

# The Meaning of “Social Entrepreneurship”

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The idea of “social entrepreneurship” has struck a responsive chord. It is a phrase well suited to our times. It combines the passion of a social mission with an image of business-like discipline, innovation, and determination commonly associated with, for instance, the high-tech pioneers of Silicon Valley. The time is certainly ripe for entrepreneurial approaches to social problems. Many governmental and philanthropic efforts have fallen far short of our expectations. Major social sector institutions are often viewed as inefficient, ineffective, and unresponsive. Social entrepreneurs are needed to develop new models for a new century.

The language of social entrepreneurship may be new, but the phenomenon is not. We have always had social entrepreneurs, even if we did not call them that. They originally built many of the institutions we now take for granted. However, the new name is important in that it implies a blurring of sector boundaries. In addition to innovative not-for-profit ventures, social entrepreneurship can include social purpose business ventures, such as for-profit community development banks, and hybrid organizations mixing not-for-profit and for-profit elements, such as homeless shelters that start businesses to train and employ their residents. The new language helps to broaden the playing field. Social entrepreneurs look for the most effective methods of serving their social missions.

Though the concept of “social entrepreneurship” is gaining popularity, it means different things to different people. This can be confusing. Many associate social entrepreneurship exclusively with not-for-profit organizations starting for-profit or earned-income ventures. Others use it to describe anyone who starts a not-for-profit organization. Still others use it to refer to business owners who integrate social responsibility into their operations. What does “social entrepreneurship” really mean? What does it take to be a social entrepreneur? To answer these questions, we should start by looking into the roots of the term “entrepreneur.”

## Origins of the Word “Entrepreneur”

In common parlance, being an entrepreneur is associated with starting a business, but this is a very loose application of a term that has a rich history and a much more significant meaning. The term “entrepreneur” originated in French economics as early as the 17th and 18th centuries. In French, it means someone who “undertakes,” not an “undertaker” in the sense of a funeral director, but someone who undertakes a significant project or activity. More specifically, it came to be used to identify the venturesome individuals who stimulated economic progress by finding new and better ways of doing things. The French economist most commonly credited with giving the term this particular meaning is Jean Baptiste Say. Writing around the turn of the 19<sup>th</sup> century, Say put it this way, “The entrepreneur shifts economic resources out of an area of lower and into an area of higher productivity and greater yield.” Entrepreneurs create value.

In the 20<sup>th</sup> century, the economist most closely associated with the term was Joseph Schumpeter. He described entrepreneurs as the innovators who drive the “creative-destructive” process of capitalism. In his words, “the function of entrepreneurs is to reform or revolutionize the pattern of production.” They can do this in many ways: “by exploiting an invention or, more generally, an untried technological possibility for producing a new commodity or producing an old one in a new way, by opening up a new source of supply of materials or a new outlet for products, by reorganizing an industry and so on.” Schumpeter’s entrepreneurs are the change agents in the economy. By serving new markets or creating new ways of doing things, they move the economy forward.

It is true that many of the entrepreneurs that Say and Schumpeter have in mind serve their function by starting new, profit-seeking business ventures, but starting a business is not the essence of entrepreneurship. Though other economists may have used the term with various nuances, the Say-Schumpeter tradition that identifies

entrepreneurs as the catalysts and innovators behind economic progress has served as the foundation for the contemporary use of this concept.

### **Current Theories of Entrepreneurship**

Contemporary writers in management and business have presented a wide range of theories of entrepreneurship. Many of the leading thinkers remain true to the Say-Schumpeter tradition while offering variations on the theme. For instance, in his attempt to get at what is special about entrepreneurs, Peter Drucker starts with Say's definition, but amplifies it to focus on opportunity. Drucker does not require entrepreneurs to cause change, but sees them as exploiting the opportunities that change (in technology, consumer preferences, social norms, etc.) creates. He says, "this defines entrepreneur and entrepreneurship—the *entrepreneur always searches for change, responds to it, and exploits it as an opportunity.*" The notion of "opportunity" has come to be central to many current definitions of entrepreneurship. It is the way today's management theorists capture Say's notion of shifting resources to areas of higher yield. An opportunity, presumably, means an opportunity to create value in this way. Entrepreneurs have a mind-set that sees the possibilities rather than the problems created by change.

For Drucker, starting a business is neither necessary nor sufficient for entrepreneurship. He explicitly comments, "Not every new small business is entrepreneurial or represents entrepreneurship." He cites the example of a "husband and wife who open another delicatessen store or another Mexican restaurant in the American suburb" as a case in point. There is nothing especially innovative or change-oriented in this. The same would be true of new not-for-profit organizations. Not every new organization would be entrepreneurial. Drucker also makes it clear that entrepreneurship does not require a profit motive. Early in his book on *Innovation and Entrepreneurship*, Drucker asserts, "No better text for a *History of Entrepreneurship* could be found than the creation of the modern university, and especially the modern American university." He then explains what a major innovation this was at

the time. Later in the book, he devotes a chapter to entrepreneurship in public service institutions.

Howard Stevenson, a leading theorist of entrepreneurship at Harvard Business School, added an element of resourcefulness to the opportunity-oriented definition based on research he conducted to determine what distinguishes entrepreneurial management from more common forms of "administrative" management. After identifying several dimensions of difference, he suggests defining the heart of entrepreneurial management as "the pursuit of opportunity without regard to resources currently controlled." He found that entrepreneurs not only see and pursue opportunities that elude administrative managers; entrepreneurs do not allow their own initial resource endowments to limit their options. To borrow a metaphor from Elizabeth Barrett Browning, their reach exceeds their grasp. Entrepreneurs mobilize the resources of others to achieve their entrepreneurial objectives. Administrators allow their existing resources and their job descriptions to constrain their visions and actions. Once again, we have a definition of entrepreneurship that is not limited to business start-ups.

### **Differences between Business and Social Entrepreneurs**

The ideas of Say, Schumpeter, Drucker, and Stevenson are attractive because they can be as easily applied in the social sector as the business sector. They describe a mind-set and a kind of behavior that can be manifest anywhere. In a world in which sector boundaries are blurring, this is an advantage. We should build our understanding of social entrepreneurship on this strong tradition of entrepreneurship theory and research. Social entrepreneurs are one species in the genus entrepreneur. They are entrepreneurs with a social mission. However, because of this mission, they face some distinctive challenges and any definition ought to reflect this.

For social entrepreneurs, the social mission is explicit and central. This obviously affects how social entrepreneurs perceive and assess opportunities. Mission-related impact becomes the central criterion, not wealth creation. Wealth is

just a means to an end for social entrepreneurs. With business entrepreneurs, wealth creation is a way of measuring value creation. This is because business entrepreneurs are subject to market discipline, which determines in large part whether they are creating value. If they do not shift resources to more economically productive uses, they tend to be driven out of business.

Markets are not perfect, but over the long haul, they work reasonably well as a test of private value creation, specifically the creation of value for customers who are willing and able to pay. An entrepreneur's ability to attract resources (capital, labor, equipment, etc.) in a competitive marketplace is a reasonably good indication that the venture represents a more productive use of these resources than the alternatives it is competing against. The logic is simple. Entrepreneurs who can pay the most for resources are typically the ones who can put the resources to higher valued uses, as determined in the marketplace. Value is created in business when customers are willing to pay more than it costs to produce the good or service being sold. The profit (revenue minus costs) that a venture generates is a reasonably good indicator of the value it has created. If an entrepreneur cannot convince a sufficient number of customers to pay an adequate price to generate a profit, this is a strong indication that insufficient value is being created to justify this use of resources. A re-deployment of the resources happens naturally because firms that fail to create value cannot purchase sufficient resources or raise capital. They go out of business. Firms that create the most economic value have the cash to attract the resources needed to grow.

Markets do not work as well for social entrepreneurs. In particular, markets do not do a good job of valuing social improvements, public goods and harms, and benefits for people who cannot afford to pay. These elements are often essential to social entrepreneurship. That is what makes it social entrepreneurship. As a result, it is much harder to determine whether a social entrepreneur is creating sufficient social value to justify the resources used in creating that value. The survival or growth of a social enterprise is not proof of its efficiency or effectiveness in

improving social conditions. It is only a weak indicator, at best.

Social entrepreneurs operate in markets, but these markets often do not provide the right discipline. Many social-purpose organizations charge fees for some of their services. They also compete for donations, volunteers, and other kinds of support. But the discipline of these "markets" is frequently not closely aligned with the social entrepreneur's mission. It depends on who is paying the fees or providing the resources, what their motivations are, and how well they can assess the social value created by the venture. It is inherently difficult to measure social value creation. How much social value is created by reducing pollution in a given stream, by saving the spotted owl, or by providing companionship to the elderly? The calculations are not only hard but also contentious. Even when improvements can be measured, it is often difficult to attribute them to a specific intervention. Are the lower crime rates in an area due to the Block Watch, new policing techniques, or just a better economy? Even when improvements can be measured and attributed to a given intervention, social entrepreneurs often cannot capture the value they have created in an economic form to pay for the resources they use. Whom do they charge for cleaning the stream or running the Block Watch? How do they get everyone who benefits to pay? To offset this value-capture problem, social entrepreneurs rely on subsidies, donations, and volunteers, but this further muddies the waters of market discipline. The ability to attract these philanthropic resources may provide some indication of value creation in the eyes of the resource providers, but it is not a very reliable indicator. The psychic income people get from giving or volunteering is likely to be only loosely connected with actual social impact, if it is connected at all.

### **Defining Social Entrepreneurship**

Any definition of social entrepreneurship should reflect the need for a substitute for the market discipline that works for business entrepreneurs. We cannot assume that market discipline will automatically weed out social ventures that are not effectively and efficiently utilizing resources. The following definition combines an emphasis

on discipline and accountability with the notions of value creation taken from Say, innovation and change agents from Schumpeter, pursuit of opportunity from Drucker, and resourcefulness from Stevenson. In brief, this definition can be stated as follows:

*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 heightened accountability to the constituencies served and for the outcomes created.*

This is clearly an “idealized” definition. 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. Those who are more innovative in their work and who create more significant social improvements will naturally be seen as more entrepreneurial. Those who are truly Schumpeterian will reform or revolutionize their industries. Each element in this brief definition deserves some further elaboration. Let’s consider each one in turn.

*Change agents in the social sector:* Social entrepreneurs are reformers and revolutionaries, as described by Schumpeter, but with a social mission. They make fundamental changes in the way things are done in the social sector. Their visions are bold. They attack the underlying causes of problems, rather than simply treating symptoms. They often reduce needs rather than just meeting them. They seek to create systemic changes and sustainable improvements. Though they may act locally, their actions have the potential to stimulate global improvements in their chosen arenas, whether that is education, health care, economic development, the environment, the arts, or any other social field.

*Adopting a mission to create and sustain social value:* This is the core of what distinguishes social entrepreneurs from business entrepreneurs even from socially responsible businesses. For a social entrepreneur, the social mission is fundamental. This is a mission of social improvement that cannot be reduced to creating private benefits (financial returns or consumption benefits) for individuals. Making a profit, creating wealth, or serving the desires of customers may be part of the model, but these are means to a social end, not the end in itself. Profit is not the gauge of value creation; nor is customer satisfaction; social impact is the gauge. Social entrepreneurs look for a long-term social return on investment. Social entrepreneurs want more than a quick hit; they want to create lasting improvements. They think about sustaining the impact.

*Recognizing and relentlessly pursuing new opportunities:* Where others see problems, social entrepreneurs see opportunity. They are not simply driven by the perception of a social need or by their compassion, rather they have a vision of how to achieve improvement and they are determined to make their vision work. They are persistent. The models they develop and the approaches they take can, and often do, change, as the entrepreneurs learn about what works and what does not work. The key element is persistence combined with a willingness to make adjustments as one goes. Rather than giving up when an obstacle is encountered, entrepreneurs ask, “How can we surmount this obstacle? How can we make this work?”

*Engaging in a process of continuous innovation, adaptation, and learning:* Entrepreneurs are innovative. They break new ground, develop new models, and pioneer new approaches. However, as Schumpeter notes, innovation can take many forms. It does not require inventing something wholly new; it can simply involve applying an existing idea in a new way or to a new situation. Entrepreneurs need not be inventors. They simply need to be creative in applying what others have invented. Their innovations may appear in how they structure their core programs or in how they assemble the resources and fund their work. On the funding side, social entrepreneurs look for innovative ways to assure that their ventures will

have access to resources as long as they are creating social value. This willingness to innovate is part of the modus operandi of entrepreneurs. It is not just a one-time burst of creativity. It is a continuous process of exploring, learning, and improving. Of course, with innovation comes uncertainty and risk of failure. Entrepreneurs tend to have a high tolerance for ambiguity and learn how to manage risks for themselves and others. They treat failure of a project as a learning experience, not a personal tragedy.

*Acting boldly without being limited by resources currently in hand:* Social entrepreneurs do not let their own limited resources keep them from pursuing their visions. They are skilled at doing more with less and at attracting resources from others. They use scarce resources efficiently, and they leverage their limited resources by drawing in partners and collaborating with others. They explore all resource options, from pure philanthropy to the commercial methods of the business sector. They are not bound by sector norms or traditions. They develop resource strategies that are likely to support and reinforce their social missions. They take calculated risks and manage the downside, so as to reduce the harm that will result from failure. They understand the risk tolerances of their stakeholders and use this to spread the risk to those who are better prepared to accept it.

*Exhibiting a heightened sense of accountability to the constituencies served and for the outcomes created:* Because market discipline does not automatically weed out inefficient or ineffective social ventures, social entrepreneurs take steps to assure they are creating value. This means that they seek a sound understanding of the constituencies they are serving. They make sure they have correctly assessed the needs and values of the people they intend to serve and the communities in which they operate. In some cases, this requires close connections with those communities. They understand the expectations and values of their “investors,” including anyone who invests money, time, and/or expertise to help them. They seek to provide real social improvements to their beneficiaries and their communities, as well as attractive (social and/or financial) return to their investors. Creating a fit

between investor values and community needs is an important part of the challenge. When feasible, social entrepreneurs create market-like feedback mechanisms to reinforce this accountability. They assess their progress in terms of social, financial, and managerial outcomes, not simply in terms of their size, outputs, or processes. They use this information to make course corrections as needed.

### **Social Entrepreneurs: A Rare Breed**

Social entrepreneurship describes a set of behaviors that are exceptional. These behaviors should be encouraged and rewarded in those who have the capabilities and temperament for this kind of work. We could use many more of them. Should everyone aspire to be a social entrepreneur? No. Not every social sector leader is well suited to being entrepreneurial. The same is true in business. Not every business leader is an entrepreneur in the sense that Say, Schumpeter, Drucker, and Stevenson had in mind. While we might wish for more entrepreneurial behavior in both sectors, society has a need for different leadership types and styles. Social entrepreneurs are one special breed of leader, and they should be recognized as such. This definition preserves their distinctive status and assures that social entrepreneurship is not treated lightly. We need social entrepreneurs to help us find new avenues toward social improvement as we enter the next century.

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