The Rise of Social Entrepreneurship: Opportunities for Corporate and Government Engagement

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INSEAD Social Entrepreneurship Education

Week-long program for high-potential entrepreneurs who want to scale up their social venture to achieve broader impact

Launched in 2005, now on 8\textsuperscript{th} Edition

300+ social entrepreneurs graduated
Cyndi Rhodes: Worn Again (UK)
Ethical fashion – From Rubbish and Rags
ISEP Portugal: Rugby School of Galiza: Social Inclusion of children from disadvantaged backgrounds
Sameer Hajee (MBA Alumnus): Nuru Energy
Bringing Light to Africa
Gram Vikas: Joe Madiath (India)
Healthy communities on clean water & sanitation
The Growing Field of Social Entrepreneurship

A long history of social sector innovators...

with recent developments...

Prof. Muhammad Yunus
(founder of Grameen Bank, one of the pioneers of Microfinance)

Global Organizations

Country-Level Organisations

Sector-Specific Organizations
Social Entrepreneurship reaches Mainstream

A new class of entrepreneurs using business innovations and market mechanisms to solve society’s problems

GEM UK 2009: Social Entrepreneurship Monitor

- 1.8% of population involved in launching or running social ventures with less than 2 years

They are entrepreneurs with a social mission
This is all good but... can we go deeper?

• Aren’t all entrepreneurs social anyway?
• And how is social entrepreneurship different from social activism, charity, or CSR?
• In the architecture of our economic system, why is Social Entrepreneurship needed?

Now for the Intellectually Juicy Part...
A few words that shaped our society

And by directing that industry in such a manner, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part in his intention. Nor it is always worse for society that it was no part of. By pursuing his own interest he frequently promotes that of society more effectually that when he really intends to promote it.

Adam Smith, The Wealth of Nations 1776

It is not from the benevolence of the butcher, the brewer or the baker, that we expect our dinner, but from their regard to their own self interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages.
The economic edifice of self-interest

Sustainable Competitive Advantage
Logic of Control (5 Forces: e.g. suppliers, clients)
IP Protection and Trade Secrets
Maximize Profits
Firms
Capture Value
Incentives
Self-Interest
But... Does this edifice work?

Like a Charm...

200 years of amazing economic and social progress

Competitive markets generate industries that exhibit:

• Efficacy and Efficiency (products/services get better and cheaper over time)
• Economies of Scale
• Sustainability (Permanence)
Yet there is some “malaise”: a generalised feeling that something is wrong...

I will focus on two main issues:

1. The current system is not true to human nature

2. System creates gaps that need addressing
1. Being true to Human Nature

- How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it.

  Adam Smith, The Theory of Moral Sentiments 1759

- Human Nature is both self-interested and others-interested

Can we build an economic system truer to our Humanity?
What is the economic edifice of others-interest?

**Self-Interest Edifice**
- Sustainable Competitive Advantage
- Logic of Control (5 Forces)
- IP Protection and Trade Secrets
- Maximize Profits
- Firms
- Capture Value
- Incentives
- Self-Interest

**Others-Interest Edifice**
- Sustainable solutions
- Logic of Empowerment
- Share knowledge, Open Source
- Maximize Societal Impact
- Solution / Community
- Create Value
- Intrinsic Motivation
- Others-Interest
Social entrepreneurship is a business solution to societal problems built upon others’ interest.

OK, but why do we need it?
2. Gaps of the Current Capitalist System: When do both markets and governments fail?

- Self-interested behaviour is not effective in the presence of positive externalities (when there are value spillovers)
  - opportunities for value creation to society remain unexplored

- Governments should intervene... and they often do, providing public goods for which the benefit to society is well recognized
  - However they often fail to provide goods or services that benefit localized segments of the population (especially segments who are disenfranchised)

Social Entrepreneurship is the pursuit of sustainable solutions to neglected problems with positive externalities

Social Entrepreneurship is the 2\textsuperscript{nd} Invisible Hand of Adam Smith leading the economy to efficient outcomes based on individuals pursuing their others-interest in decentralized way
Implications of this Theory of Social Entrepreneurship

Where do we find SE? Social entrepreneurs more likely to operate in activities that have value spillovers benefiting disadvantaged populations (because these often remain neglected)

Yet we can also have social entrepreneurship for advantaged populations as long as there are neglected positive externalities

What is not social entrepreneurship:

• helping disadvantaged populations in activities without positive externalities is closer to charity than to social entrepreneurship

• reducing behaviors that cause negative externalities using political pressure is social activism not social entrepreneurship

• creating markets for low-income customers in areas with weak positive externalities is BoP strategy not social entrepreneurship
Policy Implications:

- social entrepreneurship involves a **decentralized and non-dogmatic approach to problem resolution** that takes advantage of the varied institutional mechanisms afforded by society (markets, governments, community enterprise)

- It is a process that can happen anywhere in the economy and society: inside governments, corporations, communities, through new ventures

- the central unit of analysis for is the **solution to a societal problem and its underlying business model**, (not an enterprise/organization)

- social entrepreneurs may deem more effective to **scale up the innovative solution** rather than the organization (e.g. Teach for America)
Implications for Government Policy

• Governments should promote social entrepreneurship as it unleashes decentralized mechanisms that increase economy’s dynamic efficiency

• Social entrepreneurs can identify hidden societal problems and prevent their negative consequences (e.g. Unis-Cité)

• Social entrepreneurs excel in incubating solutions at low cost that can then be adopted by others or institutionalized by government if proven effective (e.g. Ashoka)

• SE can channel and focus in a positive way the energies and passions of the next generation, who increasingly look for meaning (instead of or in addition to profit)
Implications for Corporate Strategy

• Business leaders can learn from the innovative solutions developed by social entrepreneurs (use of empowerment, focus on low-cost systemic solutions)

• Companies involvement in social entrepreneurship is critical to attracting and retaining the best talent (e.g. Accenture)

• A focus on neglected problems and value creation often leads to unexpected profitable opportunities in new markets

• Great potential for partnerships between corporations and social enterprises
How can we teach social entrepreneurship?

- Social entrepreneurs are first and foremost entrepreneurs and university students should be trained as such (e.g. Bootcamps)

- But they need to operate at the intersection of multiple and sometimes competing institutional worlds
  - They need to understand and connect to these worlds

- And they simply cannot take with them all the tool of business: they need to develop new models and new logics of operation
  - Open source models
  - Social movements
  - Community engagement
What makes commercial entrepreneurship powerful can make social entrepreneurship powerful as well

- Self-interest is powerful motivator for distributed economic action
- Private Equity / VC industry supports organizational growth and competition
- Organizations effective to scale commercial innovations globally
- Business creation supported by angels incubators and entrepreneur networks
- Corporate alliances effective at pooling capabilities and creating value
- Use of monetary value as comparable measurement system
- M&A important mechanism to achieve economies of scale and scope
- Others-interest is also powerful motivator for social entrepreneurship activities
- Impact investing / venture philanthropy emerging as new industry
- Empowerment driven models in soc. ent. can be scalable and disseminate globally
- Social entrepreneurship supported by individuals, global organ. and networks
- Successful cases of alliances between multinationals & social enterprises
- Social impact assessment methodologies being developed (but not quite there yet)
- M&A in social sectors is still rare (but scalable network models are emerging)
Social Entrepreneurship is the pursuit of sustainable solutions to neglected problems with positive externalities.

“We have the power within to build the world anew”

- Thomas Paine