

# **SOCIAL**

# **ENTREPRENEURSHIP**

*for the*

# **21<sup>ST</sup> CENTURY**

*Innovation Across the Nonprofit,  
Private, and Public Sectors*

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## Chapter 1

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# WHAT IS SOCIAL ENTREPRENEURSHIP?

Just as commercial entrepreneurship has a deep tradition in American life, so too does social entrepreneurship. Although most innovators for the public good—activists working for social change—are unknown and unsung, others have made the history books, including Benjamin Franklin, who helped establish some of the country’s first fire and police departments, circulation libraries, insurance associations, and modern universities; Clara Barton, founder of the American Red Cross; Jane Addams, whose Hull House would define and inspire the larger Settlement House movement; and Martin Luther King, Jr. and the movement he led for civil rights and social justice.

Defining social entrepreneurship, however—distinguishing these activities from other good works of social service or advocacy past and present—is no small task, and is the subject of lengthy debate in the field. It turns out that social entrepreneurship is a bit like pornography, at least in the way it eludes ready definition. To paraphrase Supreme Court Justice Potter Stewart’s famous ruling on the latter, social entrepreneurship is hard to define, but you know it when you see it.<sup>1</sup>

We begin therefore by examining the work and ideas of Bill Drayton, the founder of Ashoka: Innovators for the Public and the man widely considered to be the father of modern social entrepreneurship.

## **Bill Drayton and the Birth of Modern Social Entrepreneurship**

Indeed, no one has done more to shape the field of social entrepreneurship than Drayton, whose own achievements as a social entrepreneur and whose efforts over the past generation to support the work of other innovators across the globe have built a movement that redefined the way we think about social change.

Born in New York City in 1943, Drayton demonstrated from childhood a mix of extraordinary intelligence, passion, and civic activism. His heroes included Ashoka, the Indian emperor in the third century B.C.E., who unified most of the subcontinent and introduced unusual social welfare projects; Mahatma Gandhi; and Martin Luther King.<sup>2</sup> In 1980, Drayton committed himself fully to the idea and practice of creating a professional organization to promote the work of social entrepreneurs worldwide. He called his fledgling organization Ashoka: Innovators for the Public, and through it he hoped to identify individual social entrepreneurs and bring them together in a kind of global fellowship.

Drayton believed that the kind of social entrepreneurs he was seeking—passionate, resourceful, system-changing, history-making innovators who could unbalance static social, political, and economic equations—were extremely rare. In fact, Ashoka has identified approximately one per 10 million people per year according to its own definition and selection criteria. Since 1980, Ashoka has supported the work of more than 3,000 social entrepreneurs across an enormous range of fields and geographies. During this time, the organization, like Drayton himself, has embraced both micro and macro roles in social change: supporting the work of individual entrepreneurs through funding, technical assistance, and access to a broad network of social entrepreneur colleagues and, in doing so, helping to define and build the broader contemporary field of social entrepreneurship.<sup>3</sup>

Drayton's experience with Ashoka—as exemplar of social entrepreneur himself and as architect of the larger field—offers some useful definitional parameters.

## Just Who and What Is a Social Entrepreneur?

### Rooted in Definition of Entrepreneur

For Drayton, Ashoka Fellow selection requires evidence of distinctly entrepreneurial qualities. “Social entrepreneurs,” he says, “for some reason deep in their personality, know from the time they are little that they are in this world to make it better in a fundamental way.” Greg Dees, one of the first scholars of social entrepreneurship, roots this vision and the larger field within the broader theory and economic literature on the entrepreneur, which in turn has its conceptual and linguistic origins in nineteenth-century France.<sup>4</sup> Economist Jean Baptiste Say wrote that the entrepreneur was one who “shifts economic resources out of an area of lower and into an area of higher productivity and greater yield.” Austrian economist Joseph Schumpeter provides the dynamic notion of entrepreneurial activity we most commonly refer to today: the entrepreneur as a disruptive and generative force for change in the economy, one who helps reform or revolutionizes “the pattern of production.” According to Schumpeter, the entrepreneur provides the force (the *Unternehmer*, or entrepreneurial spirit) for economic progress; successful entrepreneurship sets off a kind of cycle in which other entrepreneurs iterate and improve the entrepreneur’s original product or service to the point of “creative destruction.”<sup>5</sup>

### Resourceful, Adaptive

Drayton also emphasizes the adaptive nature of the entrepreneur; he believes the passion and conviction that drive someone to become an entrepreneur are as much idealism as an assiduous determination to find practical solutions to a problem. In fact, what makes a person an entrepreneur, he suggests, is a commitment to the “how-to” through revision and adaptation. “Every day you’re modifying the idea,” says Drayton. “You’re seeing new opportunities. You’re seeing the nuances of problems. It’s a continuous process.”<sup>6</sup>

Similarly, management guru Peter Drucker conceived of the entrepreneur as an agent of opportunism. “The entrepreneur,” he wrote, “always searches for change, responds to it, and exploits it as an opportunity.”<sup>7</sup> Howard Stevenson, who specializes in entrepreneurship at Harvard Business School, suggests that entrepreneurship is “the pursuit of opportunity beyond the tangible results you can control.”<sup>8</sup> Both Stevenson and

Drucker extend their definitions beyond the profit-seeking realm and into sphere of *social* entrepreneurship.<sup>9</sup>

## The Nature of the Work: System Changing, Innovative

### System Changing

According to most scholars and practitioners, the nature of social entrepreneurship—and what distinguishes it from other social change efforts—has to do with the ambition of its scale and scope. In Drayton’s view, social entrepreneurs work toward “systemic” and “far-reaching” social change. “What is the social impact of the idea?” Drayton asks. “Is the idea itself sufficiently new, practical, and useful so that ordinary people will adopt it once it has been demonstrated? How many people will be affected by this idea? How importantly and how beneficially will they be affected? Will it change the field significantly? Will it trigger nationwide impact or broad regional change?”

### Innovative, Different Kinds of Newness

The term *innovation* is often used in defining social entrepreneurship, though it is enmeshed in a hearty debate about what exactly this juxtaposition means. Etymologically the word implies newness, but newness can take many forms. According to Dees, “Successful innovation is as much a matter of execution as it is of having new ideas. . . . 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. . . . This willingness to innovate is part of the modus operandi of entrepreneurs.”<sup>10</sup> In short, Dees suggests, “Innovation involves *establishing new and better ways for accomplishing a worthwhile objective*. For social entrepreneurs, this means new and better ways of serving your social mission.”<sup>11</sup> Dees applies a Schumpeterian lens to suggest innovation might involve creating a new or improved product, service, program, strategy, or a new method of operations or organizational structure. Innovation, he suggests, could also mean serving an unmet need.<sup>12</sup>

This issue has taken on renewed vigor and salience in the public sector, as we will see in the chapters on social innovation efforts in New York

City and at the federal level, where policymakers often define innovation not as an invention but rather as a new way of approaching their work. In many cases, it seems to mean putting resources behind evidence-based programs. In this view, *innovation* equals “scaling what works.” We also address the innovation (and “system-changing”) questions further in Chapter 18, *Social Entrepreneurship Revisited*, because a good number of stalwart and effective nonprofit organizations have, for decades, achieved significant social impact but are often excluded from the “entrepreneurship” discussions because their work is not perceived as “new” or because they opt for community rather than “system-changing” solutions.

## The Business Sway

### What Makes It Social?

One of the greatest debates in social entrepreneurship centers on the influence of the business paradigm. Before exploring that debate fully, however, it is first necessary to define just what distinguishes *social* entrepreneurship from *for-profit* entrepreneurship: What makes it “social”?

This question can be answered in many ways, although primarily it rests on social entrepreneurship’s primacy of social benefit or “mission-related impact.”<sup>13</sup> For companies, profits are *sine qua non* essential for long-term scale and viability;<sup>14</sup> they are also a reasonably good proxy for the value a firm has created. In contrast, and nearly by definition, social entrepreneurs are working in areas of market failure. According to Dees, “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.”<sup>15</sup>

### The Business Orientation of the Social Entrepreneur

Yet for many social entrepreneurs, working in areas of market failure does not mean disregarding market tools or business practices. Rather, in social entrepreneurship, the converse is often true: a distinct business orientation. Drayton believes that the social entrepreneur has “the same ‘makeup’ as a business entrepreneur, in attitude, vision, bias for action and skills,” but the social entrepreneur seeks to change the world’s “big patterns” for the good of all. Jane Wei Skillern, Jim Austin, Herman

Leonard, and Howard Stevenson, whose *Entrepreneurship in the Social Sector* (2007) is now one of the most widely used textbooks on the subject, suggest that organizations led by social entrepreneurs “often exhibit some of the virtues commonly associated with commercial entrepreneurship, such as efficiency, dynamism, innovativeness, high performance, and economic sustainability.”<sup>16</sup>

Having a business orientation means different things to different social entrepreneurs. For some, it amounts to the adoption of business practices, from more corporate management structures to increasingly quantitative or investment-like measurement and evaluation procedures. For others, being business friendly implies a preference for private—corporate or philanthropic—funds rather than government support. And in some cases, it has meant an effort to function more like a company by generating revenues or even profits in support of the organization’s social purpose.

### Social Enterprise versus Entrepreneurship

For the most part, the social entrepreneurship movement in the United States began in the nonprofit sector where it remains focused on the entrepreneurial qualities of these organizations, rather than on their actual transformation into businesses. In recent years, however, a notable shift in emphasis, which we will explore at length in Chapters 8–13, from “entrepreneurship” to “enterprise” has advanced a more literal extension of the business analogy.

In one illustration of this trend, a number of social entrepreneurs have attempted to make their nonprofit organizations function more like businesses by generating additional revenues and sometimes even profits to sustain and advance their social missions. Of course, the notion that social purpose organizations can and should engage in some kind of trade is hardly new. It has long been a feature of the European and British economic landscape, and even in the United States, compelling examples of social-enterprises-as-businesses are found throughout our history. Goodwill Industries, for example, was founded in 1902 by Reverend Edgar Helms, a Methodist minister whose Boston congregation collected used household goods and clothing discarded in wealthy areas of the city, trained and hired the unemployed to mend and repair them, and then redistributed the goods to those in need. Today Goodwill is a global net-

work of 180 local chapter organizations that provides job training and employment placement and others services, raising most of its \$3.5 billion budget through retail thrift stores.

In fact, most nonprofits in the United States, including private schools and universities, hospitals, performing arts groups, and museums, among others, use some kind of fee-for-service model to cover a portion (if not most) of their operating costs. By some estimates, earned income exceeds donations as a source of funds for public charities (excluding religious organizations).<sup>17</sup>

The growing emphasis on revenue generation as part of the business bias of the sector has led to some confusion, however, about the difference between enterprise and entrepreneurship. Dees reminds us that “many activities that generate earned income are not entrepreneurial at all. . . . It would be absurd to give a social entrepreneurship award, for instance, to a major hospital simply because of its extremely high percentage of earned income from patient fees and the record profits at its gift shop and parking garage. Yet, this would be a logical implication of taking earned income as the yardstick of social entrepreneurship. High levels of earned income are often not innovative and may not be correlated with high levels of social impact.”<sup>18</sup>

### Social Entrepreneurship Across the Sectors

In this remainder of this book, we will refer to and examine social entrepreneurship as a kind of change making that can occur across the sectors. Although the approach began, for the most part, in the nonprofit sector, ample evidence now indicates its influence is found in both the private sector, where true social “enterprises,” or companies, have been created with the intention of generating financial returns and social or environmental benefit, and in the public domain, where social entrepreneurs in government are looking to incent and advance innovation throughout the social sector.