

Social Entrepreneurship: The State of the Art

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It's my great pleasure to be with you here today. My only regret is that it's too early in the year for me to catch a game at Camden Yard, so I hope you'll invite me back in the future, some time during the season. Not during the football season, however, as I spent many years in Cleveland commiserating with my friends about the loss of the Browns to Baltimore. More importantly, I'm very impressed with the work that Jim Kucher and his colleagues are doing at the Entrepreneurial Opportunity Center in the Social Enterprise Project. It's particularly gratifying for me to see the study of enterprise and entrepreneurship in the nonprofit sector expanding in universities throughout the country and indeed the world. I first wrote about “nonprofit entrepreneurship” in the late '70s when the term was considered an oxymoron or worse. Business schools would have no part of the nonprofit sector and nonprofits would have no part of business methods and terminologies. Clearly a lot has changed since then, and it has been an intellectual journey for me and an adventure for scholars, practitioners, and leaders in all sectors to appreciate, develop and exploit the potentialities of entrepreneurship for the public good and the synergies among the nonprofit, public and private sectors towards that end.

The inter-related subjects of social entrepreneurship and social enterprise are still young in conception and in practice. Indeed, the understanding of these

phenomena can be appreciated as an ongoing journey being taken not only by scholars in different fields of study, but also by leaders in all sectors. The metaphor of a collective journey is one that I will use in my remarks this morning, as a way of pulling together multiple strands of thought – and how we can understand social enterprise and social entrepreneurship from different points of view.

I started writing my first two books on what I then called “nonprofit entrepreneurship” while I was on sabbatical with my family at the University of Kent in Canterbury England in 1981. While, Canterbury has become very modern in certain ways as major stop along the route of the “chunnel” train from London to Paris, it is also obviously imbued with a long history dating back to the Romans and earlier. And, of course, you cannot live in Canterbury without the spirit of Geoffery Chaucer looking over your shoulder. So I will use the paradigm of the Canterbury Tales to take us metaphorically from London to Canterbury, as Chaucer’s pilgrims traveled, telling stories along the way in an effort to achieve a greater understanding of social enterprise and entrepreneurship.

Our cast of characters will be different, perhaps less bawdy and colorful than Chaucer’s, and I will describe them in somewhat less detail than, as Chaucer put it:

“What their condition was, the full array
Of each of them, as it appeared to me,
According to profession and degree,
And what apparel they were riding in”

Nonetheless, one cannot fully appreciate the richness of our subject without understanding the mindsets and viewpoints of the different travelers in our story of social enterprise and entrepreneurship. So who are among our cast

of characters? And what stories do they have to tell? First, we need a narrator who, for Chaucer, was:

“...a Knight, a most distinguished man
Who from the day on which he first began,
To ride abroad following chivalry,
Truth, honor, generousness and courtesy”

So we'll borrow Chaucer's knight, a man of integrity, who, like many an entrepreneur, seized the opportunity to draw together diverse elements into something new, different and special: in this case a collection of stories rarely to be surpassed over the last seven centuries. In our version of the Canterbury Tales, our Knight will accompany six fellow travelers on the road to understanding social enterprise:

- The Historian who knows the deep roots of this subject and its multiple interwoven strands of experience over time;
- The Economist, struggling to explain why entrepreneurial behavior and social purpose activity exists and thrives in a market economy;
- The Organizational theorist who fusses over the internal tensions within organizations attempting to do good while doing well;
- The Management Consultant who ignores the academic gloom and doom of his academic companions and touts the strategic advantages of social ventures;
- The International Scholar who acknowledges the universal character of social enterprise but recognizes that something is lost in translation from one national context to another;
- And last but never least, the Entrepreneur who wonders what all the fuss is about and just wants to get on with the job!

What are the tales that each of these individuals tell, as they sit around the fire – or more likely at the hotel bar - after a long day’s journey on the road to understanding, and how are they reconciled and mutually accommodated in practice?

On the first night after a day’s walk from London, our Knight asks the Historian for his take on these new ideas on everybody’s mind: so-called “social” enterprise and “social” entrepreneurship. The Historian is a nice enough fellow but is a little bit sensitive about the notion of “new”. History may not precisely repeat itself, he says, but there is rarely a really new idea under the sun. And that applies to social enterprise and entrepreneurship. In fact, I have two tales to tell if you’ll so indulge me, and fill my flask with brew from time to time.

The first tale has to do with the longstanding involvement of nonprofit organizations in commercial activity in the U.S. From the beginnings of the Republic and even in colonial times, it was not unusual for nonprofits to sell goods and services, often in quite creative ways, in order to sustain themselves (McCarthy, 2003). After all, Benjamin Franklin, perhaps the country’s earliest well known social entrepreneur, developed the subscription library and many other social innovations. Indeed, some of the more classical ventures of U.S. nonprofits, such as Girl Scout Cookies, products of Goodwill Industries, or church bingo games, can hardly be separated from the core traditions of the nonprofit organizations that offer them. In fact, a survey sponsored by the Rockefeller Brothers Fund in the early 1980s demonstrated that these well known initiatives were hardly exceptions to the general nonprofit *modus operandi* (Crimmins and Keil, 1983). Over time, these commercial initiatives became more important to nonprofits, as the sector assumed greater significance in the American

political economy and as other sources of nonprofit income failed to keep pace with resource needs. In particular, the expansion of nonprofit responsibilities for social, health, educational, arts, environmental, community development and other public services, as required by the Great Society programs of the late 1960s and '70s, led to enormous growth of the sector, not all paid for by government. As philanthropy's relative share of nonprofit support declined, the role of fee income and commercial revenue grew and the economic character of nonprofit operations became notably more business-like (Weisbrod, 1998). While explicitly commercial activity only loosely related to mission constitutes a minority of this growth, the general role of "earned income" as a legitimate, sustaining component of nonprofit revenue has certainly become recognized. In all, the seeming pervasiveness of enterprising commercial activity by contemporary nonprofits is basically a natural extension of what has been going on in the sector all along.

Well, says the Knight, that's an informative story. It's getting late and we're getting sleepy from the day's long walk and the good food and drink, but what's your second tale? The second story, says the Historian, pertains to the social role of corporate business. Here too there are early roots in American history dating back at least to the industrial tycoons of the 19th century – the Carnegies and Rockefellers who made fortunes in the business world and gave much away for libraries, medical research and other public goods. Such activity continues today in the form of philanthropy by the Bill Gates's and George Soros's of the world who give from the personal fortunes they made in the corporate world, or the Paul Newman's whose gifts from their closely held corporations are indistinguishable from their personal philanthropies. However, the real connection to social enterprise

begins in the early 20th century when debate raged around the appropriateness of corporations supporting charitable causes (Burlingame and Young, 1996). Some argued that publicly owned corporations had no right to give away money belonging to stock holders, while others insisted that such charity was simply good business practice or was part of the social contract under which corporations derived their societal privileges. Indeed, the stream of reasoning that now prevails is that businesses undertake social ventures or support of nonprofits as part of their comprehensive strategies to enhance profitability. It seems that corporate social responsibility is here to stay.

And there is yet another wrinkle to my story about business and social enterprise, says the Historian: In the overheated economy of the 1990s great fortunes were made and an entrepreneurial spirit was nurtured that spilled over the boundaries of traditional business, leading to a fundamental questioning of the divide between social and private initiative. Some new business entrepreneurs began thinking of themselves as “social entrepreneurs” seeing no need to separate their social and material goals as they developed their businesses. Second, some who had already amassed fortunes and had turned to philanthropy, began to conceive of themselves as social venture capitalists and started to think of their charitable work as “venture philanthropy” requiring adequate “social returns on their investments.” As a consequence, nonprofits reciprocated by behaving more like businesses, responding with business plans and earned income ventures to satisfy their new providers of capital.

My word, that’s a lot to digest for one night and one knight, says the Knight. Let’s take up the discussion tomorrow as we move onto Canterbury. On the following evening, having pondered the Historian’s tale during the

long day's walk, the Knight admits to being a bit confused. On the one hand, he asks, why would a nonprofit ever want to undertake a commercial initiative? On the other hand, why would a for-profit business want to cast itself as a social venture? Doesn't this just confuse everyone? Who among you can help me with this puzzle? Never one to be shy or short of answers, the Economist volunteers to tell his tale (remember Harry Truman's plea for a one-handed economist?).

Long ago, the Economist starts, economists figured out that many kinds of activities undertaken by nonprofit organizations had the character of a public good, hence were unsupportable through marketplace sales alone. Yet, voluntary support was also problematic in such circumstances because of "free rider" problems. Unless there was a way to make people pay, they would have no reason to do so. One solution to this problem, articulated first by Mancur Olson (1965), was to offer "selective incentives" – essentially private goods sold at a profit that could only be purchased if support were simultaneously provided for the public good. This would explain why public radio sells coffee cups with NPR logos and museums sell art replicas in their gift shops.

Another piece of this puzzle was supplied by Estelle James (1983) who observed that nonprofit organizations could be understood as "multi-product firms" which offered combinations of profit-making and loss-making services in order to maximize the satisfaction of their managers (or to provide the resources needed to address their organizational missions with maximum impact. In any case, the Economist asserts, it is a short distance from the model of nonprofits as multi-product firms to the now popular program portfolio map introduced by Sharon Oster (1995) which divides nonprofit services into four categories according to their high or low

contributions to mission on the one hand, and to financial support on the other. The implication of Oster's tableau is that nonprofits should maintain and grow those services that contribute to both mission and financial support, and balance "cash cows" that contribute to financial support but not much to mission with loss-making services that contribute much to mission but run a deficit. These are the key roles of commercial ventures and social enterprise in the proper functioning of a nonprofit organization.

All right, the Knight intercedes, but why should charitable donors tolerate or promote this idea of profit-making by nonprofits? Doesn't it just lead to mission drift? Pretty soon you can't tell a nonprofit from a for-profit organization.

Well, says the economist, grant making foundations can be viewed as nonprofit organizations with their own missions, which have capital to invest but have decided to outsource to their nonprofit grantees, the activities that directly address those missions. Similarly, major individual donors have their own personal interests in particular social causes and a sense of mission as to what they would like to achieve with some of their wealth. Such grant makers are interested in a "social" rather than private return on their investments. In addition, these social investors want "leverage" – that is, they want their charitable investments to achieve maximum benefit, in part by bringing other resources into play. Investment in ventures that produce both social good and generate some of their own revenue may increase the ultimate social impact of gifts and grants. Furthermore, social enterprise ventures can be framed as program-related investments or loans which not only produce social benefits but also provide financial returns to the funder. Such dividends can then be reinvested in other social projects.

This is getting ever more complicated says the Knight. Maybe if I took off my helmet I could get it through my head. So nonprofits and their funders have good reasons to undertake social ventures. But what about for-profit businesses that claim to be social enterprises? How do you make sense of that?

Elementary, says the Economist, doing a poor Sherlock Holmes imitation (centuries ahead of his time). To the extent that corporations undertake or support social ventures as an element of corporate strategy, such behavior fits the classical model of businesses as profit-maximizing organizations. However, the Economist notes, some businesses, especially those closely held by private owners rather than public corporations, claim to be social enterprises with dual objectives of profit-making and addressing social goals. In this case, resource allocation decisions can reflect individual owner preferences, embodying their personal trade-offs between material wealth and cherished social causes, so long as they are able to survive the market competition. Problems arise in this case, however, since owners who eventually sell their businesses cannot control what those businesses do afterwards, although they may try to impose constraints through conditions of sale. To the contrary, nonprofits can maintain their mission focus indefinitely. That is why for-profits with social objectives sometimes seek to convert to nonprofit form when their owners approach the time when they can no longer run the business. Still, there are some areas of service where social enterprise “owners” clearly feel they have more flexibility, autonomy or access to resources by pursuing their ventures in for-profit form, despite their social goals. For example, low cost housing or community development initiatives require access to capital that may be easier to attract, through lending institutions or sale of stock, if the

organization is run as a for-profit business. However, for the public corporation, one should be skeptical about social enterprise initiatives really being any different from classical business strategy by corporations with an outlook of “enlightened self-interest”, because stock market pressures will encourage maximum profitability and discourage unprofitable diversions of resources.

I know we’ve had another long night of discussion, says the Management Consultant, but let me jump in here and push the argument a little further before we retire for the evening. I would say that nonprofits and for-profits each have certain competitive advantages in a variety of situations that make social enterprise initiatives compelling. In particular, nonprofits can often bank on the trust associated with their good names, and particular core competencies or special capacities they may have as a result of pursuing certain kinds of missions. For example, a nonprofit dedicated to improving the health or welfare of a certain group of individuals, say the visually-impaired, will have a competitive advantage in a venture to sell eye-protection equipment, just as an art museum gift shop will have a leg up in selling art reproductions. In these cases, consumers’ trust that the products will be safe or true to form is a key to commercial success. It makes sense for the nonprofit organization to take advantage of these competitive advantages so as to bolster the resources available to pursue its mission, so long as certain conditions hold. One condition is that the organization keep its mission strongly in mind and avoid “mission drift” – where the venture begins to determine the organization’s course of action rather than the other way around. Another condition is to avoid the depletion of the special assets that give rise to the competitive advantage in the first place. Thus, entering into ventures that would undermine trust in the organization by delivering

inferior products, or that would lead to the deterioration of facilities needed to address the mission, must be eschewed.

Moreover, those commercial initiatives that actually enhance mission in a direct way should be given special consideration. For example, if the promotion of protective eye-wear effectively helps promote eye safety, or the rental of the arboretum for private parties helps generate new interest in horticulture, then nonprofits can feel even more confident in pursuing such ventures. Indeed, in the extreme, a nonprofit may decide to substitute such a venture for a more traditional activity if the former is found to be more effective. For example, running a restaurant may be a more effective way of getting a challenged population ready to compete in the job market than administering a traditional job training program.

Similarly, says the Management Consultant, I have little trouble understanding why appropriate social ventures are undertaken by business corporations. Association with “good causes”, or a reputation for “social responsibility” helps sell products in the long run. Indeed companies can establish themselves in unique market niches by developing such connections – e.g., by becoming *the* personal products company known for its responsible environmental and human resources practices, or *the* socially responsible ice cream company. Moreover, initiatives such as support for community volunteering can actually make direct contributions to corporate productivity by improving the skills and morale of corporate employees. It is widely appreciated, for example, that encouraging younger corporate employees to volunteer on nonprofit boards, offers them opportunities for leadership development that they might not receive at an early career stage within the corporation itself.

So far, our Knight observes, our Organization Theorist, Entrepreneur and International Scholar have been quiet listeners. We'll hear from them soon. There are still a couple of days left to the journey unless you folks can get out earlier in the morning. And so another day of travel passes – it's a long road to Canterbury on foot, or even by the remnants of what used to be British Rail. But another evening comes around and it's the Organization Theorist's time to tell her tale. Though related to the management consultant by a common education in the ways of organizations, she takes a more skeptical view of the logic of social enterprise as simply a strategic matter for nonprofits or for-profits. She argues that issues of culture arise in organizations and internal cultural conflicts can explain why social enterprise initiatives sometimes don't fit in very well. Again she has two tales to tell – another long night!

In the nonprofit context, she begins, the danger is that a for-profit culture associated with a commercial initiative will undermine the morale and effectiveness of the nonprofit culture in which it is embedded. Alternatively, a commercial initiative introduced into a nonprofit culture hostile to market values, will struggle and fail. Thus, social ventures undertaken for the purpose of making money are often best organized as separate legal structures outside the host organizations, for example, as wholly owned for-profit subsidiaries. To the contrary, ventures that incorporate strong mission-related goals are best run internally, to assure that they are not co-opted by the market environment.

These insights apply to for-profit corporations undertaking social enterprise ventures as well, she says. Practitioners of corporate philanthropy have experienced the isolation and tension that often comes with trying to run a social venture in a for-profit company (see Burlingame and Young,

1996, and Levy, 1999). The lessons in this context appear to be two-fold: be sure to relate the operation of the venture to the strategy of the corporation, and where possible engage with external nonprofit partners that can help anchor the venture's social mission. A third long run lesson is to influence the culture of the parent corporation itself, so that it becomes more sympathetic to social initiatives and values.

Finally, the Organization Theorist argues – such ventures cannot really be properly understood without an appreciation of their “organizational identities” as seen by those responsible for running or maintaining them. The concept of organizational identity is that organizations, or sometimes subsidiaries thereof, have an “essence” - defined as that which is “central, distinctive and enduring” about them. In connection with social enterprise, identity is closely connected with purpose – whether the intent is to make money or contribute to a particular social mission or some combination thereof. The Organization Theorist argues that a social enterprise can only be successful if its leaders are clear about its identity and base their strategy on it.

Well let me jump in here with my tales, says our Entrepreneur, because I'm not sure what to make of all of this. From my viewpoint, enterprising activity is agnostic about sector and is all about innovation and change wherever it takes place. Surely, we should expect to find it as a pervasive element in all parts of a dynamic society and economy (Young, 1983; McClelland, 1973). Hence, it should be no surprise that new ventures appear in nonprofit as well as for-profit form. Moreover, entrepreneurship is about “new combinations in the means of production” as Schumpeter (1949) instructed us. Thus, the mold-breaking reflected in for-profit activity within nonprofits or social ventures in for-profit form are simply the natural kinds

of experiments that entrepreneurs undertake in seeking new ways of doing things. If they work – fine; if not, they are swept away through “creative destruction” associated with enterprising activity of all kinds.

Well, says the Knight, our Entrepreneur has finally made the connection between entrepreneurship on the one hand, and social enterprise on the other. He has introduced entrepreneurship as a generic process that takes places for a variety motives and in diverse of circumstances, sharing a common approach of introducing change and innovation. From that premise, it is a short step to labeling certain varieties of entrepreneurship as “social entrepreneurship”, i.e. enterprising activity that brings about social change and innovation and is often driven by motives other than pure wealth-seeking – motives such as a strong belief in a cause, or seeking of recognition or power. Good show! says our Entrepreneur. Furthermore, I would argue that social enterprise is only one particular manifestation of social entrepreneurship. In particular, social entrepreneurs have a number of different outlets for their work. They can lead social movements (Zald and McCarthy 1987), become advocates for change in public policy, engage in internal reform efforts within public sector agencies or large influential nonprofits, develop programs of various kinds within nonprofit and sometimes government organizations, or set up their own organizations with new social missions – either nonprofit or for-profit.

OK, let’s not get too carried away, exclaims our Knight. I thought the Economist was the intellectual imperialist around here! Let’s get some sleep. One more day to Canterbury. Great, says the International Scholar, I’m quite anxious to broaden the provincial nature of this discussion. It’s got too much of an American slant – even though it’s the 14th century and America hasn’t even yet been discovered!

And so the next evening comes around, and the group is ready for another tale, this time offered by the International Scholar. She also has two stories to tell. First, she says, social enterprise in Europe arises from evolution of the welfare state and the imperative to find new ways to control public sector costs and address unemployment associated with marginalized populations (Borzaga and Defourney, 2001). In this context, anything that “privatizes” public service activity or engages nongovernmental entities in efforts to address this employment issue is considered social enterprise. Thus, the contracting out of public service work to nonprofit organizations, pretty much a routine practice in America, would be considered social enterprise in much of Europe.

Second, the forms of social enterprise in Europe and elsewhere are often quite different from those in America. There, people are fixated on nonprofits and for-profits, although considerable variety does exist when one looks closely (Aspen, 2005). In Europe more attention is given to worker and consumer cooperatives, which intrinsically combine elements of profit-making and individual benefit with social goals. There is less concern in Europe about the strict separation of for-profit and nonprofit forms and more emphasis on governing arrangements that help ensure that an enterprise pursues the right combination of social and private goals. In much of the developing world, cooperatives and micro-enterprise, networks of nongovernmental organizations, and a variety of public/private partnerships constitute a web of activities that may also be understood as social enterprise. Here, much of the focus is on economic development and poverty with less concern about whether gains are social or private in nature.

The essential lesson about social enterprise, the International Scholar points out, is that it cannot be taken out of context. In Europe this concept is

intrinsically tied to welfare state policies and privatization. In the developing world it is tied to economic development and grassroots efforts to address poverty-related concerns. In both cases, social enterprise is almost anything nongovernmental that represents new initiative in addressing social concerns.

Well, the spires of Canterbury Cathedral are in sight, says the Knight. How shall we wrap up this discussion before setting off for Canterbury in the morning? As your host and tour guide let me see if I can summarize some of the main points. I think we can agree that:

- Social enterprise and entrepreneurship have long been a part of the nonprofit world but have become more prominent in recent years
- So too, businesses now see social initiatives as integral components of their corporate strategies
- Moreover, there may be a new breed of business organizations that straddle the divide between business and social purpose, especially those privately held by individuals trying to do good as they do well, just as there is a new generation of nonprofits and philanthropists with a strong entrepreneurial perspective
- Social enterprise is all about strategy, in both the nonprofit and for-profit worlds: nonprofits seeks the right combinations of profit-making and mission impacting initiatives while corporations seek to support those social initiatives that support their ultimate market success
- Social enterprise is not easy to manage – cultural conflicts between profit-oriented and social purpose-oriented constituencies can erupt within both nonprofits and for-profit corporations

- What we define as social enterprise and entrepreneurship depends on national context. Viewpoints in America, Europe and the less developed parts of the world are different but there is social enterprising activity going on almost everywhere
- In the end, as our Entrepreneur clearly suggested, social entrepreneurship and social enterprise is about problem-solving – cobbling together whatever works to address social needs and respond to opportunities, by finding new ways of doing things

Bravo! say the six fellow travelers, toasting their leader and looking forward to the pubs of Canterbury. But first, of course, they must visit the famous and magnificent Canterbury Cathedral. And as they enter the gates, what is it that first catches their eyes? Why, it's a Starbucks right there at the entry way and a gift shop just nearby. Social enterprise and entrepreneurship have arrived in Canterbury!

Credits

These remarks are based on Dennis R. Young, "Alternative Perspectives on Social Enterprise" in Joseph Cordes and Eugene Steuerle (eds.), *Nonprofits and Business: A New World of Innovation and Adaptation*, Washington, D.C.:The Urban Institute, 2008, forthcoming

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