventures of individual organizations, rather than reports on the growing trend. Articles appeared in traditional media targeting nonprofits (for example, *The Chronicle of Philanthropy*) and uncustomary places (for example, *Harvard Business Review*). A handful of alternative publishers that encouraged the subject were evident too, with books such as *The Nonprofit Entrepreneur* by Edward Skloot (published by The Foundation Center), *Filthy Rich and Other Nonprofit Fantasies* by Richard Steckel (published by Ten Speed Press), and *Something Ventured, Something Gained: A Business Development Guide for Non-Profit Organizations* by Laura Landy (published by the American Council for the Arts). Articles in the national press and local newspapers appeared occasionally as well.

At this stage in its development, social enterprise was moving along at a slow but steady pace. A very small but dedicated group of people were concentrating a significant portion of their work on the subject. Academics, practitioners, consultants and, to a certain extent, funders were all, in fact, laying the groundwork for social enterprise to tip.

Five Community Leaders Lay a Solid Foundation
for Social Enterprise

The first big idea leading to the tipping point for social enterprise came in 1998, when six nationally known leaders emerged from within the community of income-generating nonprofits to form a network to support the emerging movement.

Jerr Boschee, Jed Emerson, Gary Mulhair, John Riggan, Bill Shore, and Richard Steckel believed it was time to gather together the practitioners and consultants who were passionate about the subject, and look at creating an organization that would represent the small but growing number of them. They convened a three-day meeting in Colorado Springs, named it the National Gathering for Social Entrepreneurs, and invited nonprofit entrepreneurs to join together for the first time and discuss best practices, share knowledge, and advocate for a national nonprofit social venture agenda.

More than 200 people gathered, an astounding number in fact, to participate in a variety of activities. By the end of their time together, these entrepreneurs had voted to create an association that would operate on a virtual basis to "encourage support for not-for-profit organizations and their for-profit enterprises that employ earned income strategies to achieve social objectives and to attract other such organizations to this means of service" (Social Enterprise Alliance website, accessed Oct. 18, 2005).

This was the point when a critical mass of people had convened and said, in essence, that they were putting their stakes in the ground and designing a structure that would oversee and guide their work. A board of directors was formed and an agenda was set for activities that were to begin at once. The time was right to form an association.

Additional Infrastructure Supports Nonprofits Engaged in Social Enterprise

As the National Gathering found its direction and gathered momentum in the late 1990s, more and more nonprofit organizations considered a foray into the business world. This was prompted, in great part, from an increase in "chatter" on the subject. The chatter was reinforced at the National Gathering's annual conferences, at local workshops on the subject, and by a growing presence of information on the World Wide Web. But perhaps what influenced this chatter the most was the state of the U.S. economy.

Cutbacks in government spending continued without any sense that they would subside. Foundation investment portfolios weren't doing well but competition among nonprofits for funding was growing stronger by the day. Many people suggested that the private sector should pick up the slack, but corporations were experiencing their own set of problems and weren't about to increase their giving in any significant manner. Everyone was looking for a way to make ends meet, and nonprofit organizations were no exception. It was clear to many nonprofit leaders that they were going to have to find alternative methods for generating revenue to support their mission-based programs. Some also thought that in doing so, they might realize additional benefits as well.

As the country faced this downturn in the economy, it also began to pay more attention to entrepreneurship and the history of growth in the small business sector. Many believed that entrepreneurial activity was the answer, that ultimately it would bring greater wealth to the country. Entrepreneurship was the new buzz word. For nonprofits, this translated—at least in part—to social enterprise.

Consultants Carve Out a Niche in Social Enterprise. The resurgence of nonprofit interest in the potential of social enterprise added another layer to the foundation of what would become the social enterprise movement. Nonprofit demand for advice about social enterprise that was customized to their organizations was the only impetus that the consulting industry needed to forge ahead.

Citing the opportunity to move into a growing marketplace, both independent consultants and established consulting firms began offering consultant services to nonprofit business start-ups. These principals, entrepreneurs in their own right, were primarily interested in consulting with nonprofits, and wanted to target those that were in need of this specialized advice. Several of them had been schooled in business and management but differed from their colleagues at McKinsey and Bain and the Boston Consulting Group because they wanted to apply their business acumen to businesses that would help make the world a better place in which to live.

This small but growing band of advisors generated contracts mostly through word-of-mouth, references from clients and grantmaking foundations, and flyers handed out at guest lectures or workshops they gave to educate the masses and do a bit of marketing at the same time. They researched and wrote business plans for nonprofit clients, frequently with only minimum contact with the organization until the work was completed.

Fundraising for start-up operations and the job of implementing the business plan were the client's responsibility. These were usually accomplished without the assistance of the consultant, since by that time there was rarely additional funding available to pay his/her way. This, of course, meant that many a business plan lay dormant on the shelves for some time, awaiting funding or, worse yet, a new project champion who would move the new venture forward. In these earlier days, it appeared as if nonprofits were interested in income generation only out of desperation, and that they wrote their business plans as a fail-safe method to obtain funding. Unfortunately, funding didn't come easily then (nor rarely does it still), for funding social enterprise resonated with only a small number of forward-thinking foundations and corporate grantmakers.

Consultants also experienced the sudden grinding-to-a-halt of all plans for a new venture, often within just a few weeks of receiving the business plan. In these cases, it was as if the nonprofit got cold feet—as if the reality of the impending venture had sunk in and scared off everyone—or, more likely, that a board member or two had not paid close enough attention earlier on and were now raising serious objections despite their previous "buy-in" to the process.

As for the cases where the plan did go forward, rarely was any thought given or succession plan made for the potential departure of the project champion. Consultants saw many a new venture fade into distant memory because a project champion was pulled away to another task or left the organization altogether.

__More Publications Hit the Shelves and the Internet.__ By the late 1990s, the field saw an increase in the number of publishers, publications, and websites on the subject of social enterprise.[6] This infrastructure-building activity was consistent with the steady growth in the number of consultants and consulting firms, and added another layer onto the foundation of the social enterprise movement. Rarely would a month go by without an article on the subject, a new book on the shelves, or a listserv or bulletin board devoted to the practice of social enterprise. "How-to" books were back in vogue, but this time they covered nonprofit business planning in greater depth.

Plans were on the drawing board for specialty newsletters and magazines, most notably Stanford's *Social Innovation Review, Changemakers Journal, Cause and Effects, Cause Marketing Today, Social Enterprise Magazine Online, CASEconnection, The Social Enterprise Reporter,* and *Worthwhile Magazine.* Bulletin boards such as *The Enterprising Voice* started up, to offer nonprofits the opportunity to post questions online and receive thoughtful answers from other practitioners and experts in the field.

Taken together, these infrastructure-builders helped to catapult social enterprise into the 21st century.

Three Well-Known Institutions Take on the Social Enterprise Challenge

In spite of all this attention to social enterprise, no significant qualitative or quantitative data had yet been collected. There were no national statistics to report on

---

[6] Here, too, there is no specific data on the numbers of publishers, publications, and websites. But thought leaders and practitioners knew anecdotally that the numbers in these categories were increasing.

the number of nonprofits that had initiated earned income ventures and no information other than anecdotes about the quality of their experiences or the benefits they derived. A lot of people were active, and although many of them joined together at the National Gathering's annual conferences, no one had a reliable count of the number of current or potential social enterprises, why nonprofits were venturing, the benefits they derived, and what their plans were for the future.

And then, just before 2000, a program officer at The Pew Charitable Trusts began to think in earnest about nonprofits and earned income. She noticed that the Foundation was receiving a significant number of proposals to support the start-up of nonprofit ventures, and was eager to find an efficient way to respond to the requests. Independently, she had been reading about universities that held business plan competitions for their students, and making a connection from this observation to the proposals she was receiving, wondered if a business plan competition might have some value for the nonprofit sector.

With a reference from a mutual acquaintance, Pew called to ask my opinion on the concept. I knew instinctively that this was another "big idea"—and perhaps just the one that was needed to "tip the scales" for social enterprise.

Although it was possible to encourage the framing of a program right then and there, I suggested instead that the Foundation conduct a feasibility study to measure the level of interest in a business plan competition for nonprofit organizations. I knew that a survey would also afford the opportunity to capture data that had not been collected before—to generate more grist for the social enterprise mill.

The researchers received a strong response to the survey. Some 519 nonprofits, in fact, responded to a grassroots viral marketing campaign and completed an electronic survey that resulted in thousands of data points about the practice of social enterprise. About two dozen foundations, consultants, and thought leaders weighed in too, and gave a "thumbs-up" to the concept of a business plan competition that would confer financial and consulting awards on social enterprises that presented the greatest opportunities for success.

The study revealed much about the demographics of nonprofit entrepreneurs— their motivations for venturing, the status of their ventures, the benefits they derived, and the impact of their ventures on their organizations and constituents.[7]

But, equally important, Pew and its researchers learned there was a strong and growing marketplace for social enterprise and that a significant percentage of the target audience was interested in competing in a business plan competition. They learned that a competition would, in fact, be an ideal mechanism for nonprofits to learn about social enterprise and potentially capitalize their businesses. It would provide a disciplined methodology for business planning, generate widespread communication about what it takes to succeed in social enterprise, and even bring new talent to the field. In providing feedback to all its entrants, a business plan competition would help nonprofits to start or grow their enterprises and, at the same time, discourage those for

---

[7] For a report of the findings, readers are encouraged to see "*Enterprising Nonprofits: Revenue Generation in the Nonprofit Sector*"by Cynthia W. Massarsky and Samantha L. Beinhacker, (Yale School of Management—The Goldman Sachs Foundation Partnership on Nonprofit Ventures, 2002), available for download at www.socialreturns.org.

whom income generation might not be appropriate.

With this information in hand, Pew moved forward and asked Samantha Beinhacker, the other researcher, and me to prepare an operations plan for the competition and other activities in which the organization would engage. The Yale School of Management agreed to serve as the home for the competition, with a $3 million grant from Pew to run the program.

The program needed a second funder and during the course of the feasibility study, we had learned about The Goldman Sachs Foundation and its interest in business plan competitions. After several conversations between the three partners, The Goldman Sachs Foundation agreed to finance the remaining portion, and the Yale School of Management—The Goldman Sachs Foundation Partnership on Nonprofit Ventures and its National Business Plan Competition for Nonprofit Organizations were born.

This program promised to be a groundbreaking opportunity to educate nonprofits about social enterprise, provide financial capital to seed the most promising profit-making ventures, and help build the practice of social enterprise in the nonprofit sector at-large. The organization's premise was that neither financial nor intellectual capital alone would provide all the supports necessary for nonprofit venturing, but rather that it would take a combination of the two to help ensure success.

The Event That Tipped the Scales

By the spring of 2001, most of the necessary conditions were in place for social enterprise to reach its tipping point:

■ There was growing discontent and frustration among nonprofit organizations in having to rely solely on fundraising-based strategies to support their mission-based activities.

■ A critical mass of committed leaders from reputable nonprofits framed the issue, carved out their niche, and positioned social enterprise as an area worthy of exploration and adoption by those for whom it was appropriate.

■ A new vocabulary emerged that put muscle behind the concepts and reinforced key messages.

■ A constant and increasing flow of nonprofits were engaging successfully in social enterprise, and a mounting number of others were ready to explore it.

■ Nonprofit practitioners, enlightened funders, academia, and consultants specializing in earned income had organized to form an association—the National Gathering for Social Entrepreneurs—whose membership continued to build at a rapid rate.

■ The annual meeting of the National Gathering, conferences sponsored by other organizations, websites, listservs, workshops, and print and electronic publications fueled the social enterprise engine, and provided ongoing opportunities for like-minded people to gather, network with one another, and learn.

■ Media attention in print, electronic, and broadcast formats kept social enterprise and social entrepreneurship in public view.

■ The number of independent consultants and small consulting firms specializing in social enterprise was on the rise, signaling a growing demand by nonprofits for their advice and expertise. Attorneys and accountants with a specialty in nonprofits and

earned revenue appeared on the scene as well.

■ A slow but steady increase in grant monies to support social enterprise and social entrepreneurship revealed a potential new program area for independent foundations. There was activity at REDF, the Skoll Foundation, Omidyar Foundation, Case Foundation, Rhode Island Foundation, Surdna Foundation, Alcoa Foundation, and Great Bay Foundation, as well as among social investment groups, such as members of Social Venture Partners International and Venture Philanthropy Partners.

■ Colleges and universities, in the United States and abroad, responded to student interest and several incorporated social enterprise tracks in their student-based business plan competitions. Business students, especially those at the graduate level, were demanding coursework in social enterprise and entrepreneurship, and faculty were beginning to specialize in the subject too.

■ The leadership of hundreds of nonprofit organizations—large and small, old and newly formed—was visibly and successfully maintaining a collective action in support of social enterprise.

In Gladwell's terms, the social enterprise epidemic was spreading incrementally. And then there came "that one dramatic moment in the epidemic when everything changed all at once" (Gladwell, 2002, p. 9).

This moment, this activity—the launch of The Partnership on Nonprofit Ventures and the more than 600 nonprofits that entered its first Business Plan Competition– "tipped the scales" for the social enterprise movement. In essence, the commission of a study on social enterprise by one of the largest independent foundations in the country, coupled with its extraordinary findings, served as a beacon that gave legitimacy to the practice of nonprofit venturing. The subsequent announcement of a business plan competition provided the sector at-large with a platform for thoroughly researching and planning for their new business ventures.

The Partnership on Nonprofit Ventures and its National Business Plan Competition tipped the scales for social enterprise because these events incorporated key ingredients that had heretofore been missing—a forum, open to all nonprofits, for evaluating new business ideas; a reliable format and proven process for business planning; the opportunity for extraordinary nonprofits to gain significant visibility and to secure financial capital to help move their ventures forward; and the reputation and power of three strong brands to manage operations and communicate the message. The Competition and the activities associated with it gave a clear signal to those either directly or tangentially involved in social enterprise to "go public" with their interests and participate as fully as possible.

Significant numbers of people and institutions came forward after the launch of The Partnership, supporting this idea that social enterprise had reached its tipping point:

■ Three highly successful National Business Plan Competitions attracted a total of more than 1,500 entrants, a stable of more than 1,200 evaluators and judges who provided customized, written feedback for all entrants, and some 35 consultants assisted 60 Competition finalists on-site to perfect their business plans and presentations for the final rounds of the 2003, 2004, and 2005 Competitions.

■ Three million dollars in cash and post-consulting services were awarded to 24 social enterprises.

■ Three spectacular Annual Conference and Awards Ceremonies registered more than 1,400 people, including more than 110 speakers and master class presenters of note, such as Senator Bill Bradley, former Procter & Gamble CEO John Pepper, and Loews Hotels Chairman and CEO Jonathan Tisch.

■ The Partnership and its Competition encouraged groundbreaking research and data on the social enterprise field, produced a seminal book on nonprofit enterprise, *Generating and Sustaining Nonprofit Earned Income: A Guide to Successful Enterprise Strategies* (published by Jossey-Bass/Wiley), and generated widespread acclaim for the National Business Plan Competition and resource-rich website in top print, broadcast and electronic media.

The Social Enterprise Movement is on a Roll

The launch of The Partnership and its Business Plan Competition were followed by a succession of events that have kept the social enterprise movement front and center. Associations such as the Alliance for Nonprofit Management, and schools such as NYU and Stanford University, have devoted entire tracks at their conferences to the topic of social enterprise and entrepreneurship.

In August of 2002, the National Gathering merged with the nonprofit SeaChange[8] to form the Social Enterprise Alliance (SEA). With the new organization in place, plans were drawn up for more efficient operations, approaches to sponsors for supporting infrastructure, and new partnerships that would bring more value to membership and additional revenue to support operations.

SEA worked with the consulting firm Community Wealth Ventures to create a database of social enterprisers and the organization designed a teleconference series to highlight lessons learned. The association started npEnterprise, its official listserv, and the Enterprising Voice, a bi-weekly update of news from the field, and instituted QuikPolls, brief surveys of the social enterprise community. SEA developed a partnership with Fundraisers.com, an expansive distribution channel for selling the products and services of nonprofit enterprises, and joined with Palo Alto Software to create customized business planning software for nonprofits.

Still others like the Great Bay Foundation have sponsored workshops for both newcomers and the experienced who sought to bring their ventures to scale. The Foundation Center—a publisher, library, and training ground for nonprofit organizations—created and marketed its first-ever workshop series on social enterprise and has scheduled numerous workshops throughout the country in 2006.

During this past year, more than a dozen independent consultants and small firms devoted to nonprofit enterprise have found a steady stream of clients to serve. More than 50 faculty from colleges and universities around the globe have stood up to declare their growing interest in the subject, initiated research studies on social entrepreneurship, and are developing new curricula as well.

---

[8] SeaChange was founded in 2000 to facilitate transactions initiated by social investors who wanted to provide capital and collaboration to nonprofit entrepreneurs.

Students, at both the graduate and undergraduate level, are seeking to learn more about place-based social enterprise, and are surveying nonprofits in specific geographic locations. At Brown University, for example, one student partnered with The Rhode Island Foundation and Social Venture Partners of Rhode Island to conduct a survey among nonprofits in their state. Another graduate student at the University of Southern Maine is doing a similar study in that state.

Although still unquantified, the number of nonprofits involved in enterprise continues to grow, with some ventures based at nonprofit organizations that have been in operation for years, and others that are brand new but want to build an earned income component into their operations from the start. There are ventures whose primary customers are other nonprofit organizations, such as DARTS, a vehicle maintenance repair shop that serves nonprofits looking to maintain their fleet of busses for the handicapped and the elderly. There are nonprofits working together in enterprise, such as CostumeRentals, which is a joint venture of the Guthrie Theatre and the Children's Theater Company of Minneapolis. And there are enterprises based in the United States but operating in other countries, such as the Scojo Foundation, a company that uses a micro-enterprise model to sell affordable reading glasses to people in India.

The movement is bustling with activity, and the nonprofit sector appears all the better for it.

Conclusion

It's not entirely clear what the future holds for nonprofits in this country and abroad, whether they will be able to sustain their organizations in tight economies and, if so, the role that social enterprise might play in the process. But we do know that to continue in this trajectory, it is critical to gain a better understanding of social enterprise, particularly as it relates to nonprofit organizations. And so there are several steps we can take to strengthen our position.

1. Practitioners can document the strategies they design and implement for their earned-income activities, as well as quantify the results and assess their impact, so that they will have ready access to benchmarks and other information to better chart their course, increase their potential for success, and garner support from others in the future.

2. Researchers, including those in academia, can devise a methodology to take a census of the population and gather and analyze a myriad of data on social enterprise, so that the sector and those that support it can have a better understanding of what it takes to succeed, recognize the signs that suggest when it may not be appropriate to venture, articulate and measure the impact it has had across organizations and enterprises with varied demographics and characteristics, and inform public policy.

3. Students interested in learning about social enterprise can stand up and be counted. They can make their voices heard so that they, too, can reap the benefits of the knowledge gained by practitioners, researchers, and academics through a course of study designed to educate, inform, and prepare them for a potential career in the field.

4. Consultants and technical assistance providers can find a systematic way to share with researchers and practitioners what they have learned from working with

nonprofits and social enterprise, so that the field will have key information to leverage additional help and guidance that is provided to nonprofit organizations, their boards of directors, and the funders who support and evaluate them.

5. Publishers and reporters in print, broadcast, and electronic media can design methods for tracking the social enterprise movement and provide materials that are accessible to all key stakeholders to inform and grow the field.

I hold steadfast to the belief that social enterprise represents a vehicle for a significant number of nonprofits to build the capacity of their organizations and move towards self-sufficiency.

Clearly, the nonprofit organizations that make up this third sector are steadfast, too, in achieving their missions. These nonprofits encompass groups of talented individuals who are both resilient and entrepreneurial in nature—who are adept at finding solutions to the world's problems even though it means taking some risks and venturing where traditional markets will not go. Nonprofits understand that their work is important, and they understand how to get it done. We look forward with great anticipation to the next chapter in the evolution of the social enterprise movement, and to what it has in store to make the world a better place for all. As such, I have created a new nonprofit organization, SocialReturns, Inc., to build on the successes of the Yale School of Management—The Goldman Sachs Foundation Partnership on Nonprofit Ventures. [9]

Postscript

SocialReturns' mission is to educate people about social enterprise and social entrepreneurship, and help innovative nonprofit, philanthropic, and private sector organizations build their entrepreneurial skills and use them to affect positive and lasting social change. SocialReturns' goals are to increase the intellectual and financial capacity of organizations considering or engaged in social enterprise, and enable university-based faculty, students, and alumni to systematically engage in and advance the study and practice of social enterprise and entrepreneurship worldwide. To realize its mission and goals, SocialReturns focuses on two primary activities:

■ **The Social Enterprise Business Plan Competition**
The Social Enterprise Business Plan Competition will instruct organizations, particularly nonprofits, on the elements of business planning–on what it takes to operate a successful enterprise–so that, if appropriate for them, they can generate mission-based revenue and, in many cases, provide job training and employment opportunities to their constituents as well. In addition, the competitions will identify "best in class" and provide financial capital to seed and grow the most promising ventures, as well as to leverage additional monies and resources for them.

---

[9] SocialReturns, Inc., is based in part on the National Business Plan Competition for Nonprofit Organizations, formerly under the auspices of the Yale School of Management—The Goldman Sachs Foundation Partnership on Nonprofit Ventures. I served as the founder and co-director of The Partnership, which concluded its programming in September 2005 after its third and final business plan competition.

■ **The University Consortium on Social Enterprise and Entrepreneurship**

The University Consortium on Social Enterprise and Entrepreneurship is a collaboration of university faculty, researchers, and students—a virtual network that will build a body of knowledge and systematically engage in and advance the social enterprise and entrepreneurship movement by sharing information and best practices, coordinating research projects, developing curricula, authoring joint publications, and providing a greater number of learning opportunities and applications for students and the nonprofit community overall. In just three months' time, the University Consortium has attracted and registered faculty from more than 50 academic institutions worldwide.

References

Crimmins, J. & Keil, M. (1983). *Enterprise in the Nonprofit Sector.* New York: The Rockefeller Brothers Fund.

Dees, Gregory J. (2001). *The Meaning of "Social Entrepreneurship."* Durham: Duke University.

Dees, Gregory J. (1998), *The Meaning of Social Entrepreneurship* (Working Paper). Kauffman Center for Entrepreneurial Leadership.

Gladwell, M. (2002). *The Tipping Point.* New York: Little, Brown and Company—Back Bay Books.

http://encyclopedia.laborlawtalk.com/Gay_rights_movement (October 18, 2005).

http://www.se-alliance.org/about_history.cfm (October 18, 2005).

Massarsky, C & Beinhacker, S. (2002). *Enterprising Nonprofits: Revenue Generation in the Nonprofit Sector.* New Haven: Yale School of Management—The Goldman Sachs Foundation Partnership on Nonprofit Ventures.

McAdam, D. & Snow, D. (Eds.), (1997). *Social Movements: Readings on Their Emergence, Mobilization, and Dynamic.* Los Angeles: Roxbury Publishing Company.

WordNet 2.0. (2003). Princeton, NJ: Princeton University.

Zimmerman, B. & Dart, R. (1998). *Charities Doing Commercial Ventures: Societal and Organizational Implications.* Toronto: CPRN and Trillium Foundation.

UNDERSTANDING THE IMPACT OF SOCIAL ENTREPRENEURS: ASHOKA'S ANSWER TO THE CHALLENGE OF MEASURING EFFECTIVENESS

Noga Leviner
Leslie R. Crutchfield
Diana Wells

For 25 years, Ashoka has supported leading social entrepreneurs by investing in them and connecting them to a global community of their peers. Today's Ashoka Fellowship consists of more than 1,600 social entrepreneurs in 60 countries working in every area of human need – from health care and education, to civil justice and the environment. Ashoka has no religious or political affiliation and receives funding primarily from individuals, volunteer chapters, foundations, and business entrepreneurs.

Social entrepreneurs play a unique role in creating world change. They are distinguished from other citizen sector leaders[1] by their long-term focus on creating wide-scale change at the systemic level. This type of change is often difficult to measure. Many of the methodologies designed to assess impact in citizen sector organizations today focus on easily-quantifiable figures such as financial ratios or programmatic outputs. Such metrics emphasize financial stability and other "hard" organizational factors that lend themselves to quantitative measurement. But these measures miss what Ashoka considers to be the most important and meaningful product of a social entrepreneur's work—systemic social change over time.

Ashoka developed the Measuring Effectiveness (ME) program in 1997 to better understand the progress of its social entrepreneurs toward systemic social change. The cornerstone of the program, the Measuring Effectiveness annual survey, is designed to track the progress of cohorts of Ashoka Fellows over time. This self-response survey is

---

[1] Ashoka employs the term "citizen sector" to refer to what is commonly known in the United States as the nonprofit sector. Other labels include voluntary, civil society, non-governmental (NGOs), and the "third sector." The challenge with many of these terms is that they define the sector in terms of what it is not, i.e., in the United States, "nonprofits" are so-labeled to distinguish them from profit-producing entities. Abroad, "non-governmental" organizations are distinguished from the state. And the term "voluntary" may imply that the participants are unpaid, a misnomer given that in the United States alone, the citizen sector employs up to 12.5 million people—more than all state and local governments combined.

distributed among groups of social entrepreneurs at the five- and 10-year anniversary of their Ashoka Fellowship. The survey employs a group of *proxy indicators* which track data that can be aggregated across widely divergent fields of work and organizational strategies; examples of some of the *proxy indicators* include the frequency with which the Fellows' work has been replicated by other organizations, and the level of influence that Fellow has had on public policy. To complement the broad strokes painted by the results of these surveys, Ashoka staff carry out case studies with a sub-set of the surveyed Fellows to obtain more in-depth, qualitative information.

The ME survey's *proxy indicators* are closely linked to Ashoka's Fellow selection process, which enables staff and peers to make qualitative assessments of candidates' potential by applying five rigorous selection criteria. This front-loaded selection process is the chief mechanism that Ashoka employs to screen social entrepreneurs at the early stages of their work, and is designed to select only those candidates who are highly likely to achieve wide-scale systemic change in the long term. The ME program is thus a tool that is useful both for tracking the Fellows' progress toward systemic change and for measuring Ashoka's ability to successfully identify leading social entrepreneurs at the launch stage.

This article explores in depth the Measuring Effectiveness program, focusing on the annual global Fellowship survey and accompanying case studies. The article begins with an overview of recent trends in social entrepreneurship and select milestones in performance measurement in the U.S. citizen sector. The article then offers definitions of social entrepreneurship and systemic change that have been developed by Ashoka during its 25 years of investing in and supporting the field. It goes on to present the Ashoka Measuring Effectiveness methodology and includes sample results from the first six years of survey implementation. Ashoka continues to refine its ME approach each year, but proposes that its current methodology provides a useful first solution to the challenge of tracking large groups of social entrepreneurs' progress toward systemic change over time.

Context: Trends in Citizen Sector Growth and Performance Measurement

The citizen sector, often referred to as the nonprofit sector in the United States, is expanding around the globe. Consider that in the United States alone, it encompasses more than 1.3 million organizations and is growing rapidly; citizen organizations grew faster than the Gross Domestic Product from 1983 –1998, with the equivalent of 30,000 new organizations created each year (Lowell, 2001). Internationally, the rise and growth of citizen organizations reflects a similar trend. In the 22 countries studied by Johns Hopkins University, citizen organizations now employ 19 million workers and engage the equivalent of another 10 million full-time volunteers. As Salamon (2000) observes, "Few developments on the global scene over the past three decades have been as momentous as the recent upsurge in private, nonprofit, voluntary, or civil society organizations. We are in the midst of a 'global associational revolution,' a massive expansion of structured citizen activity outside the boundaries of the market and the state."

With the growth of the citizen sector has come an increased focus on measuring organizational effectiveness and ensuring accountability. In the U.S. context, factors

contributing to this trend include increasing pressure on government managers to demonstrate results because of the recent Government Performance and Results Act (Salamon, 2002), and heightened scrutiny in response to visible scandals such as the conviction of United Way's Bill Aramony in the 1990s. As many established foundations and some high net-worth individuals increasingly emphasize the outcomes of their donations, sub-industries have emerged to support this trend. In the United States, consider the launch in 1997 of the foundation affinity group, Grantmakers for Effective Organizations (GEO), and the creation in 2000 of the Center for Effective Philanthropy. New institutions such as these have helped further the development of methodologies to evaluate performance and measure impact, building on earlier contributions by Drucker, the W.K. Kellogg Foundation, and others who built influential frameworks for measurement in the sector (Drucker 1990, Patrizi 1998). The focus of the recently-developed methodologies has moved toward assessment of outcomes (such as the rate by which teenage pregnancy has been reduced) and away from measurement of programmatic outputs (such as number of clients served or number of sites opened). Independent Sector, a nonprofit membership organization, asserts that outcomes assessment was new to most private nonprofit organizations as recently as 2001 (Morely, 2001).

The recent rise of venture-style philanthropy has also influenced the outcomes-assessment debate. Venture philanthropists adapt commercial venture capital and investment industry techniques to the challenge of supporting and growing nonprofit organizations. The U.S. venture philanthropy wave gained real momentum after *Harvard Business Review* published in 1997 the article, "Virtuous Capital," which provided side-by-side comparisons of philanthropic foundation and venture capitalist approaches to funding organizations. In "Virtuous Capital," Letts et al. suggest that some of the advantages of the for-profit venture capitalists' approach include longer investment time horizons (typically seven years rather than two to three), closer relationships with "investees," and a focus on building capacity to deliver goods and services, rather than funding individual programs (Letts, 1997). Subsequent reports published by Venture Philanthropy Partners (2000) have tracked the development of this emerging field.

Table 1

Select Venture Organizations Supporting Social Entrepreneurs	Year Founded
Ashoka	1980
Echoing Green	1987
Avina Foundation	1994
Roberts Enterprise Development Fund	1997
Social Venture Partners (Seattle)	1997
New Profit, Inc.	1998
New Schools Venture Fund	1998
Omidyar Network	1998
Schwab Foundation for Social Entrepreneurship	1998
Skoll Foundation	1999
Venture Philanthropy Partners	2000

The trend toward venture-style investing has contributed to heightened interest in social entrepreneurship in the United States, as venture philanthropists seek entrepreneurial nonprofit "investees" who can maximize the value of their donations through increased social change on regional, national, and even international scales. Toward this end, venture philanthropists have employed new sets of tools to track the impact of social entrepreneurs. In one prominent example, Kaplan's balanced scorecard brings together several performance indicators and consolidates them into a single measurement tool, which is useful in measuring progress towards an organization's mission. However, the balanced scorecard largely serves as an internal management tool rather than as a mechanism for assessing external impact (Clark, 2003).

REDF's Social Return on Investment (SROI) strategy presents another pioneering approach to the challenge, one that involves assigning quantitative values to qualitative indicators of social change. The application of SROI has many challenges; for instance, REDF includes as inputs to the SROI formula, "social outcomes of ordinarily difficult-to-monetize measures of social value, such as increases in self-esteem and social support systems, or improvements in housing stability" (REDF, 2005). Monetizing intangible factors such as self-esteem is both extremely time- and resource-intensive, and is vulnerable to faulty valuation, among other drawbacks (Clark, 2003).

In the more recent Digital Era, a spate of internet-based platforms has provided potential donors with easily-accessible information about tax-exempt groups that they might fund. Examples of such websites include Charity Navigator, GEXSI, Global Giving, and Guidestar. These groups use data gleaned primarily from organizations' IRS Forms 990 to provide largely quantitative data analyses designed to illustrate the efficiency and effectiveness of charities through financial ratios. They score each charity relative to peer organizations based on these ratios, offering conclusions such as organizations with relatively low administrative-to-program expense ratios are preferable to donors. Given that the scores are published with limited explanation, "this approach can cause more harm than good" (Lowell, 2005). Websites such as these are not well-suited to address questions of programmatic effectiveness and external societal impact.

The difficulty of measuring effectiveness of any citizen organization is well-documented (Sawhill 1999, Salamon 2002). The field of social entrepreneurship, in particular, presents a specific set of challenges (Kramer 2005). The approaches outlined above offer a helpful array of measurement tools, which have limited usefulness when applied to the challenge of measuring systemic change over time. The following sections explore in greater depth the problems inherent to impact-assessment in the field of social entrepreneurship, and present Ashoka's solution to the challenge.

Social Entrepreneurship as Systemic Change: Ashoka's Definition

To fully understand the complexities of evaluating the progress of social entrepreneurs, it is first necessary to understand the complexities of defining the term. Ashoka's founder, William Drayton, first coined the phrase "social entrepreneurship," a concept for which he later received a MacArthur Foundation Fellowship (commonly known as the "genius" grant). For Drayton and Ashoka, the term social entrepreneur describes an individual who conceives of, and relentlessly pursues, a new idea designed

to solve societal problems on a very wide scale by changing the systems that undergird the problems. This definition includes two critical components. First, the entrepreneur must seek to create impact on a wide societal scale; he or she will not rest until the new idea has been broadly adopted at the national and even international level. Second, the entrepreneur must seek systemic change, defined as the fundamental reform of existing societal systems and/or the creation of new ones. The theory of entrepreneurship as systemic change is traced by Dees to Schumpeter, who says the entrepreneur's main function in society is to, " '…reform or revolutionize the pattern of production…by producing a new commodity or producing an old one in a new way…by reorganizing an industry and so on'" (Dees, 1998).

Drayton provides the following description of the role that social entrepreneurs play in society: "The job of a social entrepreneur is to recognize when a part of society is stuck and to provide new ways to get it unstuck. He or she finds what is not working and solves the problem by changing the system, spreading the solution and persuading entire societies to take new leaps. Social entrepreneurs are not content just to give a fish or teach how to fish. They will not rest until they have revolutionized the fishing industry." Drayton founded Ashoka because he believes that the most powerful force for change in the world is a new idea in the hands of a leading social entrepreneur (Ashoka, 2005).

Drayton's definition of social entrepreneurship varies from others used in the field. In the past two decades, social entrepreneurship (as Ashoka defines it) has sometimes been conflated with "social enterprise"—the activities in which social-purpose organizations engage to generate revenue through earned-income. While social entrepreneurs may employ revenue-generating strategies, every individual who leads a social enterprise is not necessarily a social entrepreneur as Ashoka defines the term.[2]

The label "social entrepreneur" has also been applied to any citizen who launches a new organization. Again, under Ashoka's definition, this is a misnomer. Dees' reference to Drucker illustrates the concept that, "Not every new small business is entrepreneurial…there is nothing especially innovative or change-oriented in "a husband and wife who open another delicatessen store or another Mexican restaurant in the American suburb" (Dees, 1998). Likewise, Ashoka would not qualify as a social entrepreneur someone who launches a single charter school per se, but would consider someone to be a social entrepreneur if she is creating an entire network of charter schools positioned to reform the existing public education system.

A Case Study for Measuring Systemic Change

To measure the impact of a social entrepreneur, Ashoka seeks to capture progress toward systemic social change in a way that standard descriptions of output, expansion, or financial sustainability do not. The case of U.S. Ashoka Fellow J.B. Schramm,

---

[2] While Ashoka recognizes that social entrepreneurs may operate social enterprises, Ashoka's policy is only to select and fund Fellows who operate nonprofit (tax-exempt) entities. Ashoka holds this policy because a wide array of highly-developed institutions exist to support for-profit entrepreneurs; whereas this is not true for the nonprofit sector—let alone for nonprofit social entrepreneurs—where the social capital markets are far less efficient.

elected to the Ashoka Fellowship in 2000, highlights the difficulties of accounting for systemic change.

Through his organization, College Summit, Schramm connects low-income high school students with college-going potential to institutions of higher education that otherwise might not recruit and accept them. In so doing, College Summit is changing the underlying dynamics of the college-admissions system by creating a new marketplace designed to close the gap between the estimated 200,000 low-income students who are college-capable, and the nation's many college and universities seeking capable students who contribute to the socio-economic and racial diversity of their student bodies.

College Summit targets high school juniors who are "better than their numbers." These students have grades and standardized test scores that fall below national averages, but achievements in non-traditional areas—those typically overlooked by universities—that together create a promising overall profile. The students attend a four-day "college summit," in which trained volunteers guide them through the college application process. In one workshop, students learn how to craft college entrance essays that highlight personal attributes emphasized in college admissions criteria, such as strong leadership skills and personal ethics, which they demonstrate in non-traditional venues. For instance, a College Summit student may not have excelled in after-school volunteer activities like his more privileged peers, but may instead have advanced in a paying job while helping his mother care for younger siblings at night and on the weekends. Students learn to frame their backgrounds and experiences to best express their strengths in ways which admissions offers will understand. College Summit then shares the results with colleges and universities that have sponsored college summits, providing them with a more robust package of information about a pool of low-income, high-potential candidates.

College Summit quantifies its own impact as follows: More than 10,000 students have attended College Summit's workshops in its first 10 years, including 1,200 who traveled to 30 colleges and universities for this purpose in 2005 alone. Seventy-nine percent of students attending these workshops have enrolled in college, compared with the national average of 46 percent for low-income populations on the whole (College Summit, 2005). Beyond this, the 20 percent of students attending workshops from a single graduating class inevitably shift the discourse about college attendance among their peers, becoming coaches for fellow students.[3] Although no statistics are available, anecdotal evidence indicates an increased rate of college attendance among these peers of College Summit students (Bornstein, 2004).

While important, these numbers fall short of describing what Ashoka considers the "systemic" component of Schramm's work. The College Summit approach creates a shift in the U.S. college-admissions system by introducing a new "market" for underprivileged students (Bornstein, 2004). Schramm addresses both the supply and the demand sides of the equation: On the supply side, College Summit works with low-income students who are college-capable to help them create personal profiles

---

[3] College Summit recently formalized this program that assists College Summit alumni to serve as peer leaders who guide classmates though the college application process.

which provide better, more targeted information of interest to colleges. On the demand side, College Summit establishes relationships with many of the nation's colleges and universities that seek applicants who hail from low-income and other diverse backgrounds, enabling them to more accurately identify and understand the capabilities of applicants who are "better than their numbers" make them appear. Schramm has convinced college admissions officers from 30 selective schools to change their very admissions policies, each supplementing traditional admissions data with materials that more adequately represent college-capable students from low-income backgrounds. These universities fund "College Summits" on their campuses not out of charity, but because it is in their own interest to do so.

By building a new market that matches demand with supply, Schramm is *changing the system* for college admissions and creating a lasting pathway for low-income students to attend college. His work alters a college admissions process that might otherwise continue to discriminate (unintentionally) against college-capable students from low-income backgrounds. In so doing, Schramm is reducing inequality, advancing educational opportunity, and increasing social justice in this country—social impacts that are of paramount importance to society, but difficult to quantify.

Ashoka's Methodology for Assessing Systemic Change: The Selection of Social Entrepreneurs

Ashoka's approach to assessing progress toward systemic change is rooted in its process for selecting social entrepreneurs into the Ashoka Fellowship. Ashoka engages fellowship candidates in a rigorous five-step selection process that begins with a nomination and ends with approval by Ashoka's international board of directors. Between these two steps, local Ashoka representatives thoroughly research each candidate's background and work, and local social entrepreneurs as well as an experienced Global Ashoka representative extensively interview the candidate. By the time someone is named an Ashoka Fellow, he or she has already passed through a thorough screening process and Ashoka has confidence that he or she is among the world's top social entrepreneurs.

Much of Ashoka's "evaluation," therefore, happens during a front-loaded process based on five fundamental criteria reviewed below. While the selection criteria for this process are well-defined, the application of the criteria is inherently judgment-based. No simple set of quantifiable "indicators" or "measures" are used to define a candidate. Instead, the process is structured such that several groups of experienced individuals come to a consensus on the likelihood that a particular candidate will successfully change history.

Ashoka's selection process relies on a set of five criteria. Two of the five criteria—those most relevant to this discussion on measuring impact—reflect Ashoka's definition of social entrepreneurship:

Criterion #1—Systems-changing new idea: This is the cornerstone of any candidacy for the Ashoka Fellowship. In the example above, J.B. Schramm's idea for College Summit represents a systems-changing new idea, involving the creation of an entirely

new market—providing low-income students access to a college education while giving colleges a new pool of the high-potential, low-income students they seek.

Criterion #2—Potential for social impact: Ashoka is only interested in ideas with the potential to significantly change the practices of a particular field and to trigger nationwide or broad regional/international adoption. For instance, Ashoka Fellow Don Shalvey, through his organization, Aspire, is transforming the California public school system by building clusters of charter schools in targeted urban areas. By grouping a critical mass of high-performing educational institutions in under-performing districts, Aspire's goal is to create such a groundswell of demand for excellent education that it forces the existing system to improve in order to compete for students. Shalvey's model is designed to create a "tipping point" that results in local, state, and national school reform. The potential impact is not predicated on a new type of school, but on a strategy that will allow Aspire to reach deeply into America's existing urban public school districts with improved education.

Ashoka's remaining three selection criteria are designed to assess characteristics of the social entrepreneur as an individual, rather than as predictors of expected outcomes:

Criterion #3—Creativity: Successful social entrepreneurs must be creative both as goal-setting visionaries and in the implementation of their problem-solving ideas. This criterion begs several questions: Does the individual have a vision of how he or she can meet some human need better than it has been met before? Is it his or her own idea? Does he or she have a history of creating new solutions to problems?

Criterion #4—Entrepreneurial quality: Entrepreneurial ability is the defining characteristic of world-class venturers. It characterizes leaders who see opportunities for change and innovation and devote themselves entirely to making that change happen. These leaders pursue their visions with a single-minded intensity and are willing to devote 10 to 15 years of their lives realizing historical change.

Criterion #5—Ethical fiber: As social entrepreneurs introduce major structural changes to society, they must convince many people to alter their behavior. If the entrepreneur is not trusted, the likelihood of success is significantly reduced.

Ashoka's Methodology for Assessing Systemic Change: The Measuring Effectiveness Study

In 1997, Ashoka formalized its impact-tracking methodology to account for the progress of the social entrepreneurs engaged in its Fellowship and to understand trends in the sector around the globe. By extension, Ashoka's ME tool also provides a means of tracking the progress of Ashoka as an organization that supports social entrepreneurs. The ME program is comprised of a two-part evaluation tool designed to track the social change created by Ashoka's Fellows in both the short- and long-terms. The first part of the tool, still in its early stages of implementation, measures short-term impact, and is conducted via biannual reports submitted by the social entrepreneurs themselves on progress made against benchmarks mutually agreed upon at the start of their Fellowship.

This short-term component of the ME program reflects Ashoka's ultimate belief that the measure of progress toward systemic change will vary for each entrepreneur's work. Moreover, as entrepreneurs change their strategies, confront unexpected barriers, and succeed in novel ways, only self-defined measures can allow the appropriate flexibility. Though clearly useful, project-specific indicators have many drawbacks.[4] Most critically, individually-tailored metrics cannot be aggregated or compared across groups of social entrepreneurs or over time. Ashoka resolves this dilemma with a second tool on which the remainder of this paper will focus.

The second measurement tool, the cornerstone of Ashoka's ME work, is explicitly designed to allow for comparison across fields and over longer time horizons, and to do so without sacrificing the systemic component of an entrepreneur's work. This balance is particularly difficult to strike because, as shown through JB Schramm's story, numbers alone cannot encapsulate systemic change; only complementary stories can illustrate such complex shifts. But impact assessment must go beyond story-telling, as stories cannot be aggregated and easily compared across time, space, and diverse activity. To resolve this dilemma, Ashoka developed two additional components to its ME program: 1) an annual survey containing "proxy indicators," which is distributed to cohorts of Ashoka Fellows at either their five- or 10-year post-election date, and 2) a series of case-study interviews with a subset of survey respondents.

To measure how widely a social entrepreneur's impact has spread, Ashoka's proxy indicators address factors such as number of times the idea has been adopted by independent groups and the level to which the idea has been implemented through public policy at local, state or national levels. To measure strength of the social entrepreneur's institution, data is requested about the funding, governance, and staff levels of the organization, among other measures. And to evaluate the influence the entrepreneur has achieved in terms of the overall system or field, indicators such as policy change are collected. Ashoka uses the following core set of specific proxy indicators in its measuring effectiveness survey:

■ *Proxy indicator: Are you still working toward your original vision?*

Ashoka selects social entrepreneurs with a lifelong commitment to their vision for the future. Continued dedication signals a Fellow's ongoing effort to spread a new idea or practice in society, and his or her relentless pursuit of that vision.

■ *Proxy indicator: Have others replicated your original idea?*

Replication is not the *only* sign that an idea has spread, but it is *one* indication that an idea has taken root. Social entrepreneurs who succeed on this front have moved beyond their direct impact to influence the way other groups in society approach a social problem. Ashoka asks Fellows to report on the metrics that correspond to this replication, whether the number of organizations, sites, or individuals that have adopted the practice.

■ *Proxy indicator: Have you had impact on public policy?*

Changes in government policy signal the adoption of a Fellow's idea in the public

---

[4] Kramer notes that most organizations supporting social entrepreneurs "track progress against a set of pragmatic and project-specific goals" (Kramer 2005).

sphere. Existing systems in most societies can be broadly reformed through policy change. Ashoka asks Fellows to specify in which level of government they have instituted this change – local, state/regional, or national.

■ *Proxy indicator: What position does your institution currently hold in the field?*

A strong institution that is recognized as a leader in its field effectively provides permanent status in society for a Fellow's idea and creates the base from which that idea will spread.

Ashoka recognizes that simple qualitative data collected in response to survey questions such as those listed above do not offer a comprehensive answer to the challenge of measuring the results achieved by social entrepreneurs, particularly in the realm of systemic change. Therefore, as mentioned above, Ashoka conducts in-depth case studies of a cross-section of surveyed Fellows to better understand their effectiveness. These case studies emphasize the level of systemic change and the extent of its spread, offering qualitative information which complements the aggregated quantitative data culled from the surveys.

Measuring Effectiveness Survey Results

This section presents results from Ashoka Measuring Effectiveness surveys conducted between 1998 and 2004, and from the complementary case studies. Response rates to the annual surveys averaged 83 percent for Fellows responding at the five-year post-election point, and 68 percent for Fellows at the 10-year post-election point.[5] The total sample includes 164 Fellows five years post-election and 149 Fellows 10 years post-election. The five-year study data presented are a composite of results from surveys conducted in 1998, 2000, and 2002; the 10-year study data are a composite of surveys conducted in 1999, 2001, and 2003.

The Idea: Ashoka Fellow Continues Working Toward Original Vision

5 Years Post-Election   10 Years Post-Election

■ 6%   ■ 17%

□ 94%   □ 83%

□ Still working toward vision
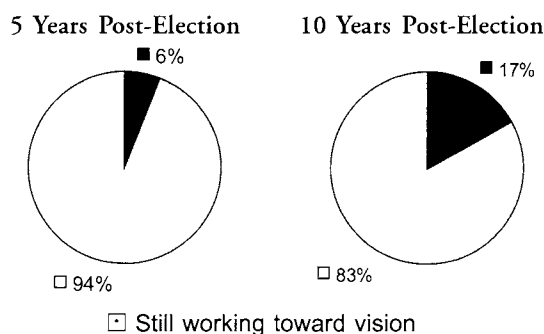
Fellows continue working toward their goals in different ways. The following examples illustrate two avenues:

■ Ashoka Fellow Suraiya Haque founded the organization Phulki to prove to Bangladeshi factories that opening childcare facilities could be profitable. Her vision from the start was to eventually transfer the responsibility for childcare services to the
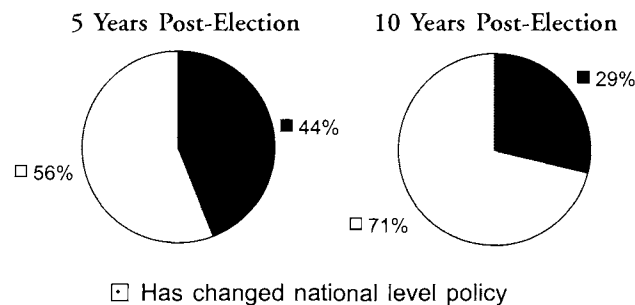
---

[5] The response rates for individuals still in contact with the Fellowship are 97 percent for five-years post election and 70 percent for 10-years post election. The most common reasons for loss of contact with Fellows include death, ethical concerns, and career changes.

factories, rather than to position her organization as the full-time, long-term service provider. To achieve this goal, Haque mobilized financial and other resources from the multiple stakeholders with vested interest in the system, including: garment manufacturer executives and managers, mothers working in the garment factories, garment buyers, funders, and government agencies. Leveraging the participation and support from each of these players, Haque helped factory owners to create and sustain profitable in-factory child care centers, and in so doing demonstrated that such centers actually improve the bottom-line by reducing worker absenteeism. As demand for her model has risen, Haque now consults with other Bangladeshi factory owners who wish to implement her program.

■ When elected to the Ashoka Fellowship in Africa, Halidou Ouédraogo was launching a national organization designed to empower the citizens of Burkina Faso to protect their own human rights. This institution continues to thrive, but Ouédraogo has shifted his focus to another systemic problem underlying the failure of African human rights work. Over the past years, he has built a pan-African coalition of more than 40 human rights groups to address the problem of reliance on western-based organizations to achieve human rights goals.

Policy Change
Have you contributed to policy change on the national level?

5 Years Post-Election   10 Years Post-Election

☐ 56%   ■ 44%   ■ 29%   ☐ 71%

⊡ Has changed national level policy

Again, influence on national-level policy takes a variety of forms:

■ Fellow Halidou Ouédraogo again provides a dramatic example of a social entrepreneur impacting society through policy change. While creating new social institutions to facilitate grass-roots monitoring of human rights abuses, he also has developed a significant public policy component to address systemic problems, such as Burkina's requirement that all criminals receive mandatory sentences. In 1984, Ouedraogo contributed to changes in Burkina's sentencing laws, introducing legislation that now allows for flexibility in sentencing. In 1990, Ouédraogo helped draft Burkina Faso's new constitution, which eventually was ratified and adopted by the government. And in 1997, Halidou was involved in the codification of laws regulating violence against women.

■ Slovakina Ashoka Fellow, Michal Kracík, launched "Water for the 3rd Millennium" in 1993 with the goal of introducing a structured process for community participation in decision-making concerning local water issues. His approach was adopted by the Slovak government as part of the state's official water management policy in 1994.
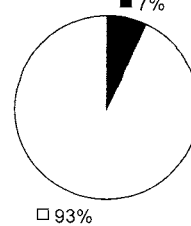
Independent Replication

Has your work been replicated by an individual or group that you did not lead?

5 Years Post-Election   10 Years Post-Election

■ 18%   ■ 7%

□ 82%   □ 93%
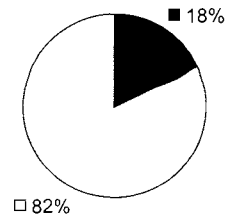
☐ Idea has been independently replicated

Like the indicators above, strategies for replication differ across fellows:

■ Brazilian Ashoka Fellow Vera Cordero's organization, ACSR, has replicated its medical treatment model in 14 public hospitals (11 in the Rio de Janeiro area and the remaining three in other Brazilian states) by establishing a network of sister organizations. ACSR supports the network through capacity-building workshops, information exchange, and sharing of key contacts; ASCR also occasionally provides fundraising support, but each sister organization is an independent organization. Approximately 20,000 people have been served through the network of ASCR and its sister organizations.

■ Brazilian Ashoka Fellow Celia Destri's organization, AVERMES, helps its clients obtain legal redress for losses suffered as the result of medical malpractice or inadequate services in state-operated clinics and hospitals. One of the organization's strategies has been to attract major media attention, and its success in leveraging the media has led to growing public awareness of its work. As a result, at least five new organizations in other parts of Brazil are now pursuing similar missions.
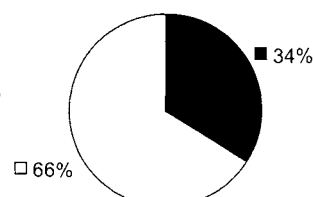
Institutional Status

Which of the following applies to your institution?
1) The institution is recognized as a leader in its field.
2) The institution still exists but faces major challenges.
3) The institution has ceased to exist.

5 Years Post-Election   10 Years Post-Election

■ 46%   ■ 34%

□ 54%   □ 66%
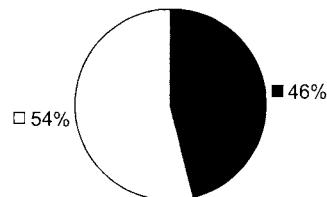
☐ Institution is considered a leader in the field

■ An example of a Fellow's institution that is considered a leader in the field is Ismael Ferreira's APAEB, which covers 15 towns, with a total population of approximately 450,000 inhabitants, 65 percent of whom still live in the countryside (in accord with the institution's goals). With revenues of $7 million and 980 workers

directly employed, APAEB is not only the second-largest employer in Valente but has transformed the economy of the region where an estimated 500,000 people depend on sisal. Seven-hundred-fifty farmer families are members of APAEB and about 2,000 sell sisal fibers to the association. Overall, APAEB has contributed to reducing migrations to urban centers and has greatly improved farmers' incomes and livelihoods in the region. It has become a leading model for all rural development organizations in Brazil.

■ An example of an institution that has ceased to exist because its work is "done": Fellow Beaulah Thumbadoo's strategies to promote literacy in South Africa through her organization ERA (Everyone's Reading in Africa) were adopted by the national government after a period of tireless lobbying. In the ensuing years, Beaulah dissolved ERA and has worked as an advisor to the government to improve implementation of her ideas.

Continued Challenges to the Measurement Framework

Ashoka's Measuring Effectiveness (ME) approach has several continued challenges in both its design and implementation. The first challenge, the use of proxy indicators, is discussed above. This design answered a need to apply a single set of measures across a broad range of ideas and fields—a common challenge for the field (Kramer 1995)—while tracking the efficacy of Ashoka's selection criteria in the process. Such generality, while useful, sacrifices descriptive value, a problem only somewhat alleviated by the case study component. Other challenges include the following:

■ Irregularities in the survey's implementation over time: The ME report summaries include data collected from surveys conducted over six years in more than 20 countries. The questionnaire was refined slightly through the years. Also, while most Ashoka Fellows were contacted and responded via e-mail, a portion responded to survey questions over the phone or in person.

■ Translation: With Ashoka Fellows speaking dozens of languages, there are inevitable distortions in the survey questions and responses received through the filter of translation to English. (Surveys and case-study interviews are conducted in the Fellows' native language, then the survey results and case studies are translated to English for aggregation and synthesis by staff in Ashoka's global headquarters in Arlington, Va.)

■ Self-reported results: Fellows self-report on their progress in both the survey and case-study portions of the study (although the case study includes some elements of outside research). Ashoka explicitly encourages Fellows to respond honestly to the questions, emphasizing that the study is designed to evaluate Ashoka's impact on the field rather than their individual success, and that results will not affect the Fellow's relationship with Ashoka. Some of the survey bias is mitigated by the fact that, at the five- and 10-year-post election point, Fellows are no longer eligible to receive financial assistance.

■ Internal process: Ashoka staff from around the world execute all steps of the Measuring Effectiveness project from design to analysis. This study is not, therefore, equivalent to an external audit of the organization's impact. Instead, it is serves as an internal learning tool for Ashoka to understand and communicate its broader impact on civil society worldwide.

■ Sample bias: The figures presented in the preceding section represent a broad, but not necessarily representative, sample of the total Ashoka Fellowship. Biases inherent in the self-reporting sample include: 1) Attrition, reflected in the number of Fellows who lose contact with or become inactive members of the Ashoka Fellowship over time, and 2) Response rate, as it relates to the self-selected sample of Fellows who respond to the survey.

Conclusion

The field continues searching for more effective means of assessing the work of social entrepreneurs in a manner that is sufficiently valid and rigorous, but also consistent with the spirit and dynamism of their work toward systemic social change. The existing strategies, such as ratings systems based on financial and other quantitative indicators, do not meet these needs. As Kramer (2005) notes, "The hope that philanthropic performance could be boiled down to a single number and compared across different objectives remains tantalizing in its field, but none of our interviewees believes that this goal [is] yet within reach."

Based on its 25 years of experience identifying and supporting social entrepreneurs worldwide, Ashoka has created a system for assessing the wide-scale, systemic impact that social entrepreneurs seek to create. Its usefulness is based first on a front-loaded assessment process that applies five carefully refined criteria in a robust process of interviews, discussion, and research. The system incorporates flexible indicators of systemic change that can be tracked over time. The use of these proxy indicators, complemented by qualitative case studies, provides a viable and resource-efficient method for tracking social entrepreneurs' creation of systemic change—one that affords a long-term view of change and a basis for comparison across time and distinct programs, without sacrificing the core belief that measuring effectiveness must include measuring systemic change.

As the citizen sector grows and social entrepreneurship becomes an increasingly important force for world change, the questions of accountability and measuring impact will only become more urgent. Ashoka is committed to refining its Measuring Effectiveness program and believes that, through continued creative exploration, the field will develop measurement tools which capture systemic change while avoiding the pitfalls of resource-intensiveness and stifling, bureaucratic reporting requirements. Ultimately, measurement can be useful only if it fulfills its function without hampering programmatic progress, and thus distracting social entrepreneurs from their ultimate goal–achieving wide-scale systemic social change.

References

Ashoka Official Website. www.ashoka.org (December 5, 2005).

Bornstein, D. (2004). *How to Change the World: Social Entrepreneurs and the Power of New Ideas.* Oxford: Oxford University Press.

Center for Effective Philanthropy Official Website.
http://www.effectivephilanthropy.com/about/about_timeline.html
(January 26, 2006).

Clark, C., Rosenzweig, W., Long, D., Olsen, S. (2004) Double Bottom Line Project Report: Assessing Social Impact in Double Bottom Line Ventures. *The Rockefeller Foundation.*

College Summit Official Website: Results and Awards.
http://www.collegesummit.org/resres.html (December 6, 2005).

Dees, J. G. (1998). The Meaning of Social Entrepreneurship. [Online]
http://www.fntc.info/files/documents/
The%20meaning%20of%20Social%20Entreneurship.pdf.

Drucker, P. F. (1990). Managing the Non-Profit Organization. New York: HarperCollins.

Grantmakers for Effective Organizations Official Website.
http://www.geofunders.org/index.cfm?fuseaction=Page.viewPage&pageId=2
(January 26, 2006).

Morely, E., Vinson, E., Hatry, H.P. (2001). Outcome Measurement in Nonprofit Organizations: Current Practices and Recommendations. A project collaboration between Independent Sector and The Urban Institute. Washington, D.C.: Independent Sector.

Kramer, M. (2005). Measuring Innovation: Evaluation in the Field of Social Entrepreneurship. *A Publication for Skoll Foundation by Foundation Strategy Group.*

Letts, C., Ryan, W., Grossman, A. "Virtuous Capital: What Foundations Can Learn from Venture Capitalists." *Harvard Business Review.* March, 1997.

Lowell, S., Silverman, L., Taliento, L. Not-for-Profit Management: The gift that keeps on giving. *McKinsey Quarterly.* Number 1, 2001.

Lowell, S., Trelstad, B. & Meehan, B. The Ratings Game. *Stanford Social Innovation Review,* Vol. 3, No. 2, Summer 2005.

Patrizi, P., McMullan, B. 1998. Evaluation in Foundations: The Unrealized Potential. Battle Creek, MI: W.K. Kellogg Foundation Evaluation Unit.

REDF Official Website. www.ref.org (December 5, 2005).

Salamon, L. (2002) *The State of Nonprofit America.* Washington, DC: Brookings Institution Press.

Sawhill, J. (1999). Mission Impossible? Measuring Success in Nonprofit Organizations. Washington, D.C.: The Nature Conservancy.

Venture Philanthropy 2000: Landscape and Expectations (2000). *Produced for the Morino Institute Youth Social Ventures by Community Wealth Ventures, Inc.*
http://www.vppartners.org/learning/reports/report2000/report2000.html
(December 5, 2005).

SOCIAL ENTERPRISE IN THE UNITED STATES AND ABROAD: LEARNING FROM OUR DIFFERENCES

Janelle A. Kerlin

For over two decades, social enterprise movements in and outside the United States have taken on growing importance. Broadly defined as the use of non-governmental, market-based approaches to addressing social issues, social enterprise has become an increasingly popular means of funding and supplying social initiatives around the world. Yet while the trend and its ultimate objectives are similar, there remain vast differences in the conceptualization of social enterprise among different world regions. These differences stem from contrasting forces shaping and reinforcing the movement in each region. To date, little has been written comparing and contrasting American and international conceptions of social enterprise, resulting in difficulty communicating on the topic and missed opportunities to learn and build on foreign experience. Research has found that while *definitions* of social enterprise tend to vary within world regions themselves, even broader divisions exist among regions in terms of *understanding, use, context*, and *policy* for social enterprise. This chapter compares and contrasts the conceptualization and context of social enterprise in the United States and Western Europe and examines the forces shaping and reinforcing the movement in each region.

Contrasting Definitions of Social Enterprise

United States. The concept of social enterprise in the United States is generally much broader and more focused on enterprise for the sake of revenue generation than definitions elsewhere. This remains true even when considering the definitional divide in the United States between academics and practitioners. In U.S. academic circles, social enterprise is understood to include those organizations that fall along a continuum from profit-oriented businesses engaged in socially beneficial activities (corporate philanthropies or corporate social responsibility) to dual-purpose businesses that mediate profit goals with social objectives (hybrids) to nonprofit organizations engaged in mission-supporting commercial activity (social-purpose organizations). For social-purpose organizations, mission-supporting commercial activity may include only revenue generation that supports other programming in the nonprofit or activities that simultaneously generate revenue and provide programming that meets mission goals

such as sheltered workshops for the disabled (Young, 2001, 2003a). This broad definition is consistent with how business schools at leading American universities understand social enterprise (Dees, 1994, 1996, 1998).[1] This definition is also used by many social enterprise consulting firms who advise nonprofits and for-profits alike on social enterprise development.[2]

However, outside academia and consulting firms, much of the practice of social enterprise in the United States, termed as "social enterprise," remains focused on revenue generation by nonprofit organizations (specifically those registered as 501(c)(3) tax-exempt organizations with the United States Internal Revenue Service). For example, the *Social Enterprise Magazine Online* defines social enterprise as, "Mission oriented revenue or job creating projects undertaken by individual social entrepreneurs, nonprofit organizations, or nonprofits in association with for-profits." The Social Enterprise Alliance, a national membership organization, more narrowly defines it as, "Any earned income business or strategy undertaken by a nonprofit to generate revenue in support of its charitable mission." Moreover, foundations sponsoring projects in the area of social enterprise tend to focus more on the nonprofit side.[3] In some circles, due to the academic use of the phrase that includes business-based charitable activities, the nonprofit type of social enterprise is distinguished by using such phrases as: nonprofit social enterprise, nonprofit enterprise, nonprofit ventures or enterprising nonprofits.

Western Europe. In Western Europe, the concept of social enterprise is roughly drawn along the same divide but with variations within the two streams of thought and less distinction between practitioners and academics. One school of thought stresses the social entrepreneurship dynamic developed by firms who seek to enhance the social impact of their productive activities. In this line, the literature often highlights the innovative approaches to tackling social needs that are developed as businesses are fostered (Grenier, 2003), mainly through nonprofit organizations but also in the for-profit sectors (Nicholls, 2005). In this latter case, this idea has to do, at least partially, with the 'corporate social responsibility' debate.

Another stream limits the analysis to the field of social enterprises belonging to the third, or not-for-profit, sector and includes social cooperatives (Nyssens and Kerlin, 2005). This understanding of social enterprise is being developed by university researchers and scholars cooperating in the Emergence of Social Enterprise in Europe

---

[1] See also, for example, websites of the Social Enterprise Initiative at the Harvard Business School, the Center for the Advancement of Social Entrepreneurship at Duke University's Fuqua School of Business, and the Research Initiative on Social Entrepreneurship at the Columbia Business School. There are also a few business schools and social enterprise consultants that choose to focus solely on nonprofits. For example, the Yale School of Management—The Goldman Sachs Foundation Partnership on Nonprofit Ventures and Seattle Social Enterprise Consultants.
[2] For example, Community Wealth Ventures, The Social Enterprise Group, Origo Social Enterprise Partners.
[3] Examples include the Venture Fund Initiative of The Rockefeller Foundation; the *Powering Social Change* report funded by Atlantic Philanthropies and the David and Lucile Packard Foundation; projects of the Roberts Enterprise Development Fund, a philanthropic program of The Roberts Foundation; and the *Enterprising Nonprofits* report commissioned by The Pew Charitable Trusts among others.

(EMES) Research Network.[4] The research effort is, among other things, establishing a social enterprise "ideal type" with the understanding that social enterprises not precisely adhering to the "ideal type" characteristics are still nonetheless included in the sphere of social enterprise. According to EMES, the defining characteristics of the social enterprise "ideal type" include:

    1) A continuous activity producing goods and/or selling services;

    2) A high degree of autonomy;

    3) A significant level of economic risk;

    4) A minimum amount of paid work;

    5) An explicit aim to benefit the community;

    6) An initiative launched by a group of citizens;

    7) A decision-making power not based on capital ownership;

    8) A participatory nature, which involves the persons affected by the activity; and

    9) Limited profit distribution (Defourny, 2001, pp. 16-18).

In comparing the two approaches to social enterprise, the U.S. nonprofit definition does not allow any profit distribution while the European definition allows at least some, mainly due to the inclusion of cooperatives. Also, social enterprise in Europe is viewed as belonging to the 'social economy,' where social benefit is the main driving force.[5] In the United States, the concept of a social economy is not used and nonprofit social enterprises are often discussed as operating in the market economy.

Different countries in Western Europe focus more or less on the two trains of thought just outlined, with the term "social enterprise" at times associated with a very specific set of services. In the United Kingdom, the central government's Department of Trade and Industry (DTI) defines social enterprise as "businesses 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" (DTI, 2004). Also in the United Kingdom, the West Midlands Social Economy Partnership (WMSEP) defines social enterprise as "a collective term for an organization that is driven by particular social and community values, whilst aiming to operate effectively and sustainably within a competitive business framework i.e., helping the community as well as maintaining a viable business" (WMSEP, 2004).

In Belgium, as in a number of European countries, social enterprise has a dual meaning. The first meaning generally speaks to service organizations that are developing commercial activities. The second refers to those cooperatives or associations with initiatives specifically "aimed at the occupational integration of people excluded from the labour market" (Defourny and Nyssens, 2001, p. 47). This second definition stems from the specific social service need around which social enterprises have developed in Europe, which associates them with *employment-creating*

---

[4] The EMES Project begun in 1996, conducts research on social enterprise in European Union countries with funds from the European Commission. It is the basis for the European EMES Network that annually holds international conferences on social enterprise in Trento, Italy.

[5] The social economy in Europe mainly consists of the following types of organizations: cooperatives, mutual organizations, associations, and foundations (OECD, 2003).

initiatives. This common definition is most closely aligned with the American academic concept of a social-purpose organization whose programming for participants includes activities that simultaneously generate revenue. In Europe, social enterprises of this type come in a variety of forms including employee development trusts, social firms, intermediate labor market organizations, community businesses, or charities' trading arms (OECD, 2003, p. 299).

As suggested by the EMES definition, social enterprise in Europe, as opposed to in the United States, involves some work or *participatory contribution by those benefiting from the programming.* For example, cooperatives are commonly understood as a basic type of social enterprise and it appears their inclusion has influenced the overall direction of the definition. This European emphasis on *participation also extends to the management* of the social enterprise. Governing bodies are made up of a diverse group of stakeholders that may include beneficiaries, employees, volunteers, public authorities, and donors, among others. What sets them apart is their use of a formal democratic management style that is not a requirement of social enterprise in the United States (Defourny, 2001). Indeed, Young and Salamon state, "In Europe, the notion of social enterprise focuses more heavily on the way an organization is governed and what its purpose is rather than on whether it strictly adheres to the nondistribution constraint of a formal nonprofit organization" (2002, p. 433; see also Borzaga and Santuari, 1998). Multi-stakeholder cooperatives, as a distinct form of cooperative, are becoming increasingly popular in Europe and are even recognized in some national level legislation (Münkner, 2003; Levi, 2003; Lindsay et al., 2003).[6]

As this comparison of American and European definitions shows, the term social enterprise means different things in the two regions. In Europe, with the exception of the United Kingdom, social enterprise has generally come to mean a social cooperative or association formed to provide employment or specific care services in a participatory framework. In the United States, it generally means any type of nonprofit involved in earned-income-generation activities. Though the United States has numerous worker cooperatives that are similar to European social cooperatives, these entities are not generally included in the American definition of social enterprise.

It is interesting to note that international organizations caught in the middle, due to their work on both sides of the Atlantic, choose either the American or European definition of social enterprise rather than a synthesis of the two. For example, social enterprise is defined by the international Organization for Economic Cooperation and Development (OECD) as "any private activity conducted in the public interest, organized with entrepreneurial strategy, but whose main purpose is not the maximization of profit but the attainment of certain economic and social goals, and which has the capacity for bringing innovative solutions to the problems of social exclusion and unemployment" (OECD, 1998, p. 12). On the other hand, a recent Counterpart International report outlining its experience with social enterprise

---

[6] For example, in Italy, the 1991 Law 381 established the social cooperative with three main categories of share/stakeholders: lending or funding members (65 percent), beneficiary/user members (5 percent), and volunteer members (20 percent) (Thomas, 2004). France also recently introduced the Sociétés Coopératives D'Intérêt Collectif with a multi-stakeholder strategy (see Lindsay and Hems, 2004).

development in the Ukraine (a project funded by the United States Agency for International Development 1997-2002) defines social enterprise as "a generic term for a nonprofit business venture or revenue-generating activity founded to create positive social impact while operating with reference to a financial bottom line" (Alter, 2002, p. 5).

Historical Factors Promoting and Shaping Social Enterprise

Definitional differences stem from the different contexts in which the concept of social enterprise developed in Western Europe and the United States. These historical factors help explain why the U.S. field emphasizes revenue generation, while in Europe, the revenue generation activity is combined with work or participatory activity of program beneficiaries.

United States. In the United States, the use of commercial activities by nonprofits to support mission-related activities has been in practice from the very beginning of the country, when religious and community groups held bazaars and sold homemade goods to supplement voluntary donations (Crimmins and Keil, 1983). The term *social enterprise*, however, was first developed in the 1970s to define business activities nonprofits were starting as a way to create job opportunities for disadvantaged groups (Alter, 2002).

The expansion of social enterprise as a defined concept in the United States began when nonprofits experienced cutbacks in government funding on which they had grown to rely. Starting with The Great Society programs of the 1960s, the federal government invested billions of dollars in poverty programs, education, health care, community development, the environment, and the arts. Rather than create a large bureaucracy, many of these funds were channeled through nonprofits operating in these areas, which in turn, spurred the expansion and creation of more organizations (Young, 2003b; Salamon, 1995; Hodgkinson et al., 1992). Responding to an economic downturn in the late 1970s, the 1980s brought welfare retrenchment and large cutbacks in federal funding resulting in the loss of some $38 billion for nonprofits outside the healthcare field (Salamon, 1997).

Nonprofits seized on social enterprise as a way to fill the gap left by government cutbacks, dramatically expanding the use of nonprofit commercial activity (Crimmins and Keil, 1983; Young, 2003b; Eikenberry and Kluver, 2004). As Salamon states, "Between 1977 and 1989, nearly 40 percent of the growth of social service organization income…came from fees and other commercial sources" (1993, p. 24). Along with this expansion, the term evolved to take on the broader meaning of almost any kind of commercial activity undertaken in the pursuit of social goals. Thus, in the United States, at least initially, existing social service nonprofits took on social enterprise activities as a way to finance the provision of services already in place, with the result that social enterprise is often a separate, usually outside activity supporting a broad range of social services.

Data from the National Center for Charitable Statistics at The Urban Institute suggest that social enterprise continues to be on the rise in the United States. Using a database of financial information that nonprofits file with the U.S. Internal Revenue

Service, the commercial activities of a set of nonprofits were tracked over two years. The set contained nonprofit organizations most likely to be engaged in commercial activities, including human service, youth development, environmental quality, and employment service organizations. Commercial revenue included program service revenue, net income from sales of goods, and net income from special events and activities. Data analysis showed that from 1999 to 2001, overall commercial revenue rose 20 percent from $40.6 to $48.8 billion, while the number of nonprofits involved in revenue generation increased only eight percent from about 46,500 to over 50,000 (NCCS/GuideStar National Nonprofit Database). We can assume, therefore, that social enterprise activity increased significantly among existing nonprofits, but that *new organizations* created to undertake social enterprise increased only somewhat.

Western Europe. In Western Europe, the trend toward social enterprise emerged somewhat later than in the United States and was focused on the simultaneous development of public interest services, and diversification of revenue generation in the third sector. With a fall in economic growth and increased unemployment that began at the end of the 1970s and continued into the 1990s,[7] many European welfare states came into crisis. Budgetary constraints were the main cause, but the crisis was also in terms of their effectiveness and legitimacy (Borzaga and Defourny, 2001; Spear et al., 2001; Borzaga and Santuari, 2003). Legitimacy was undermined in the area of unemployment as policies, particularly those for the long-term unemployed (including the disadvantaged and low-skilled) proved ineffective (Borzaga and Defourny, 2001).

Retrenchment of the welfare state followed, characterized by decentralization, privatization, and a reduction in services. As a result of this retrenchment and growing unemployment, a number of social service needs arose for which there were no adequate public policy schemes. New social enterprises, mainly in the third sector, began responding to emerging needs, including housing for increasingly marginalized groups; childcare; new services for the elderly given the rapid aging of the population and changes in family structures; urban regeneration initiatives; employment programs for the long-term unemployed; etc. Most of these pioneering social enterprises in Europe were founded in the 1980s by civil society actors: social workers, associative militants, representatives of more traditional third-sector organizations, and often the excluded workers themselves (Nyssens and Kerlin, 2005).

Thus, the kinds of services supported by social enterprise in Europe are fewer (when compared to the wide range supported by social-enterprise activity in the United States) because European social enterprises have only historically addressed those particular areas the welfare state had retreated from or had not been able to meet the demand for employment programs for the long-term unemployed, and personal social services. Naturally, the extent to which social enterprises fill particular service needs varies depending on the welfare state and circumstances in each European country.

---

[7] Many countries of the European Union experienced a rise in unemployment from three or four percent to more than 10 percent through the 1980s and 1990s. Through the 1990s, over 40 percent of this figure was the long-term unemployed (without employment for more than a year) in contrast with 12 percent in the United States and 15 percent in Japan (Defourny, Favreau, Laville, 2001, p. 5).

The Legal Environment for Social Enterprise

The legal context for social enterprise in the United States and Western Europe reflects the difference in government involvement in the issue. It is examined here in relation to 501(c)(3) nonprofits in the United States and associations and cooperatives in Europe.

United States. Since the 1950s, the U.S. federal government has used the loosely defined Unrelated Business Income Tax (UBIT) to tax nonprofit revenue that is not related to an organization's exempt purposes (Cordes and Weisbrod, 1998). Specifically, the IRS defines unrelated business income as "...income from a trade or business, regularly carried on, that is not substantially related to the performance by the organization of its exempt purpose or function except that the organization needs the profits derived from this activity" (IRS, 2004). State governments that collect corporate income tax have created similar unrelated business income taxes for nonprofits.

Though the different levels of U.S. government attempt to regulate the for-profit activities of nonprofits, critics point out that, "in practice...it has proved administratively difficult for federal, state, and local taxing authorities to differentiate taxable and nontaxable commercial activities" (Cordes and Weisbrod, 1998, p. 85; see also Simon, 1987). This situation has left nonprofits wary of engaging in certain types of revenue-generating activities for fear of compromising their charitable tax-exempt status. On the other hand, it has for-profit businesses claiming nonprofit enterprises have an unfair competitive edge because they do not always pay taxes on the same services and products that for-profits do (Leavins and Wadhwa, 1998; Crimmins and Keil, 1983). In the United States, virtually no new policy has been created over the past 50 years to accommodate the business activities of the growing number of nonprofits involved in social enterprise.

Western Europe. In Western Europe, most social enterprises operate under the legal form of either a nonprofit association or a cooperative. Social enterprises are established as associations in those countries where the legal definition of association allows a degree of freedom in selling goods and services on the open market. In countries such as Sweden, Finland, and Spain, where associations are more limited in this regard, social enterprises tend to take the legal form for cooperatives (See Table 1 for a country comparison of association laws) (Borzaga and Defourny, 2001). As such, unlike in the United States, cooperatives with social and employment objectives are also deemed social enterprises. Employment-focused cooperatives are included in a specific class of social enterprises called Work Integration Social Enterprises (WISE).[8] Borzaga and Defourny note a possible convergence of associations and cooperatives as associations adopt more entrepreneurial activities and cooperatives increasingly offer social benefits to nonmembers (2001).

---

[8] The main purpose of work integration social enterprises is "the social and occupational integration of disabled or socially-marginalized people, while providing them adequate follow-up or training for a sustainable integration, within the enterprise or with a regular employer" (Spear and Bidet, 2004, p. 8).

Table 1: Legal Forms for Social Enterprise in the United States and Selected West European Countries*

Information on European countries from: European Commission (1997) "Communication from the Commission on Promoting the Role of Voluntary Organisations and Foundations in Europe." See Annex III: The Legal and Fiscal Framework for Voluntary Organisations (Associations) and Foundations.

	Common Nonprofit Organizational Form(s)	Commercial Activity	Legislated Social Enterprise Entity
United States	Charitable Nonprofit	Allowed. Business income unrelated to the nonprofit's exempt mission is taxed. Substantial unrelated business activity (generally over 15% of the nonprofit's time or gross revenues) is not allowed except under the auspices of a for-profit subsidiary.	
Belgium	Associations Sans But Lucratif	Unclear. In theory not allowed but in practice acceptable so long as it is ancillary to the association's main object and not its principal activity.	Company with a Social Purpose (1995)
Denmark	NB Associations	Can engage in economic activity, but receipts from such activity are subject to the same taxes as those imposed on commercial companies.	
Finland	Nonprofit Associations	Nonprofit associations may only practice a trade or other economic activity that has been provided in the association's rules, that otherwise relates to the realization of its purpose, or deemed economically insignificant.	
France	Non-recognized or *de facto* Associations/ Recognized Associations/ Associations recognized as a public utility	Allowed. Profits can be made but nonprofit status prohibits the accumulation of surpluses beyond those needed for day-to-day use.	Cooperative Society of Collective Interest (2001)
Germany	Nonprofit Associations	May engage in commercial activities if they are purely ancillary, do not constitute the main object of the association, and play a very secondary role in relation to its main nonprofit activity.	
Greece	Common Law Associations/ Special Associations/ Unions of Persons	Making a profit occasionally in order to obtain resources for the association is authorized.	Social Cooperative with Limited Liability (1999)

Ireland	Non-Governmental Associations: Unincorporated Body, Company limited by guarantee, Industrial and provident society	No limitation except where tax exemption for charitable activities is sought. In this case, the rules of the group must contain a binding clause which guarantees that any money received will only be used for charitable purposes.	
Italy	Non-recognized Associations/ Recognized Associations/ Committees	Allowed but such activity should not be aimed at making a monetary profit, but exclusively at obtaining the association's purpose. If the commercial activities are autonomous in relation to the purpose of the association, it may be considered a *de facto* company with taxation and social obligations. Members have no right to profit sharing.	Social Cooperative A-Type and B-Type (1991)
Luxembourg	*De facto* Associations/ Nonprofit Associations	Profit-making activities are not prohibited but they must be occasional and ancillary to the main activity.	
Netherlands	Association under Private Seal/ Associations by Notarized Act	Allowed but the purpose of an association cannot be to make profits and profits cannot be distributed to members.	
Portugal	Non-recognized Associations/ Private associations under the general scheme/ Private associations under a special scheme	Associations may have a financial object, not excluding financial advantages for the associates, provided that these are not in the form of profit.	Social Solidarity Cooperative (1998)
Spain	Associations governed by the Law of 24 Dec 1964/ Associations governed by special statutes/ "Public Utility" Associations	Allowed. "Public Utility" Associations are exempt from corporation tax with respect to profit from commercial activity, provided it corresponds to the entity's object or specific purpose.	Social Initiative Cooperative (1999)
Sweden	Association	In principle not allowed. The association may, however, carry on some business activity as long as it is not commercially organized. Tax is paid on business that has no connection to the nonprofit activity.	

Table 1 continued

Table 1: Legal Forms for Social Enterprise in the United States and Selected West European Countries*

	Common Nonprofit Organizational Form	Commercial Activity	Legislated Social Enterprise Entity
United Kingdom	Unincorporated Associations/ Trust/ Company Limited by Guarantee/ Industrial and Provident Society/ Incorporated by Royal Charter/ Incorporated by Act of Parliament	Restricted. Charities can engage in primary-purpose trading but not in permanent trading as means to fundraising. Charities that wish to trade to any substantial degree must set up a separate trading subsidiary which can then covenant its profits back to the parent charity and the tax can be recovered.	Community Interest Company (2005)

*There are many legal frameworks, other than the nonprofit, in which social enterprise operates in both regions. The nonprofit form is examined here because it is one of the more commonly used, yet most restrictive forms in terms of commercial activity. Newly-legislated social enterprise entities are included in the last column because in some cases they were created to compensate for strict commercial restrictions in the nonprofit sphere.

Unlike in the United States, laws for social enterprise as a unique entity have been developed in a number of West European countries, particularly where there are restrictions on associations carrying out commercial activities (CEC, 2001). These laws aim to "encourage the entrepreneurial and commercial provision of social and welfare services and to increase the participation of women in labor markets, whilst involving various stakeholders (workers, voluntary workers, target groups, and municipalities) in the production process" (CEC, 2001, p. 25).

Italy was the first to introduce such legislation with its "A- and B-type social cooperatives" in 1991 and it has been successful in increasing the number of this type of organization over the years. Belgium introduced legislation for a "company with a social purpose" in 1995, Portugal created the "social solidarity cooperative" in 1998, and Greece the 'social cooperative with limited liability' in 1999 (Defourny, 2001). France introduced the "societe co-operative d'interet collectif" (cooperative society of collective interest) in 2001. This legislation was supported by the European Commission's Digestus Project begun in October 1998 that proposes legal changes to member states with the goal of promoting social enterprise within the Italian model of co-operative enterprise (Lindsay et al., 2003). New legal entities tend to adopt the cooperative form as it emphasizes entrepreneurial behavior (Borzaga and Defourny, 2001). The newest organizational form for social enterprise in Europe is the "community interest company" introduced in the United Kingdom in 2005.

Institutional Environment for Social Enterprise

The institutional environments for social enterprise in the United States and

Western Europe tend to reflect a private/business focus in America and a government/ social service focus in Europe. The supportive institutional context in the United States largely consists of private organizations that provide financial support, education, training, research and consulting services for social enterprise. One of the most significant contrasts is that in the United States, the majority of outside finance and other support for strategic development of social enterprise comes from private foundations rather than government (Paton, 2003).

<u>United States</u>

Strategic Development of Social Enterprise

Private foundation support for the development of social enterprise was begun in the 1980s and 1990s by a number of organizations. Some focused on basic information collection on social enterprise and the creation of networks (W.K. Kellogg Foundation, Ewing Marion Kauffman Foundation, Surdna Foundation, Rockefeller Foundation). Others turned their support towards social enterprise start-ups (Roberts Enterprise Development Fund), social enterprise business competitions (Goldman Sachs Foundation, Pew Charitable Trusts), and increasingly towards individual social entrepreneurs through intensive education programs and/or grants, some of which were international in nature (Draper Richards Foundation, Skoll Foundation, Echoing Green, Ashoka, Schwab Foundation).

Largely backed by foundations are so-called social enterprise accelerators. One of the most well-known is the Pittsburgh Social Enterprise Accelerator. It was started and initially funded by two large foundations to support the development of emerging nonprofit ventures in the Pittsburgh area at no cost to the nonprofit. For a small portfolio of nonprofits, it provides one-on-one consulting, seed funding, business tools, and connections with key stakeholders in the community, such as service providers, funding sources, corporations, public agencies, and university programs. The diverse backgrounds of staff and advisory board members help facilitate connections in the community (Pittsburgh Social Enterprise Accelerator, 2006). For those nonprofits and businesses willing to pay, a number of consulting firms have sprung up that assist social enterprises on the operational and business side.[9]

Some limited, mostly indirect, government support for social enterprise is found on the local, state, and federal levels in the United States. For example, while community development programs at all levels are not directly aimed at funding social enterprise, they can provide substantial support.[10] One of the few examples of direct support on the local level was the Social Enterprise Initiative undertaken by the City of Seattle, Wash., from 1998 to 2001. It sponsored, often jointly with various foundations, such events as entrepreneurial training for nonprofits and the Seattle Social Enterprise Expo, one of the first social venture fairs in the United States. The Expo led to the development of the Seattle Social Investor's Forum, which the city subsidized for its first two years. Funding of the annual forum was then taken over by the Bill & Melinda Gates Foundation (Pomerantz, 2003).

There are also state and federal set-aside programs for social enterprise community

---

[9] See footnotes 1 and 2.
[10] Dennis Young, personal communication.

rehabilitation programs that employ primarily people with disabilities. Twenty-seven states set aside funds to buy supplies and services from such rehabilitation programs. For example, Washington's rehabilitation programs sell about $3 million in goods and services to the state. A similar program established by the Javits-Wagner-O'Day Act (JWOD) exists on the federal level . The mandatory federal purchasing program "provides employment opportunities for over 36,000 Americans who are blind or have other severe disabilities by orchestrating government purchases of products and services provided by nonprofit agencies employing such individuals throughout the country" (Pomerantz, 2003).

Social Enterprise Research

Business schools conduct at least as much research on the social enterprise field as social science departments. Business school research focuses on the practical knowledge needed by business and nonprofit managers to develop social enterprise activities in their organizations (Paton, 2003; Boschee, 1998, 2001; Dees et al., 2001; Brinckerhoff, 2000; Emerson and Twersky, 1996, among others). Social science researchers, on the other hand, have published path-breaking books and articles with a more theoretical approach to the topic (Hansmann, 1980; Weisbrod, 1988; Young, 1983; Rose-Ackerman, 1986; Ben-Ner and Gui, 1993, and more recently Weisbrod, 1998).

Membership Associations

Recently, membership organizations have formed in the United States around the idea of social enterprise and social entrepreneurship. One of the fastest growing organizations is the Social Enterprise Alliance, which defines itself as "the membership organization leading the creation of a social enterprise movement" with a purpose to "mobilize communities of nonprofit organizations and funders to advance earned income strategies" (Social Enterprise Alliance, 2004). It is run by and for social enterprise practitioners. The Alliance is the result of a 2002 merger of two groups: The National Gathering for Social Enterpreneurs (founded in 1998) and SeaChange (founded in 2000). At the root of these groups are initiatives funded by foundations including, among others, the Kellogg, Kauffman, and Echoing Green foundations and the Northland Institute of the Ford Foundation (Social Enterprise Alliance, 2004).

Western Europe

Strategic Development of Social Enterprise

In Western Europe, strategic development of social enterprise is much more tied to government and European Union support. Though the first wave of European social enterprises emerged without any specific public support, the 1990s saw the development of public schemes in many countries.[11] This government support has included new legislation, such as that discussed above, and the coordination and policy work of specific public units and programs.

An example in the United Kingdom is the central government's Department of Trade and Industry (DTI) that has a Social Enterprise Unit responsible for implementing a three-year program, *Social Enterprise: A Strategy for Success.* Its

---

[11] See EMES WP for details : www.emes.net

objective is to create a supportive environment for social enterprise through a coordinated effort by DTI, Regional Development Agencies, other central government offices, and local government. The unit also makes tax and administrative regulatory recommendations for social enterprises and supports public and private training and research in the area (DTI, 2004).

In Ireland, the government began supporting social enterprise in the 1980s to combat unemployment. The national Community Enterprise Programme, established in 1983, "provided funded training programs, development grants and commercial aids to community-based groups" (O'Hara, 2001, p. 155). In Finland, the Ministry of Labour has worked with the Institute for Cooperative Studies at Helsinki University to develop materials and presentations on how to establish cooperatives. Also in Finland, an association for political lobbying was created by a group of labor cooperatives (Pattiniemi, 2001).

However, much of this government support, in terms of public policy and financing (except social cooperatives of "Type A" in Italy), tends to be narrowly focused on work integration social enterprises (WISE). This legal recognition by public authorities of social enterprise integration through work does allow, in most cases, more stable access to public subsidies, but in a very targeted and limited way. Most often, only temporary subsidies are granted to start the initiative and to make up for the "temporary unemployability" of workers (the difficulty in obtaining employment due to the deterioration of a person's skills following their extended absence from the labor market) (Nyssens and Kerlin, 2005).

The European Union has also been a strong actor in promoting research and program support for social enterprise. It views social enterprise as a business model that can simultaneously address issues of economic growth, employment, and quality of life (Thomas, 2004). From 1996-1999, the Research Directorate-General of the European Commission funded the Emergence of Social Enterprise in Europe Project that examined social enterprise in all 15 European Union countries. The Commission also financed the follow-up PERSE (The Socio-Economic Performance of Social Enterprises in the Field of Integration by Work) Project conducted in 11 European Union countries from 2001-2004. The Enterprise Directorate General of the European Commission has supported social economy enterprises such as cooperatives and mutuals since 1989 and is currently focusing on their "enterprise aspects." It supports research, helps draft European Union statutes, consults with organizations, and links with public officials in member countries that are working on regulation in this area (European Union, 2004).

The European Union has also provided financial support for social enterprise in individual member countries. Ireland is an example of a country where the EU has been especially active in social enterprise development. Beginning in 1992, Ireland received a Global Grant from EU Structural Funds "to support local development and enterprise initiatives and to promote integrated economic, social, and community development of local areas" (O'Hara, 2001, p. 156). The EU LEADER program for rural development also provided similar support. Other EU initiatives in Ireland provide direct and indirect support for local social enterprise including INTEREG, NOW, INTEGRA, and URBAN. As O'Hara summarizes, "This support for local

development has either helped to create the conditions for the emergence of new social enterprises or has afforded existing enterprises the opportunity to broaden or consolidate their activities through participation in such programmes" (2001, p. 156).

Social Enterprise Research

In Western Europe, research on social enterprise is conducted almost exclusively in social science departments, though some business schools have begun to explore the subject. Research and teaching focuses on cooperatives, mutual-help societies, and associations operating in the social economy as separate from the for-profit sector. Much attention is placed on the contribution of these organizations to the work integration of the unskilled and care services. There is also evidence of a more concerted effort in Europe to unify definitions and research on social enterprise in the work of the EMES Research Network in European Union countries (Defourny, 2001). Current research includes the development of theoretical approaches to the study of social enterprise—work that often draws on economic theory (Bacchiega and Borzaga, 2001; Laville and Nyssens, 2001; Sacconi and Grimalda, 2001; Badelt, 1997) and sometimes on social theory (Evers, 2001).

Membership Associations

Membership organizations for social enterprise are also a new phenomenon in Europe. Created in 1998, the Community Action Network in the United Kingdom is a membership association for social entrepreneurs roughly equivalent to the United States-based Social Enterprise Alliance. It is organized broadly around the promotion of social entrepreneurship, especially the exchange of ideas between nonprofit, public, and private sectors. The Network states, "We focus on the practical delivery of the social entrepreneurial approach, whilst continuing to stimulate government, public and private sector thinking, both on the method and the importance of this approach for social regeneration" (Community Action Network, 2004).

Problems and Challenges

United States. In the United States, though social enterprise is experiencing a healthy growth, several problems and challenges of the movement have been identified: exclusion of specific nonprofit beneficiaries, weakening of civil society, and lack of government involvement.

In relation to the first problem, the development of specific types of social enterprise may have the unintended side effect of the further exclusion of already-marginalized groups. For example, revenue generated through a fee-for-service strategy is a popular type of social enterprise activity. However, when this strategy is applied in social service nonprofits, many of the poorer potential beneficiaries of these services are automatically excluded from receiving services because they are unable to pay for them (Salamon, 1993). Another way vulnerable groups may become excluded is the encroachment of profit-making activities on the service delivery that is the focus of a nonprofit's mission or, worse, selection of some revenue-generating activities over mission-related programs because they are more profitable (Eikenberry and Kluver, 2003; Weisbrod, 1998, 2004; Dees, 1998). Moreover, there is evidence that

nonprofits engaged in market activities grow increasingly focused on meeting the needs of individual clients rather than those of the neighborhood or community (Alexander et al., 1999). Exacerbating the situation is the new competition nonprofit providers are feeling from for-profits that offer similar services (Young and Salamon, 2002).

Some observers in the United States are also worried that the growing market orientation of nonprofits will put civil society at risk (Eikenberry and Kluver, 2003; Alexander et al., 1999). One of the contributions of nonprofits to civil society is their ability to strengthen social capital.[12] As with service delivery, a growing focus on the bottom line may lead organizations to abandon less efficient practices that strengthen social capital, such as volunteer programs. Nonprofits engaged in social enterprise may also find they rely less on traditional stakeholders and networks such as private donors, members, community volunteers, and other community organizations with the result that opportunities to promote social capital are lost (Eikenberry and Kluver, 2003; Aspen Institute, 2001). Finally, nonprofit interest in market strategies may be leading to a shift in board members from those connected to the community to those connected to business (Backman and Smith, 2000).

As addressed above, other challenges in the United States include the need for clearer legal definitions for nonprofits engaged in revenue-generating activities and the comparative lack of U.S. government involvement with social enterprise.

Western Europe. Social enterprise in Western Europe faces a different set of problems and challenges. One of the largest concerns of observers is the narrow range of services supported by social enterprises. Having become associated with work integration and personal social service provision (and generally as a substitute for government policy failure in particular areas), social enterprise is being underutilized as a viable strategy for supporting other nonprofit activities (Borzaga and Defourny, 2001). A contributing factor (and problem in itself) is the limited types of social enterprise as compared to the United States (where social enterprise includes such activities as nonprofit partnerships with for-profits, cause-related marketing, sales of mission-related products, etc.).

As in the United States, many West European countries are also dealing with the lack of clearly defined legal frameworks for social enterprise. Borzaga and Defourny call for policy that would provide for their full legal recognition and regulation, as well as social policies that would take into account their potential to address unemployment and social exclusion and a broader range of services (2001). As discussed above, some European countries are already beginning to change legislation to reflect this need. Borzaga and Defourny also call for local governments to provide demand for the goods and services of social enterprises by limiting government contracts in certain areas to social enterprises.

Conclusion: Learning from Each Other

This comparison of social enterprise (see Table 2 for an overview) finds that in

---

[12] Social capital includes the social norms of trust, cooperation, and reciprocity that develop through positive citizen interaction and which undergird the effective functioning of democracy and a market economy (see Salamon, 1997; Backman and Smith, 2000).

many of the areas where the United States has difficulty with social enterprise, Europe shows strengths, and vice versa, making it possible for the two to learn a number of valuable lessons from one another. The United States can learn from Western Europe about recipient involvement in social enterprise, organizational governance, and government involvement. On the other hand, the United States offers important examples for Europe on how to use social enterprise across a range of services, on how to expand the types of social enterprise, and the targeted use of government contracts for products of social enterprise.

Table 2: **Comparative Overview of Social Enterprise in the United States and Europe**

	United States	Europe
Emphasis	Revenue Generation	Social Benefit
Common Organizational Type	Nonprofit (501(c)(3))	Association/ Cooperative
Focus	All Nonprofit Activities	Human Services
Types of Social Enterprise	Many	Few
Recipient Involvement	Limited	Common
Strategic Development	Foundations	Government/EU
University Research	Business and Social Science	Social Science
Context	Market Economy	Social Economy
Legal Framework	Lacking	Underdeveloped but Improving

Specifically, the United States can learn from Western Europe by following, to the extent possible, its practice of involving the program recipient or beneficiary in the social enterprise activity. Inclusion of the recipient can occur through cooperative-type arrangements or simple involvement in the revenue-producing activity itself. While some forms of social enterprise are not amenable to recipient involvement, such as fee-for-service, a switch to more integrated social enterprise activities is possible, especially when an organization is already involved in product sales for revenue generation. Such a transition would provide valuable work experience and training for program recipients. Most importantly, it would work towards the inclusion of the poorest groups, thus addressing the exclusion problem found with some forms of social enterprise in the United States.

Governance in social enterprise is another area in which the United States can learn from Western Europe, specifically in its multi-stakeholder approach and democratic management style. Governing boards in Europe that are made up of multiple stakeholders and operate democratically build civil society and strengthen democracy. With the spread of social enterprise in the United States and its contribution to the marketization and potential weakening of civil society, a multi-stakeholder approach to governance builds social capital by bringing together individuals who are oriented to the community. A democratic management style reinforces democratic practices on all levels.

Western Europe can also provide examples of how federal and state governments in the United States can establish an environment that fosters the creation and development of social enterprise. This comparison reveals that while foundations are

significant actors in supporting social enterprise in the United States, there are certain economic, legal, and administrative boundaries that limit the extent to which they can build favorable and sustainable environments for social enterprise.

Western Europe, on the other hand, can learn a number of valuable lessons from the United States. Historical factors shaping the emergence of social enterprise in Europe resulted in its narrow focus on work integration and personal social services. In the United States, social enterprise activities support a broad range of services including many nonprofit activities outside of social services (i.e., environmental protection). Europeans interested in expanding the range of services supported by social enterprise can learn from these working models in the United States.

In a similar vein, Europeans can learn from Americans about different forms of social enterprise to broaden their list of income-generating activities. Depending on how far Europeans are willing to stretch their definition of social enterprise, Americans can offer examples of nonprofit strategies—sales of mission-related products, cause-related marketing (co-branding of for-profit products), partnerships with for-profit companies, and the formation of for-profit subsidiaries by nonprofits, among others (Sealey et al., 2000).

Finally, though government in the United States is relatively uninvolved in social enterprise, it does participate in the one area European governments (with the exception of a few) tend not to: government contracts for social enterprise products (Borzaga and Defourny, 2001). The U.S. federal government provides an example with legislation that creates demand for social enterprise products through set-aside funds that purchase goods produced by 36,000 employees in sheltered workshops. Over half of all U.S. state governments operate comparable set-aside programs. Europeans can strengthen existing social enterprise operations by encouraging central and local governments to enter into similar supportive arrangements.

Future Research. This chapter has provided a broad comparison of social enterprise in the United States and Western Europe (see Table 2 for an overview). Given the rich diversity of social enterprise in each of the regions, future research should produce a more in-depth contrast of specific models of social enterprise, including the effectiveness of various governance structures and the utility of different types of legislation in supporting social enterprise. Other needed research is the comparison of social enterprise across multiple world regions. Differences in social enterprise have been identified across Latin America, Southeast Asia, East-Central Europe, and Africa in addition to the United States and Europe. Further expansion of comparative social enterprise research will not only increase mutual understanding and dialogue across world regions, but also will provide a cross-fertilization of ideas that can work to improve social enterprise everywhere.

References

Alexander, J., Nank, R. & Stivers, C. (1999). Implications of welfare reform: Do nonprofit survival strategies threaten civil society? *Nonprofit and Voluntary Sector Quarterly, 28*(2), 452-475.

Alter, S. K. (2002). *Case studies in social enterprise: Counterpart International's experience.* Washington, DC: Counterpart International, Inc.

Aspen Institute (2001). *The nonprofit sector and the market: Opportunities and challenges.* (publication 01-013) Washington, D.C.: Aspen Institute.

Bacchiega, A. & Borzaga, C. (2001). Social enterprises as incentive structures: An economic analysis. In C. Borzaga & J. Defourny (Eds.), *The emergence of social enterprise.* London and New York: Routledge.

Backman, E. & Smith, S. R. (2000). Healthy organizations, unhealthy communities? *Nonprofit Management and Leadership, 10*(4), 355-373.

Badelt, C. (1997). Entrepreneurship theories of the non-profit sector. *Voluntas, 8*(2), 162-178.

Bengtsson, S. & Hulgard, L. (2001). Denmark: Co-operative activity and community development. In C. Borzaga & J. Defourny (Eds), *The emergence of social enterprise.* London and New York: Routledge.

Ben-Ner, A. & Gui, B. (1993). *The nonprofit sector in the mixed economy.* Ann Arbor, MI: University of Michigan Press.

Bode, I., Evers, A. & Schultz, A. (2006). Where do we go from here? The unfinished story of relations between social enterprises and public policies in Germany. In M. Nyssens (Ed.) *Social enterprises at the crossroads of market, public policies and civil society.* London and New York: Routledge. (In press).

Borzaga, C. & Defourny, J. (2001). Conclusions: Social enterprises in Europe: A diversity of initiatives and prospects. In C. Borzaga & J. Defourny (Eds.), *The emergence of social enterprise.* London and New York: Routledge.

Borzaga, C. & Santuari, A. (Eds.) (1998). *Social enterprises and the new employment in Europe.* Trento, Italy: University of Trento.

Borzaga, C. & Santuari, A. (2003). New trends in the non-profit sector in Europe: The emergence of social entrepreneurship. In OECD (Ed.), *The nonprofit sector in a changing economy.* Paris: OECD.

Boschee, J. (1998). *Merging mission and money: A board member's guide to social entrepreneurship.* Washington, D.C.: National Center for Nonprofit Boards.

Boschee, J. (2001). *The social enterprise sourcebook: Profiles of social purpose businesses operated by nonprofit organizations.* Minneapolis, MN: Northland Institute.

Brinckerhoff, P. (2000). *Social entrepreneurship: The art of mission-based venture development.* New York: John Wiley & Sons.

CEC (2001). Co-operatives in enterprise Europe. Consultation Paper. Commission of the European Communities.

Community Action Network (2004). http://www.can-online.org.uk/about/ Accessed April 16.

Cordes, J. & Weisbrod, B. (1998). Differential taxation of nonprofits and the commercialization of nonprofit revenues. In B. Weisbrod (Ed.), *To profit or not to*

profit. The commercial transformation of the nonprofit sector. Cambridge: Cambridge University Press.

Crimmins, J. C. & Keil, M. (1983). *Enterprise in the nonprofit sector.* New York: The Rockefeller Brothers Fund.

Dees, J. G. (1994). *Social enterprise: Private initiatives for the common good.* Harvard Business School Note. Cambridge, MA: Harvard Business School Press.

Dees, J. G. (1996). *Social enterprise spectrum: Philanthropy to commerce.* Harvard Business School Note. Cambridge, MA: Harvard Business School Press.

Dees, J. G. (1998). Enterprising nonprofits. *Harvard Business Review, 76* (1), 55-67.

Dees, J. G., Emerson, J. & Economy, P. (2001). *Enterprising nonprofits: A toolkit for social entrepreneurs.* New York: John Wiley & Sons.

Defourny, J. (2001). Introduction: From third sector to social enterprise. In C. Borzaga & J. Defourny (Eds.), *The emergence of social enterprise.* London and New York: Routledge.

Defourny, J. & Nyssens, M. (2001). Belgium: Social enterprises in community services. In C. Borzaga & J. Defourny (Eds.), *The emergence of social enterprise.* London and New York: Routledge.

Defourny, J., Favreau, L. & Laville, J. (2001). Introduction to an international evaluation. In R. Spear, J. Defourny, L. Favreau, & J. Laville (Eds.), *Tackling social exclusion in Europe.* Aldershot: Ashgate.

Department of Trade and Industry (DTI) (2004). http://www.dti.gov.uk/ socialenterprise/ Accessed February 6.

Eikenberry, A. & Kluver, J. (2004). The marketization of the nonprofit sector: Civil society at risk? *Public Administration Review, 64*(2), 132-140.

Emerson, J. & Twersky, F. (Eds.) (1996). *New social entrepreneurs: The success, challenge and lessons of non-profit enterprise creation.* San Francisco: The Roberts Foundation.

European Commission (1997). Communication from the commission on promoting the role of voluntary organisations and foundations in Europe. European Commission Communication.

European Union (2004). http://europa.eu.int/comm/enterprise/entrepreneurship/ coop/social-history/social-history.htm, Accessed March 26.

Evers, A. (2001). The significance of social capital in the multiple goal and resource structure of social enterprises. In C. Borzaga & J. Defourny (Eds.), *The emergence of social enterprise.* London and New York: Routledge.

Grenier, P. (2003). Reclaiming enterprise for the social good: The political climate for social entrepreneurship in UK. Paper presented at the *32nd Annual ARNOVA Conference,* Denver, Colorado, USA.

Hansmann, H. (1980). The role of nonprofit enterprise. *Yale Law Journal, 89*(5), 835-901.

Hodgkinson, V. A., Weitzman, M., Toppe, C. & Noga, S. (1992). *Non-profit almanac 1992-1993.* San Francisco: Jossey Bass Publishers.

IRS (Internal Revenue Service) (2004). http://www.irs.gov/charities/article/ 0,,id=96104,00.html Accessed March 31.

Laville, J. & Nyssens, M. (2001). The social enterprise: Towards a theoretical socio-economic approach. In C. Borzaga & J. Defourny (Eds.), *The emergence of social enterprise*. London and New York: Routledge.

Leavins, J. and Wadhwa, D. (1998). Are your activities safe from UBIT? *Nonprofit World, 16* (Sept-Oct), 49-51.

Levi, Y. (2003). Single vs. multi-stakeholding, the 'restitution' of the economic to cooperatives and the social enterprise. Paper presented at the *International Conference of the EMES Network*, University of Trento, Italy.

Lindsay, G., Hems, L., Noges, H., Liret, P. & Margado, A. (2003). Societal co-operative d'interet collectif: a research methodology. Paper presented at the *32nd Annual ARNOVA Conference*, Denver, Colorado, November.

Lindsay, G. & Hems, L. (2004). Sociétés coopératives d'intérêt collectif: The arrival of social enterprise within the French social economy. *Voluntas, 15* (3), 265-286.

Münkner, H. (2003), Multi-stakeholder cooperatives and their legal framework. Paper presented at the *International Conference of the EMES Network*, University of Trento, Italy.

Nicholls, A. (2005). Measuring impact in social entrepreneurship: New accountabilities to stakeholders and investors? *Seminar on Social Enterprise*, Milton Keynes University.

Nyssens, M. & Kerlin, J. (2005). Social enterprise in Europe. Unpublished paper.

OECD (Organization for Economic Cooperation and Development) (1998). *Social enterprises in OECD countries*. Paris: OECD.

OECD (2003). *The non-profit sector in a changing economy*. Paris: OECD.

O'Hara, P. (2001). Ireland: Social enterprises and local development. In C. Borzaga and J. Defourny (Eds.), *The emergence of social enterprise*. London and New York: Routledge.

Paton, R. (2003). *Managing and measuring social enterprises*. Thousand Oaks: Sage Publications.

Pättiniemi, P. (2001). Finland: Labour co-operatives as an innovative response to unemployment. In C. Borzaga & J. Defourny (Eds.), *The emergence of social enterprise*. London and New York: Routledge.

Pittsburgh Social Enterprise Accelerator (2006). http://www.pghaccelerator.org Accessed February 10.

Pomerantz, M. (2003). Social entrepreneurship in the northwest. Paper presented at the *Coleman Symposium on Social Entrepreneurship, United States Association for Small Business and Entrepreneurship Annual Conference*, Hilton Head (South Carolina USA), January.

Rose-Ackerman, S. (1986). *The economics of nonprofit institutions*. New York: Oxford University Press.

Salamon, L. (1993). The marketization of welfare: Changing nonprofit and for-profit roles in the American welfare state. *Social Service Review, 67*(1), 16-39.

Salamon, L. (1995). *Partners in public service*. Baltimore: The Johns Hopkins University Press.

Salamon, L. (1997). *Holding the center: America's nonprofit sector at a crossroads*. New York: Nathan Cummings Foundation.

Sacconi, L. & Grimalda, G. (2001). The constitution of the nonprofit enterprise: A game theoretical account based on conformist utilities and reciprocity. Paper presented at the *International Conference of the EMES Network*, University of Trento, Italy.

Sealey, K., Boschee, J., Emerson, J. & Sealey, W. (Eds.) (2000). *A reader in social enterprise*. Boston: Pearson Custom Publishing.

Simon, J. (1987). The tax treatment of nonprofit organizations: A review of federal and state policies. In W. Powell (Ed.), *The nonprofit sector: A research handbook*. New Haven: Yale University Press.

Social Enterprise Alliance (2004). http://www.se-alliance.org. Accessed March 23.

Spear, R. & Bidet, E. (2003). The role of social enterprise in European labour markets. EMES Working Papers, no. 03/10.

Spear, R., Defourny, J., Favreau, L. & Laville, J. (2001). *Tackling social exclusion in Europe*, Aldershot: Ashgate.

Thomas, A. (2004). The rise of social cooperatives in Italy. *Voluntas, 15*(30), 243-264. Weisbrod, B. (1988). *The non-profit economy*. Cambridge: Harvard University Press.

Weisbrod, B. (Ed.) (1998). *To profit or not to profit. The commercial transformation of the nonprofit sector*. Cambridge: Cambridge University Press.

Weisbrod, B. (2004). The pitfalls of profits. *Stanford Social Innovation Review, 2*(3), 40-47.

West Midlands Social Economy Partnership (WMSEP) (2004). http://www.wmsep.co.uk/Glossary.htm, Accessed March 26.

Young, D. (1983). *If not for profit, for what?* Lexington, MA: Lexington Books.

Young, D. (2001). Social enterprise in the United States: Alternate identities and forms. Paper presented at the *International EMES Conference*, Trento, Italy, December.

Young, D. (2003a). Social enterprise in community and economic development in the United States: Organizational identity, corporate form and entrepreneurial motivation. Paper presented at the *International Workshop on Modern Entrepreneurship, Regional Development and Policy: Dynamic and Evolutionary Perspectives*, Tinbergen Institute, Amsterdam, The Netherlands, May.

Young, D. (2003b). New trends in the US non-profit sector: Towards market integration? In OECD (Ed.), *The nonprofit sector in a changing economy*. Paris: OECD.

A CASE STUDY IN SOCIAL ENTERPRISE: THE VISITING NURSE HEALTH SYSTEM, INC.

Jennifer A. Wade

In a 1999 *Nonprofit and Voluntary Sector Quarterly* article, Karen A. Froelich examined the effects of three major revenue strategies upon nonprofit organizations within the framework of resource dependency theory. Froelich asserted that the key to survival for many nonprofit organizations is their ability to shift their dependency from traditional sources of revenue (e.g., grants and contributions) to other sources of revenue:

> The key to organizational survival is the ability to acquire and maintain resources. This task is problematic due to environmental conditions of scarcity and uncertainty; broadly speaking, resources are not adequate, stable, or assured. Ultimately, the resource imperative results in the adaptation of organizations to requirements of important resource providers (Froelich, 1999, p. 247).

Nonprofit practitioners understand that funding for their programs and services is reliant upon their environment and available resources. The nonprofit practitioner makes decisions as to where (s)he will seek the necessary resources to cover operational costs and incorporate financial and resource management techniques that will allow for the "management of dependencies" or management based upon the availability of income and resources.

Understanding that traditional sources of revenue (e.g., foundation grant money, private contributions, etc.) fluctuate, many nonprofit practitioners have turned their attention toward utilizing for-profit revenue generation, also known as social enterprise. The generation of income through such activities may hold the most promise for nonprofit organizations to stabilize their revenues since this type of income is earned.

According to Edward Skloot (1988), social entrepreneurship exists along a continuum of activities ranging from fees-for-service to full-scale commercial activity. Commercial activity is not new within the nonprofit sector; Lester Salamon (1992) asserts that 55 percent of revenue growth between 1977 and 1989 can be attributed to activity of this kind. While this use of commercial techniques has quickly become one of the nonprofit sector's leading tools for generating additional resources, our

theoretical and practical understanding of social enterprise lags.

In order to further our understanding of the costs and benefits of utilizing commercial activity within a nonprofit setting, this article presents the case of the Visiting Nurse Health System, Inc. of Atlanta, Georgia (VNHS). This study sets forth a comprehensive framework for examining the manner in which a nonprofit organization may engage in commercial activity; in other words, it is a study of the implementation of commercial venturing.

This article differs from the existing literature in that it examines the creation of a new commercial venture from an existing nonprofit organization rather than a brand new, social-enterprise start-up. This article also describes how the commercial venture unfolded and its impact on the organization. In this case, VNHS sought to reorganize its management structure in an effort to:

■ Increase overall organizational efficiency and accountability;

■ Offset new competition from emerging for-profit companies; and

■ Generate new revenue.

Understanding Commercial Activity: Costs and Benefits

The adoption of entrepreneurial activities within the nonprofit sector has been characterized as a "new spirit" in social organizations. The traditional approaches associated with charitable relief are being criticized for not adequately addressing "underlying problems and create[ing] unhealthy dependencies and are demeaning to program participants. ...[Instead, proponents of entrepreneurial activity call for a] shift away from heavy reliance on philanthropy toward the kinds of business methods most often seen in entrepreneurial private-sector organizations" (Dees et al., 2001, p. 13). For the purposes of this article, Skloot's framework (1998) provided on the costs and benefits of commercial activity will be utilized. Skloot notes that there are several benefits for nonprofit organizations that can earn a portion of their income, including (1) an increase in income that will allow the organization to return the profits to their program activities; (2) the overall "health" of the nonprofit organization is enhanced because earned income helps to diversify the revenue base (Given the unpredictable nature of some traditional revenue sources for nonprofits, earned income creates an additional "cushion" that allows the nonprofit organization to "insulate" itself from changes in the funding environment and decrease its dependence on traditional revenue sources.); and (3) nonprofit organizations that engage in enterprise often improve their management capabilities. Skloot observes,

> Experience has shown that when management spends more time on the financial consequences of its activities, it is generally more rigorous and realistic when making programmatic decisions as well. Thus, the introduction of enterprise brings with it a new mindset within the organization—one that is more calculating and skilled in directing the course of the agency (1988, p. 7).

An ancillary benefit to improved management capabilities is improved fundraising. Skloot (1988) states that foundations and corporations ask nonprofit organizations to find ways to supplement the resources of programs that have short funding cycles (e.g., programs that will not receive funding for an indefinite period of time). Earned income can be used to supplement the resources of those program types.

A fourth benefit of having earned income is that nonprofit organizations can energize their boards of directors. Skloot believes that by engaging in enterprise activity, nonprofits can attract new board members who devote their knowledge and energy to both the nonprofit organization and the enterprise.

The final benefit of having earned income is increased visibility, including media attention.

There are also many disadvantages involved with entrepreneurial activity, including poor planning and execution that can lead to a loss of income. Income loss can endanger the financial and/or program stability of the nonprofit in a number of ways: distracting the organization from its true mission; lowering staff morale; and hurting fundraising efforts. Nonprofit practitioners may fear or even resist entrepreneurial activities due to their perception that commercial activity is inappropriate. Many Americans believe that because nonprofit organizations are devoted to helping solve societal ills and because they enjoy a tax-exempt status, they should not earn any type of income or turn a profit on any of their services (Moore, 1998; Andreasen, 1996). All of these benefits and costs are illustrated by the case of VNHS, which finds that undertaking social enterprise requires a well-formed strategy for change that incorporates all organizational actors, and a tolerance for significant cultural change within the organization.

The Case

This case study focuses on a single organization with a long record of engaging in commercial activity. The study tests the costs and benefits associated with commercial activities as asserted by Edward Skloot. According to Robert Yin (1984), the single case study is an appropriate methodological approach when (1) the particular case represents a critical test of the proposed theory/strategic response; (2) the case is a unique event; and (3) the analysis serves a revelatory purpose (i.e., the investigator is able to analyze a phenomenon previously inaccessible to scientific investigation and able to produce descriptive information pertaining to the phenomenon being studied). The following analysis of the Visiting Nurse Health System, Inc. of Atlanta, Georgia, fulfills these criteria.

The case study provides an accurate narrative description of the Visiting Nurse's implementation of a commercial venture. The case is grounded in qualitative approaches to data collection and analysis. Information was drawn from elite interviews with selected program personnel and an analysis of program records. Interviews followed a specified set of questions, and were conducted in a manner that allowed the interviewees to offer guidance and instruction about how the commercial venture unfolded and its impact.

The case analysis focuses on questions associated with the effective use of commercial techniques, with a specific look at the organization's context—the types of people it serves, the usual programmatic activities carried out, and its physical, financial, and human resources. Following this, an effort is made to understand how entrepreneurial activity was placed on the organization's agenda as an alternative method of generating funds (i.e., How was the venture designed, developed, and implemented?). Other questions address problems that were encountered in gaining

acceptance of the idea by administrative staff, members of the board of directors, and the public. Budgetary and administrative arrangements related to the operation of the commercial activity are also assessed. Finally, the paper assesses the benefits derived from engaging in commercial activity, within the specific context of the VNHS. Here, the focus is on the net gains made through commercial activity and the implications of such an effort on the ability of the organization to satisfy its original mission and adequately serve its constituents. Through this kind of analysis, it is hoped that a better understanding of practices associated with commercial activity as a method by which nonprofit organizations may obtain financial solvency will emerge.

The Organization. In 1948, the Visiting Nurse Association (VNA) was incorporated by three people who saw the need to provide care to the sick and disabled, not only in the comfort of their homes, but surrounded by their families as well. Two nurses were hired to provide health care to patients living within two counties of the metro-Atlanta city limits. Fifty-seven years later, VNA, now known as the Visiting Nurse Health System (VNHS), has grown to include 26 counties in and around the metro area and provides services to more than 20,000 patients yearly (Visiting Nurse Health System, Inc., 1998 Annual Report).

Characterized as a nonprofit, single home-health-care agency, VNHS accomplishes its mission by offering a variety of services, including: care to new mothers and babies; health education; post-hospital care; chronic illness treatment; chemotherapy and blood transfusions; nutritional and respiratory therapy; occupational and speech therapy; medical social work services; AIDS care; and, hospice care for the terminally ill. Since its founding, VNHS has increased its client base by utilizing the techniques of service integration and collaboration.

Service integration allows VNHS to offer its clients a "single point of entry" (a common intake point), along with a defined package of service and product offerings. This means that with one phone call, a client can access and/or be referred to any of the services that VNHS has to offer without having to call or visit multiple locations. Collaborative efforts allow VNHS to work with neighboring health care providers (i.e., hospital systems, managed care organizations, and doctors) to provide services.

The impact of these techniques contributed to VNHS' ability to increase its patient referral system fivefold. By 1998, VNHS was serving approximately 58 percent of the managed care market and became the first home-health-care company in the community to enter into an agreement with a managed care organization. Consequently, VNHS has become the leading provider of home-health services to managed care organizations in the Atlanta-metro area (Visiting Nurse Health System, Inc., 1998 Annual Report).

VNHS has also garnered tremendous support from the surrounding community. Supported by volunteer hours and donor dollars, VNHS has been able to raise significant dollar amounts. For example, in 1998 the organization was able to raise approximately $3.3 million from sources such as the United Way, charitable foundations, individual donors, and special events. VNHS employs an experienced work force of close to 1,000 people and utilizes a state-of-the-art information system to keep track of patient referrals and records (Visiting Nurse Health System, Inc., 1998 Annual Report).

The Rationale: Placing Commercial Activity on the Agenda. During the mid-1980s, changes in laws and regulations pertaining to health care, particularly funding guidelines for Medicaid and Medicare services, encouraged an increase in the number of health-care providers (see Table 1). New Medicare reimbursement guidelines coupled with reduced federal funding for nonprofit organizations created a new environment for health-care providers. These changes brought about increased competition from newly emerging for-profit health-care organizations. Consequently, VNHS found itself in the midst of rethinking its management and financial structures in order to compete with new, for-profit health-care organizations and to find alternative sources of revenue to replace declining governmental and foundation grant support.

Table 1: **Financial Pressures Facing VNHS During the Mid-1980s**

Medicare
■ Cost-based but fails to reimburse actual costs for service to beneficiaries ■ Continuing retreat in payment levels since enacted in 1965 ■ Preferred Payment System (PPS) regulations will result in severe payment constraints ■ More cuts in store—based on projected exhaustion of Medicare funds by late 1980s
Medicaid
■ Administrative control shifting to states ■ State "cost-related" reimbursement may be more restrictive than federal definitions ■ Proposed further reduction in federal participation
Other Payers
■ Movement by Blue Cross plans away from charge or cost reimbursement to prospective fixed rates ■ Commercial insurers aggressively seeking discounts ■ Business Coalitions—Preferred Provider Organizations (PPOs)

Source: Corporate and Management Restructuring Final Report to Visiting Nurse Corporation, September 1987.

In addition to regulations and competition, three additional forces were impacting VNHS: (1) financial pressures, (2) technological changes, and (3) consumer demands (Interview with VNHS President & CEO, July 29, 1999).

In the area of regulations, VNHS found itself operating in an environment that not only allowed more organizations to enter into the market to offer services, but also made it difficult for traditionally funded nonprofit organizations to keep their cash balances. For example, as state and federal planning agencies made licensing requirements less restrictive, numerous agencies in the business of home-health care emerged, giving VNHS increased competition. In fact, from July 1979 to March 1984, Georgia experienced a 22-percent increase in the number of licensed, home-health agencies, including large, national firms with excellent financing, a profit motive, and a flexible structure, and local hospitals looking to diversify in order to ensure their own financial viability.

During this same time period, the United Way of Metro-Atlanta placed restrictions on their affiliating nonprofits' ability to retain surpluses in excess of $25,000. The rationale for the United Way's restriction was to make sure that its member agencies spent their money on the services/programs that they agreed to provide. This restriction was also used as a mechanism of accountability: (1) to make sure that the United Way did not over-fund agencies; (2) to make sure that member agencies did not use their surplus money for frivolous expenditures; and (3) to prevent nonprofit organizations from building wealth (Interview with President & CEO, July 29, 1999). Additional financial pressure from changes in government contracting and Medicare reimbursement began to affect how health-care providers conducted business. Subsequently, VNHS believed their key to survival would center on their ability to improve their financial viability (VNHS Corporate and Management Restructuring Final Report to VNHS, September 1987).

It also became clear that technological changes were allowing people to live longer in the area served by VNHS. According to VNHS documents, Atlanta's total population increased 24 percent between 1970 and 1980, while the number of persons older than 60 increased 37 percent and 75-year-olds increased by 75 percent. With people living longer, the need for health care was becoming increasingly important. Further, VNHS found that the traditional inpatient setting was being replaced by the more optimal home-health-care setting. Lastly, consumers were beginning to demand a reduction in health care spending. VNHS found that Atlanta's medical care component of the Consumer Price Index (CPI) was increasing (VNHS Corporate and Management Restructuring Final Report to VNHS, September 1987).

The impact of these forces upon VNHS led the leadership of the organization to believe that stagnation would result while competition skimmed the market of the most profitable segments. Thus, in order to stay competitive for the future, VNHS would have to find a way not only to retain what it currently held, but to expand its market share of services, add new services, increase its visibility, and maintain its integrity and credibility while assuming a more dominant role as the preferred provider of in-home health and supportive services.

During the 1980s, according to VNHS documents, the pervasive line of thought was that most health-care providers adopted and retained monolithic, tax-exempt organizational structures. This kind of "traditional" organizational structure could possibly limit an organization's ability to adapt, grow, and accomplish its mission and goals. So the need for restructuring became a viable option. After careful examination of similar organizations in Milwaukee, Houston, and Dallas, and several discussions among the executive staff and the board of directors, VNHS hired the management-consulting firm Peat Marwick to help facilitate its corporate and management restructuring and to devise a strategic response to the challenges it was now facing. VNHS also employed legal counsel (known then as the firm Kilpatrick Cody) to address and handle any legal issues, including tax strategy and completing legal work associated with corporate restructuring (e.g., drafting new articles of incorporation) (VNHS Corporate Structuring Committee Meeting Minutes, March 14, 1986).

Critical Issues. Between 1984 and 1986, consultants from Peat Marwick engaged

VNHS senior management and staff in a series of roundtable discussions and surveys which analyzed and reviewed VNHS' existing organizational and communication structures, as well as governance, management, tax, and Medicare reimbursement issues. These discussions found that VNHS had four primary strengths: (1) clinical experience—skills, sensitivity to patients' needs, training, and the quality of care rendered by the staff; (2) community service—a broad community base of support; a long record of service in the community; a good reputation; a good product that was flexible to the needs of the community; (3) commitment to the mission—a commitment to patients and the community, and quality staff within the organization; and (4) a good working environment—a management group that functioned well together with "open" communication, a sensitivity by the management to the staff, and a cooperative staff.

Three major weaknesses were also identified: (1) a lack of capital resources (e.g., There was a need for capital for development and flexibility to address changing needs of the community, a lack of retained earnings, and problems in obtaining external financing for projects and new products/services); (2) a lack of key community contacts (e.g., There was a need to pay greater attention to cultivating users, clients, and prospects, and to gaining competitor information.); and (3) inadequate internal operations and systems (e.g., not enough bottom-up and across-level communications; slow response time; "lots of paper") (Interim Report: Corporate and Management Restructuring, May 1986).

Based upon these strengths and weakness, four critical areas were identified as needing change: (1) management organization structures; (2) marketing function; (3) communications; and, (4) moving projects/products from a developmental phase to an operational phase. Peat Marwick consultants believed corporate restructuring would allow VNHS to proactively address these issues. For example, an enhanced management structure would give the VNHS greater flexibility, better internal communications, enhanced marketing functions with a new framework to develop client contacts, and an improved decision-making process.

By enhancing its marketing function, VNHS would be able to increase its market share, cultivate referrals and client contacts, defend its market position against competitors, build a database on the market, and help to provide direction for future budgetary action. Improved communication and appropriate delegation of authority would also enable the organization to improve its chances of survival and growth, respond to its changing environment, enhance the exchange of information, and help staff to make better decisions.

Lastly, by moving projects/products from a development phase to an operational phase, VNHS would be better able to respond to the community, fulfill the demands of its current client base, address its competitors with flexibility, and improve its ability to survive and grow (VNHS Corporate and Management Restructuring Final Report to VNHS, September 1987, and Interview with VNHS President & CEO, July 29, 1999).

Thus, consultants developed recommendations that remained consistent with the VNHS mission, goals, and objectives. These recommendations were also based on the most recent VNHS strategic plan, which targeted several potential areas for revenue

diversification, including creating a commercial venture that sells and/or leases durable medical equipment, developing fee-based medical/health consulting services, and selling computer home-health-care software products.

Peat Marwick consultants firmly believed that in order to support these kinds of commercial activities and to protect the nonprofit, tax-exempt status of the organization, VNHS would have to create a different corporate and management structure that involved a separate for-profit entity under the auspices of the nonprofit corporation. This kind of corporate restructuring would accomplish several goals. It would facilitate the process of repositioning facilities, programs, services and assets necessary for adapting to change and achieving increased flexibility for expansion and growth. It would create the necessary multi-corporate structure that could accommodate multiple lines of business segmented for specific markets. The restructuring would also maximize control in the presence of external regulation and competition and provide management with some of the tools, resources, and flexibility to make decisions that enhance operational effectiveness (VNHS Corporate and Management Restructuring Final Report to VNHS, September 1987, and Interview with VNHS President & CEO, July 29, 1999).

Establishing Goals. The VNHS executive staff revealed that new goals would be set in order for the organization "to maximize flexibility for VNHS expansion and growth in an environment characterized by competition, regulatory pressures, financial exposure, and capital financing pressures" (VNHS Corporate and Management Restructuring Final Report to VNHS, September 1987). The board of directors agreed with this statement but also emphasized that any new strategic response "must be in keeping with the organization's mission" (VNHS Corporate Structuring Committee Meeting Minutes, March 14, 1986, and VNHS Corporate and Management Restructuring Final Report, VNHS September 1987).

Subsequently, four "master goals" were established: expansion of the current service area, control over the client referral base, streamlining of operations, and diversification into income-generating products and/or services. These master goals were expanded into design criteria that would ultimately lead to a new management and corporate structure.

The Outcome of Restructuring. The result of VNHS' restructuring was a new corporation—the Visiting Nurse Corporation—and four subsidiaries: Visiting Nurse Foundation, Inc., Visiting Nurse Association of Metropolitan Atlanta, Inc., Visiting Nurse Services, Inc., and Visiting Nurse Association of Coastal Georgia, Inc. Each organization is briefly described in Table 2 (at right).

Visiting Nurse Corporation became the parent organization of the multiple not-for-profit and for-profit entities. Its objective was to ensure cash flow. The corporation had the power to appoint and remove trustees (or directors) of the subsidiary entities. Additionally, the articles of incorporation and bylaws of the first-tier subsidiaries required approval from the board of directors of the Visiting Nurse Corporation for the following actions: (1) appointment and removal of trustees with or without cause; (2) approval of amendments to the articles of incorporation and

Table 2: VNHS Corporate Restructuring: Company Descriptions

Visiting Nurse Corporation (VNC)
For VNC to be considered the parent organization of the multiple nonprofit and for-profit entities, VNC must have the power to appoint and remove the trustees (or directors) of the subsidiary entities. In addition, the articles of incorporation or bylaws of the first-tier subsidiaries require approval from the board of the VNC for the following actions:
1. Appoint and remove trustees with or without cause
2. Approve the amendment of Articles of Incorporation
3. Approve the amendment of Bylaws
4. Adopt a plan of dissolution
5. Authorize the sale, mortgage, or other disposition of all or substantially all of the corporation's assets
6. Adopt a plan of merger or consolidation
7. Approve the organization or acquisition of any subsidiary or affiliate

Implied in the performance of these actions is the ability to:
1. Authorize unbudgeted transactions over $10,000
2. Select or remove, with or without cause, any officer or chairman

Visiting Nurse Foundation, Inc. (VNF)
The VNF should have the primary responsibility of soliciting charitable donations and managing endowment funds. To accomplish this function, the board of trustees of VN Foundation, Inc., should be comprised of a carefully selected group of individuals who can facilitate fundraising and investments. The Foundation will continue to be classified as a nonprofit organization under Section 501(c)(3). The Foundation should seek non-private foundation status under Section 509(a)(3). As such, the Foundation will not be required to meet an annual public-support test. Therefore, this entity will not be restricted as to the amount of annual investment earnings.

Visiting Nurse Association of Metropolitan Atlanta, Inc.
This organization continues to operate as a nonprofit organization that directs the provision of outpatient, home-health-care services in the metro-Atlanta area.

Visiting Nurse Association of the Coastal Region, Inc.
This organization will continue to operate as a nonprofit organization that directs the provision of outpatient, home-health-care services in the Coastal Region of the State of Georgia.

Visiting Nurse Services, Inc.
This organization will be operated as a for-profit corporation and engage in activities connected to the overall mission of Visiting Nurses, but not related to the exempt status.

Source: Corporate and Management Restructuring Final Report to Visiting Nurse Corporation, September 1987.

bylaws; (3) adoption of a plan of dissolution; (4) authorization of the sale, mortgage, and/or other disposition of all or substantially all of the corporation's assets; (5) adoption of a plan of merger or consolidation; (6) approval of the organization or acquisition of any subsidiary or affiliate; and (7) authorization of some budget transactions (Corporate and Management Restructuring Final Report to Visiting Nurse Corporation, September 1987, and Interview with VNHS President & CEO, July 29, 1999).

Visiting Nurse Foundation, Inc., became responsible for soliciting charitable donations and managing endowment funds. To accomplish this function, the Foundations' board was made up of a carefully selected group of individuals who could facilitate fundraising and investments. The Foundation would continue to be classified as a nonprofit organization under Section 501(c)(3) of the Internal Revenue Code. The organization also had status under the Internal Revenue Code's Section 509(a)(3), meaning its annual investment earnings were not restricted. The Visiting Nurse Association of Metropolitan Atlanta, Inc., continued as a nonprofit organization that provided outpatient, home-health-care services in the metropolitan area to under-served individuals and those unable to afford home-health-care services. The third subsidiary, the Visiting Nurse Association of Coastal Georgia, Inc., was organized as a nonprofit providing home-health services for the coastal region of the state. Finally, Visiting Nurse Services, Inc., was created as a for-profit stock corporation.

It is important to note that although the four subsidiaries operated under the auspices of the parent company, each retained its own board of directors and employed a vice president of operations who reported to the president and CEO (hereafter, just called "CEO") of the parent company.

The Social Enterprise: Visiting Nurse Services, Inc. The for-profit venture, Visiting Nurse Services, Inc., (VNS) was created to engage in activities connected with the VNHS health-care mission, but not necessarily allowed according to the VNHS tax-exempt status. Peat Marwick consultants proposed that VNS only undertake activities of a type that would be considered unrelated business taxable income for the parent organization. Initially, it was thought that the activities of management consulting, durable medical equipment leasing, software selling, and/or private-duty nursing would be taxable. Consequently, Peat Marwick consultants asserted that the creation of a for-profit subsidiary by the tax-exempt organization would not result in revocation of the parent corporation's exempt status, unless it extensively participated in the management activities of the for-profit entity (Corporate and Management Restructuring Final Report to Visiting Nurse Corporation, September 1987).

Consultants found that IRS Regulation 1.512(B)(1) provided rules for the treatment of income received by an exempt organization from a for-profit controlled corporation. This provision contemplates the participation of a charitable organization in a commercial enterprise. The following points were highlighted in the Corporate and Management Restructuring Final Report by Peat Marwick consultants as relevant to VNHS's new corporate plan:

■ The parent corporation and its subsidiary are separate tax entities and so long as the subsidiary has some real and substantial business function, its existence may not generally be disregarded for tax purposes.

■ The IRS may collapse activities where the parent corporation so controls the affairs of the subsidiary that it is merely an instrument of the parent. However, there must be clear and convincing evidence that the subsidiary is an arm, agent, or integral part of the parent corporation.

The consultants determined that certain elements of the new corporate structure must be considered and explained:

■ Whether there is a bona fide business purpose for the subsidiary;

■ The degree to which the subsidiary is managed by an independent (outside) board of directors;

■ The degree of involvement by the parent corporation in the day-to-day affairs of the subsidiary; and

■ Whether transactions between the parent corporation and the subsidiary are at arm's length.

The factors that did not require special consideration included:

■ The subsidiary's board of directors is appointed by the parent corporation, and

■ The chief executive officer of the parent corporation sits on the subsidiary board of directors.

■ Whether or not cancellation of indebtedness by a parent corporation constitutes taxable income to its subsidiaries (In *Autostrop Safety Razor Company, Inc. V. Commissioner*, 28 B.T.A. 621 [affirmed 35-1 USTC 9017], the court decided that such a transaction amounts to a contribution by the parent to the capital of its subsidiary.).

With these points, consultants from the firm of Peat Marwick showed that a nonprofit organization could own and operate a for-profit corporation within the confines of the law and without penalty or affecting the nonprofit's tax status.

Visiting Nurse Services, Inc., was formally incorporated in 1987. The venture involved a strategic relationship between VNS and Glasrock Corporation, a division of British Oxygen. The approach assumed that VNS would bring patients with product needs to the table and Glasrock would bring product and distribution capability, allowing the two companies to align their incentives.

VNHS' initial stake in the venture was less than $10,000 to fund the deposit and first-month's rent on office space and the deposit and first-month's lease on a van to transport equipment. During these beginning stages, with the help of two staff members, the VNS vice president managed operations on a card table and used his own coffee maker brought from home. By the end of the first year, VNS grew to a staff of approximately 25 (Interview with VNS Past Vice President, March 13, 2000). According to 1987 Corporate End-of-the-Year reports, VNS was described as,

> ...a for-profit corporation to support the charitable mission of the Visiting Nurse Corporation and its subsidiaries. VNS was created to fill gaps in needed home-delivered health services as well as to diversify the sources of revenue for the corporation. As a for-profit company, the VNS provides flexibility in developing innovative services. Flexibility and innovation will be key to our future as the health care industry continues to change (1987 Report to the Community, 1987, p. 3).

The goal of VNS was not only to create new revenue, but also to find and capture a new set of clientele by offering services/products—from pharmacy-related items to medical equipment to non-traditional home-health services, e.g., private duty nurses, infusion therapy and pediatric services—that went beyond what the parent corporation's nonprofit organizations were providing.

According to the vice president (Interview with Past Vice President of VNS, March 13, 2000) at the time, VNS experienced fast growth.[1] For example, by 1990, a total of 11,715 specialty visits (e.g., infusion services, pediatric nursing, respiratory/pulmonary, and enterostomal therapy) had been made. Despite this growth, the vice president (who eventually became the chief operating officer) related that VNS and VNHS experienced two major challenges: financial loss and community mistrust.

The Economic Issue

While the organization did grow at a rapid pace, key personnel misunderstood the Medicare/Medicaid reimbursement model for home-health care. VNS and VNHS personnel were under the assumption that as the for-profit organization would grow, it would be able to market and sell new products without excessive overhead. But over time, as corporate overhead increased, the regulations dictated by the Health Care Financing Administration (HCFA) for cost reimbursement actually favored traditional, single-service organizations as opposed to diversified organizations. The vice president stated that "on paper," the for-profit was losing money due to Medicare's overhead allocation process. In fact, as the for-profit organization grew, so did its overhead. This overhead contributed to the inability of the for-profit organization to gain true "profit." Furthermore, he found that the HCFA guidelines on getting reimbursed conflicted with the same IRS guidelines. (Interview with VNS Past Vice President, March 13, 2000).

In 1986, prior to VNS' creation, VNHS' Medicare revenue was $10,310,995, making up 51.1 percent of the 75.5 percent in revenue from home-health services. Other revenue consisted of 4.2-percent hospice funds; 5-percent United Way funds; 13.4-percent community services; and 1.9-percent other.

In 1987, revenue for VNHS rose by over $3 million to $13,083,542. Upon closer examination of the for-profit ventures, VNHS financial documents showed that VNS had revenues of $2,146,491 and expenditures of $1,966,672: a profit of $179,819. Two years later, VNHS revenue was $25,548,352. VNS Services, Inc., showed revenue of $2,552,228 and expenditures of $2,655,280: a loss of $103,052. By 1992, figures show VNHS revenues were $50,519,558. However, VNS showed revenue of $2,986,754 and expenditures of $3,176,276: a loss of $189,522 (Visiting Nurse Health System, Inc.'s Annual Report 1986, 1987, 1988, 1989, 1990, 1991, 1992, and 1993).

---

[1] During its first year of operation, the VNS-Registry reported that nursing accounted for 53,288 hours of service and personal-care aides accounted for 56,170 hours of service for a total of 601 client admissions. Visiting Nurse Services reported 1,950 client admissions and 4,064 deliveries. The number of professional hours served was 36,015 and the number of non-professional hours was 29,775. In terms of DME, Supplies, and Pharmaceuticals, 1,852 patients were served and 12,606 deliveries were made (1987 Report to the Community).

By the mid-1990s, the board of directors of VNHS Corporation, the CEO of the parent corporation, and the vice president of VNS began to engage in dialogue concerning the problems associated with the for-profit organization. The expenditures of VNS were exceeding revenues and several problems related to the reimbursement and overhead issues continued to cause difficulty.

The Community Issue

According to the past vice president, a second issue emerged regarding community perception and acceptance: the home-health-care community had a hard time accepting VNHS' for-profit venture. In fact, he said, competitors tried to use VNHS' for-profit business as a "media ploy" to destroy the nonprofit's reputation in the community by insinuating that the for-profit organization was a cover for "dirty dealings." This kind of "unwanted media" attention aggravated the board of the parent corporation. The then-vice president emphasized that the members of the board volunteer their time and did not like the extra "tension" that the for-profit organization was giving. He believes that the board became very "unhappy" about the situation because they did not want to see the reputation or the mission of the organization destroyed (Interview with VNS Past President, March 13, 2000).

Other Issues

A third issue, identified by both the CEO of VNHS and the past vice president of VNS, centered around one of the original goals of the restructuring effort. Originally, VNHS personnel understood that the for-profit organization would offer new services and products, thereby finding and capturing "a new audience of clients" (Interview with VNHS President & CEO, March 10, 2000, and Interview with VNS Past Vice President, March 13, 2000).

However, this did not prove to be the case. Instead, VNHS and VNS found that approximately 90 percent of the VNS clients were in fact also clients of the nonprofit organization. Thus, the for-profit organization was not producing "new clients" above and beyond that of what the nonprofit organization was already attracting (Interview with VNHS President & CEO, March 10, 2000).

A fourth problem pertained to confusing lines of communication. With both organizations having separate boards of directors, the question of which board should make decisions affecting the direction and financial conditions of VNHS was problematic. However, the past vice president of VNS states that it was not an overwhelming factor in the ultimate decision to dissolve the for-profit corporation (Interview with VNS Past Vice President, March 13, 2000).

In response to these challenges, VNHS decided to legally dissolve the commercial venture and place all of its services back within the immediate control of the nonprofit organization on a "fee-for-service" basis (Interview with VNHS President & CEO, March 10, 2000 and Interview with Past Vice President, March 13, 2000).

Legal Restructuring. Attorneys from Kilpatrick Cody were employed by the parent company to reexamine the overall organizational structure of VNHS. The IRS agreed to the reorganization on the conditions that the client/patient population was

indeed similar and that VNHS would not go about setting up any retail business under its nonprofit organizational structure (Interview with VNHS President & CEO, July 29, 1999, and March 10, 2000).

Consequently, during this second re-organizational effort, the for-profit organization was legally dissolved and the product line was placed under the auspices of the nonprofit. The parent corporation was also able to solve its problem by directing its overhead to a Medicare/Medicaid home-health agency that improved its reimbursement. Lastly, the parent corporation resolved governance issues among all of its subsidiaries by making its board the sole board of directors. In later years, the parent company would sell Coastal Region VNA in an effort to concentrate its efforts primarily on the clients within the metro-Atlanta area (Interview with VNS Past Vice President, March 13, 2000).

Visiting Nurse Services Today. What was then VNS is now known as Home Medical Equipment and Respiratory Services (HME/RT), a division of VNHS. The division is run by a director who oversees four managers (a manager of operations, a manager of respiratory therapy, a manager of accounts receivable, and a manager of nutrition Services), and a staff ranging from approximately 75 to 100 individuals. The products and services of VNS have been completely integrated with those offered by the nonprofit organization.

The lines of communication are clear: The director reports directly to the CEO of VNHS, who reports to the single board of directors. The HME/RT division has its own warehouse and six trucks on the road making equipment deliveries. While staff and products are in a separate location from the main offices of VNHS (approximately 18 miles away), the client is unaware of this separation[2] (Interview with Director of HME/RT, March 10, 2000, and Interview with Manager of Operations, HME/RT, March 10, 2000).

According to the current director, the division's biggest problem is what is known as "utilization management" for the durable equipment—canes, walkers, commodes, oxygen, beds, and wheelchairs—that are rented to clients/patients on a temporary basis. Her concerns lie with the overuse of this equipment and its condition upon its return. She asserts that since VNHS reuses the equipment, it is important to get it back quickly and make sure it is in good condition for the next patient (Interview with Director of HME/RT, March 10, 2000).

The director reports that HME/RT is doing extremely well financially. In fact, VNHS has control of over approximately 60 percent of the managed-care service market. During 1998-1999, sales went up approximately $4 million. VNHS grossed approximately $15 million in revenue from this operation that accounted for approximately 21 percent of the VNHS overall budget. She feels that she can continue to grow the market of HME/RT by incorporating some "traditional marketing" schemes and utilizing nursing coordinators to market the business (Interview with Manager of Operations, HME/RT, March 10, 2000).

---

[2] In other words, the client/patient calls one number, customer service takes their order/referral, the information is keyed into the computer, the client/patient is properly billed, and the service/product is delivered.

The Commercial Venture and the Overall Organization:
Lessons Learned

The VNHS case offers several unique lessons about commercial activity, particularly commercial venturing. Some of these findings may be partially influenced by the overall corporate restructuring that occurred, however, and not solely as a result of the commercial venture. Yet, interviews with the VNHS CEO (August 23, 1999) and the vice president of the VNHS Foundation (August 23, 1999) suggest that their perceptions were shaped by the commercial venture.

The Change Agents and a Strategy for Change.
FitzRandolph and Miller (1998), Zimmerman and Dart (1998), and the Roberts Foundation (1996) report that a change agent and/or ambidextrous entrepreneur is necessary for successful social entrepreneurship to occur. The VNHS case reveals that although a change agent is necessary, perhaps what is really needed is a "strategy for change." The CEO noted that organizational change in this case was facilitated by the executive staff's strategy.

The administrative leadership of VNHS (i.e., the vice president of human resources, the chief operating officer, the vice president of marketing, the vice president of clinical services, and the CEO), who were the initial visionaries, came together to devise a plan that would help lower-level staff adjust to the changes accompanying corporate restructuring. Components of their strategy included written memos, small group meetings, and open-staff meetings. Although the vice president of VNS provided key leadership and guidance, it was still the overall strategy created by the upper-level staff that helped lower-level staff "accept" the restructuring. By working together, the team was able to work with staff to help them embrace change as it occurred. Staff who could not adapt to change left the organization. Leadership from the executive level of the organization certainly contributed to the ability of the organization to adopt this form of entrepreneurial activity

At the same time, administrative staff identified key members of VNHS' board of directors to help facilitate change within the board. A specially-appointed committee to the board was created in order to explore the idea of commercial venturing. The criteria used to choose committee members included 1) board members with strategy-oriented mindsets; 2) big thinkers, or those with the ability to think about all of the possible ways the organization might evolve; and 3) level of expertise. Based upon these criteria, the committee consisted of lawyers, business people (with marketing expertise), physicians, and a "nay-sayer" (i.e., a person who would challenge ideas). In effect, this committee consisted of people who could "balance" and "challenge" the ideas of the outside consultants.

This case shows that multiple change agents helped to move this entrepreneurial activity along, but it was the structuring effect of a plan that gave the organization a clear direction on how to proceed.

External Funding.
In 1999, Independent Sector, a nonprofit membership organization, held a conference on social entrepreneurship. A number of nonprofit managers and practitioners at the conference raised concerns that outside donors would frown upon the idea of nonprofit organizations engaging in commercial venturing. In

fact, many asserted that commercial venturing would "damage" their ability to gain funds from foundations, corporations, and individual donors. The experiences of VNHS showed this challenge to be nonexistent. In fact, the CEO stated that the United Way (one of the organization's largest funders) was completely "sold" on the idea. She asserted that VNHS was able to provide funding agencies like the United Way with documented evidence that charitable need still exceeds current funding levels. Consequently, the organization had a responsibility to seek additional dollars in order to meet existing needs.

Additionally, the CEO indicated that commercial venturing would enhance the image of the organization and allow continuation of VNHS' charitable mission. She states, "All dollars are important—but the socially responsible thing to do is to augment donated dollars with other sources of money in order to keep services going." This view supports Skloot's assertion (1988) that foundations and corporations are indeed asking nonprofit organizations to supplement their funding with other sources of income.

Staff. VNHS staff were "definitely" affected by the organizational change. According to the CEO, "it took many years, retreats, meetings, and memos to gain the acceptance of lower-ranking staff." However, with the help of senior staff, cultural change was achieved among staff. In fact, the CEO believed that the entire restructuring effort and creation of a commercial venture "breathed new life" into the organization because staff had to reconcile the mission of the nonprofit organization with the purpose of the commercial venture. This reconciliation forced staff to develop a better business vernacular and a customer-centered approach to services. Although some staff chose to leave during the process because of their unwillingness to accept the organization's change, many attended extra training and educational classes to become more productive and informed. Simultaneously, senior staff taught their employees the value of providing services for a fee and that customers would expect increased efficiency and accountability.

Tax-Exempt Status. As previously noted, many academics and nonprofit practitioners worry about the effect of commercial venturing on the tax-exempt status of nonprofit organizations. The VNHS case study shows that the creation of a for-profit subsidiary by a tax-exempt organization need not result in a revocation of the parent organization's exempt status. In this case, the nonprofit parent corporation and its for-profit subsidiary were separate tax entities. As long as the for-profit subsidiary had some real and substantial business function, then the nonprofit organization's tax-exempt status and purpose for owning a for-profit organization was not questioned by the IRS. The CEO found that this was not a real issue for VNHS because it related its commercial venture to the organization's overall mission and purpose. She found that by the 1990s, diversification of services and products had enabled the organization to survive. Although the largest program of VNHS is still Medicare service, diversification efforts have enabled the organization to continue improving its fulfillment of client needs. Further, VNHS' use of service integration allows its clients to access its services via a "one-stop" mechanism.

Organizational Structure. Nonprofit organizations engaged in commercial venturing should pay careful attention to the manner in which the business is set up, but not necessarily make it a "separate" entity. VNHS' CEO believes that the more "removed" the for-profit organization is from the corporate structure of the nonprofit organization, the harder it is to manage the direction of the organization. Also, since separate boards of directors may result in confusion, it may be better to have one board that is accountable to the needs of the entire organization.

Conclusion

The VNHS case contributes to the literature on social enterprise, particularly the use of commercial venturing and fee-based services by showing that:
- A change agent is probably necessary for this type of change to occur; but, a strategy for change that incorporates a plan involving multiple actors within the organization is particularly critical;
- The external perceptions of funders remains positive when there is a mix of donated dollars and earned revenue;
- The adoption of a commercial enterprise within an existing nonprofit organization can change the culture of the nonprofit organization (business practices and customer orientation to service delivery);
- As long as the for-profit subsidiary has some real and substantial business function, then the nonprofit organization's tax-exempt status and purpose for owning a for-profit organization is not questioned; and
- The more "removed" the for-profit organization is from the corporate structure of the nonprofit organization, the harder it is to manage the direction of the organization.

Additionally, the perceptions of the CEO and other senior staff raise several theoretical questions regarding the ability of nonprofit organizations to use social enterprise as a means for creating alternative revenue, including:
- What is the correct organizational structure that nonprofit organizations should adopt when creating for-profit organizations?
- How does one create a culture of change within nonprofit organizations regarding the use of for-profit techniques and business acumen?
- How effective are the IRS regulations and monitoring procedures regarding the establishment of for-profit organizations by nonprofit organizations?

Furthermore, this study demonstrates the need for additional case studies that explore entrepreneurial activities in order to test theoretical assumptions and practices demonstrated within the literature. The VNHS case shows the importance of studying organizations that have been involved with social entrepreneurship techniques over a period of time, instead of only concentrating on new-venture start-ups and failures. By doing so, we can truly see the outcomes of such efforts.

Although many would find this case to be a good example of the process for adding entrepreneurial activity to an existing nonprofit organization, it represents much more. The VNHS case ultimately illustrates the powerful response of some nonprofit organizations to shifting public policies and a changing world by exploring promising new paths to self-sustainability.

References

Adams, Carolyn and Felice Perlmutter (Spring 1991). "Commercial Venturing and the Transformation of America's Voluntary Social Welfare Agencies." *Nonprofit and Voluntary Sector Quarterly.* Vol. 20, No. 1, pp. 25-37.

Adams, Carolyn and Felice Perlmutter (1990). "The Voluntary Sector and For-Profit Ventures: The Transformation of American Social Welfare?" *Administration of Social Work,* Volume 14 (1), 1990.

Andreasen, A. R. (1996). "Profits for Nonprofits—Find a Corporate Partner." *Harvard Business Review.* Volume 74, No. 6, Nov-Dec 1996.

Baldwin, J. N. (1987). "Public Versus Private: Not That Different, Not That Consequential." *Public Personnel Management,* 1987, 16, 181-193.

Banaszak-Holl, Jane, Jacqueline S. Zinn, and Vincent Mor (1996). "The Impact of Market and Organizational Characteristics on Nursing Care Facility Service Innovation: A Resource Dependency Perspective" in *Health Services Research,* April 1996, Vol. 31, No. 1, p. 97-117.

Bendick, Marc. (1989). "Privatizing the Delivery of Social Welfare Services: An Idea to Be Taken Seriously" in *Privatization and the Welfare State* edited by Sheila Kamerman and Alfred Kahn. Princeton, NJ: Princeton University Press.

Blalock, Jr., Hubert M. (1979). *Social Statistics.* New York: McGraw-Hill Book Company.

Bookman, Mark (1992). *Protecting Your Organization's Tax-exempt Status.* San Francisco, California: Jossey-Bass Publishers.

Bornstein, David (1999). "A Force Now in the World, Citizens Flex Social Muscle" in *The New York Times,* Saturday July 10, 1999. Found at the Ashoka Innovators for the Public website: http://www.ashoka.org/html/nytimes.html.

Bornstein, David (1998). "Changing the World on a Shoestring" in *The Atlantic Monthly.* January 1998. http://www.theatlantic.com/issues/98jan/ashoka.html.

Brown, Peter C. (1990). *The Complete Guide To Money-Making Ventures For Nonprofit Organizations.* Fund Raising Institute—A Division of the Taft Group.

Bryce, Herrington J. (2000). *Financial & Strategic Management for Nonprofit Organizations.* San Francisco: Jossey-Bass Publishers.

Chang, Cyril F. and Howard P. Tuckman (1996). "Revenue Diversification Among Non-Profits." *Voluntas,* Volume 5:3, 273-290.

Chang, Cyril F. and Howard P. Tuckman (1991). "A Methodology for Measuring the Financial Vulnerability of Charitable Nonprofit Organizations." *Nonprofit and Voluntary Sector Quarterly.* Volume 20, Number 4, Winter 1991.

Cordes, Joseph and Burton A. Weisbrod (1998). "Differential Taxation of Nonprofits and the Commercialization of Nonprofit Revenues" in *To Profit or Not to Profit: The Commercial Transformation of the Nonprofit Sector* edited by Burton A. Weisbrod. New York, New York: Cambridge University Press.

Crimmins, James C. and Kiel, Mary (1983) "Enterprise in the Nonprofit Sector" in *The Nonprofit Organization: Essential Readings* edited by David L. Geis, J. Steven Ott, and Jay M. Shafritz. Pacific Grove, California: Brooks/Cole Publishing Company, 1990.

Dees, J. Gregory (1998). "Enterprising Nonprofits." *Harvard Business Review* (January - February) pp. 55-56.

Dees, J. Gregory, Jed Emerson, and Peter Economy (2001). *Enterprising Nonprofits: A Toolkit for Social Entrepreneurs.* New York: John Wiley & Sons.

Firstenberg, Paul B. (1986). *Managing For Profit In the Nonprofit World.* New York: The Foundation Center.

FitzRandolph, Susan and Lesley Miller (1998) "Entrepreneurial Ventures in Nonprofit Organizations: Determining Probability for Success." An unpublished paper presented at the 1998 ARNOVA conference.

Friz, Robert W. (1998). "Structuring Joint Ventures Between For-Profit and Nonprofit Organizations" in the *Journal of Taxation of Exempt Organizations.* May/June 1998, Vol 9, No 6.

Froelich, Karen (1999). "Diversification of Revenue Strategies: Evolving Resource Dependence in Nonprofit Organizations" in the *Nonprofit and Voluntary Sector Quarterly.* Volume 28, Number 3, September 1999.

Galaskiewicz, Joseph, and Wolfgang Bielefeld (1998). *Nonprofit Organizations in an Age of Uncertainty: A Study of Organizational Change.* New York: Aldine De Gruyter, Inc.

Gronbjerg, Kirsten A. (1993). *Understanding Nonprofit Funding: Managing Revenues in Social Services and Community Development Organizations.* San Francisco, California: Jossey-Bass Inc. Publishers.

Hodgkinson, Virginia Ann, Murray S. Weitzman, Christopher M. Toppe and Stephen M. Noga. *Nonprofit Almanac 1992-1993: Dimensions of the Independent Sector.* San Francisco, California: Jossey-Bass Publishers.

Hodgkinson, Virginia Ann, Murray S, Weitzman, John A. Abrahams, Eric A. Crutchfield and David R. Stevenson. *Nonprofit Almanac 1996-1997: Dimensions of the Independent Sector.* San Francisco, California: Jossey-Bass Publishers.

Hopkins, Bruce R. (1988). "The Legal Context of Nonprofit Enterprise" in *The Nonprofit Entrepreneur: Creating Ventures To Earn Income* edited by Edward Skloot. The Foundation Center.

Lovelock, Christopher H. and Charles B. Weinberg (1988) "Planning and Implementing Marketing Programs in Nonprofit Organizations" in *The Nonprofit Entrepreneur: Creating Ventures to Earn Income* by Edward Skloot. The Foundation Center.

Massarsky, Cynthia W. (1994). "Enterprise Strategies for Generating Revenue" in *The Jossey-Bass Handbook of Nonprofit Leadership and Management* by Robert D. Herman and Associates. San Francisco: Jossey-Bass Publishers.

Rainey, Hal G. (1991). *Understanding and Managing Public Organizations.* San Francisco, California: Jossey-Bass, Inc., Publishers.

Roberts Foundation and Homeless Economic Development Fund (1996). *New Social Entrepreneurs: The Success, Challenge and Lessons of Non-profit Enterprise Creation.* San Francisco, California: The Roberts Foundation. September 1996. http://www.redf.org.

Ruckle, James E. (1993). *Distinctive Qualities of Third Sector Organizations*. New York: Garland Publishing, Inc.

Salamon, Lester M. (1992). *America's Nonprofit Sector: A Primer.* The Foundation Center.

Skloot, Edward (1988). "The Venture Planning Process" in *The Nonprofit Entrepreneur: Creating Ventures To Earn Income* edited by Edward Skloot. The Foundation Center.

Weisbrod, Burton A. (Ed) (1998). "Modeling the Nonprofit Organization as a Multiproduct Firm: A Framework for Choice" in *To Profit or Not to Profit: The Commercial Transformation of the Nonprofit Sector* edited by Burton A. Weisbrod. New York, New York: Cambridge University Press.

Yin, Robert K. (1984). *Case Study Research: Design and Methods.* Beverly Hills, California: Sage Publications.

Young, Dennis R. (1998). "Commercialism in Nonprofit Social Service Associations: Its Character, Significance and Rationale" *Journal of Policy Analysis and Management.* Vol. 17, No. 2, pp. 278-297.

Zimmerman, Brenda and Raymond Dart (1998). "Charities Doing Commercial Ventures: Societal and Organizational Implications." Trillium Foundation and the Canadian Policy Research Networks, Inc.

Interview with President & CEO, July 29, 1999 and March 10, 2000.

Interview with Vice President of VNHS Foundation, August 23, 1999.

Interview with Visiting Nurse Services' Past Vice-President, March 13, 2000.

Interview with Director of HME/RT, March 10, 2000.

Interview with Manager of Operations, HME/RT, March 10, 2000.

Visiting Nurse Health System, Inc. 1998 Annual Report.

Visiting Nurse Health System, Inc. 1993 Annual Report.

Visiting Nurse Health System, Inc. 1992 Annual Report.

Visiting Nurse Health System, Inc. 1991 Annual Report.

Visiting Nurse Health System, Inc. 1990 Annual Report.

Visiting Nurse Health System, Inc. 1988 Annual Report

Visiting Nurse Health System, Inc. 1987 Annual Report.

Visiting Nurse Health System, Inc. 1986 Annual Report.

Visiting Nurse Health System, Inc. 1987 Corporate End of the Year Reports.

VNHS Corporate and Management Restructuring Final Report to VNHS, September 1987.

VNHS Corporate Structuring Committee Meeting Minutes, March 14, 1986.

1987 Report to the Community

MUCH MORE TO DO:
ISSUES FOR FURTHER RESEARCH
ON SOCIAL ENTREPRENEURSHIP

Rachel Mosher-Williams

As the preceding chapters illustrate, social entrepreneurship takes many different forms, and yields many different products and outcomes. The definitions offered in this volume span a broad spectrum, from the activities of visionary nonprofit leaders to pattern-breaking ideas of groups or networks (or any of a variety of locations) to innovations blending business and philanthropic methods. The fact that the authors contributing to this volume focus their thoughts on a range of types of organizations—from Ashoka's corps of social leaders to Dees' and Anderson's enterprising innovators to Massarsky's nonprofit enterprisers—reflects the range of field leaders' definitions and lack of a common language.

While that may drive researchers to distraction, it has not necessarily been a problem for the entrepreneurs themselves. Positive action can occur outside hard and fast definitions. But, and this is a big but, the field is coming to a point of inflection (or a "tipping point" as Massarsky suggests) at which *theory*-driven rather than *practice*-driven typologies are becoming critical for advancing this important work. Thus far, research on social entrepreneurship has mostly consisted of intriguing stories about risk-taking individuals who spend their lives innovating for social change. While studies that quantify these people and measure their outcomes have understandably suffered from a lack of both funding and basic data, research must catch up with and be built from practice.

Acknowledging that research on social entrepreneurs is in its infancy, the chapters in this volume suggest a broad range of questions that scholars should address under the following major categories:

Basic Data on the Field

Statistical data on social entrepreneurs is nearly nonexistent. How many are there? Where are they located? How are they educated? What is their race, socio-economic condition, and age? We need not only a baseline measurement of these and many other indicators, but also ongoing data collection that allows us to see and explore

the growth of the social enterprise field beyond our anecdotal sense that more and more people are doing "this."

Quantifying social enterprise activity—revenue-generating programs or for-profit subsidiaries of nonprofits—is complicated because of significant differences in the way nonprofits report profit and loss. But developing a methodology that maps the field and gathers other basic data on social entrepreneurs will help them and the supportive infrastructure developing around them to better understand: 1) what social enterprise "success" really means and how to achieve and then communicate it; 2) what failure looks like and its ultimate costs; 3) how to measure and aggregate the impact of entrepreneurial activity across various types of organizations and people; and 4) how to inform appropriate public policy regarding social enterprise.

Methodology

Only with a balanced but creative research agenda, built on existing practice, can the academic community progress beyond anecdotes and a handful of case studies on the most notable social entrepreneurs. One immediate path for studying social entrepreneurship may be, as Paul Light suggests, looking at entrepreneurs' footprints (pattern-breaking ideas in solving social problems). This approach accommodates the need to look back, since research is well behind practice, and would also enhance our understanding of social entrepreneurship as a process or journey that has multiple impacts, rather than just as an end in itself.

As an example, crank-powered computers for every poor family in Botswana may make a significant difference in educating poor people there. But what about the multiple partnerships between nonprofits and businesses, the technological innovations, and the gains in understanding poverty and education needs in Africa that occurred along the way to the finished product?

Lessons from Business Development Theory

For at least the past decade, some nonprofit leaders, funders, and other sector observers have suggested that business methods are the path to *better* nonprofit operations, not just *better-funded* operations. Research questions that adopt a business approach to understanding social ventures include: How do social enterprises become self-sustaining (i.e., independent of all philanthropic or government support)? Is that a realistic or even desirable yardstick? Under what conditions do start-up social enterprises fold?

The existing case studies of social entrepreneurs give too much attention to successful ventures; the field needs to see and understand failure. For instance, what can we learn from the faultering of social ventures, like the Virginia Eastern Shore Corporation, launched by the Nature Conservancy?

Other priority topics include exploring the economic efficiency and other impacts of hybrid organizations within our broader system of nonprofit, for-profit, and government sectors; developing a real measure of return on investment in social enterprise; and understanding investor and consumer preferences regarding social enterprise.

Institutionalization of the Field

There are so many questions around the formalization of the social entrepreneurship field that have never been addressed. To list just a few: How and where is social entrepreneurship being taught in higher education institutions? What does it mean for our understanding of social entrepreneurship that most social entrepreneurship programs are located in business schools rather than in nonprofit management programs in public administration or public policy schools? How are these programs affecting how social entrepreneurship is implemented in the field? Perhaps most important, how are the practitioner and theory-driven communities disconnected? In addition to exploring why certain people become social entrepreneurs, as some of this volume's chapters do, it will be critical to determine how and when they are getting to the point of undertaking enterprise.

Legal Form

The increasing hybridization of organizations working to solve social and economic problems, and the new legal "space" being hollowed out by these emerging entities, illustrate the need for theory that goes beyond sector boundaries. Does the social enterprise sector need a new legal form or forms? Are the current structures around nonprofits and for-profits suitable for (or even negatively affecting) social entrepreneurship in all of its forms? For example, why is Unrelated Business Income Tax (affectionately known as "UBIT" in nonprofit circles) charged to charities operating businesses if profits go straight back into social mission? If the answer is simply "because of competition with for-profits," does that make sense?

The field is reaching a point where choice of legal form is no longer considered a defining characteristic—with all of the traditional nonprofit or for-profit "values" implicit in each corporate form—but a strategic decision, or even a matter of convenience.

Comparisons of Social Enterprise Models

Given the existence of social enterprise all over the world, future research should seek to document and compare different models of social enterprise, including their corporate structures, resource dependencies, and regulatory environments, across multiple world regions. While Kerlin's chapter provides a comparative study of social enterprise in the United States and Western Europe, additional lessons may be learned by looking at Latin America, Southeast Asia, East-Central Europe, and Africa.

Access to Capital and Other Resources

Social entrepreneurs still depend heavily on traditional governmental and philanthropic sources for funding. An important question is whether there are additional, significant sources of support and investment, as well as new financing mechanisms that can be tapped by social entrepreneurs. For example, what role does the government currently have in the "social capital" market, and what role could it

have? How are investment firms making social investment options available to their clients? One largely untapped source of funds for social entrepreneurs is the billions of dollars of foundation assets that are now invested in traditional ways, such as the stock market. In addition to PRIs and mission-related investing, foundations may be able to help social entrepreneurs access debt by, for example, providing loan guarantees or directly making low- or no-interest loans to small social-purpose enterprises.

This research on social entrepreneurs' access to capital should focus on the factors that hinder those in different stages of a social-enterprise life cycle: start-up, growth, and maintenance. The need for a way to measure blended social-financial return on investment and other market-oriented investment tools for the social enterprise field might also be addressed.

Scaling Social Enterprise

The papers in this volume (particularly Anderson's and Dees') highlight the need to understand how innovative programs can be scaled effectively outside of the standard philanthropic or purely business models. Few social enterprises have achieved large scale, so research on this topic is difficult, which in turn makes it difficult for social entrepreneurs to project the scalability of their ideas. There are both practical and academic issues at stake here, so this is a particularly rich topic for further research.

In addition to all of these promising topics, an important question facing scholars in this field relates to the purpose of research on social entrepreneurship: Should the ultimate goal of research on social entrepreneurship be to increase the future pool of social entrepreneurs, i.e., understand social entrepreneurs in order to find and create more? Or should research primarily seek to help widen the impact of social entrepreneurs' activity?

This volume is not an exercise in advocating for research that implicitly endorses social enterprise as the only solution to the world's problems, though there are many people who believe this to be true. This collection is an effort to develop an approach to studying social entrepreneurship that is both broad enough and deep enough to address the negative and promising aspects of using market approaches to create systemic social change.