

Advances in Business Ethics Research  
Series Editors: Deborah C. Poff · Alex C. Michalos

Larry Pate  
Charles Wankel *Editors*

# Emerging Research Directions in Social Entrepreneurship

 Springer

# Emerging Research Directions in Social Entrepreneurship

# **Advances in Business Ethics Research**

## A Journal of Business Ethics Book Series

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# Emerging Research Directions in Social Entrepreneurship

 Springer

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# Contents

|   |     |
|---|-----|
| <b>1 Framing the Inquiry into Emerging Research Directions in Social Entrepreneurship</b> .....       | 1   |
| Charles Wankel and Larry Pate   |     |
| <b>Part I Essential Qualities of Social Entrepreneurs</b>   |     |
| <b>2 Humility in Social Entrepreneurship: A Virtuous Circle</b> .....                                 | 11  |
| Catalin Ratiu, Bennett Cherry and Troy R. Nielson   |     |
| <b>3 Voices in the Fog: Accounts of Social Entrepreneurship Identity in the UK Third Sector</b> ..... | 33  |
| Chris Mason   |     |
| <b>Part II The Wider Impact of Social Entrepreneurship</b>  |     |
| <b>4 Opportunities for Social Value Creation Across Supply Chain Interactions</b> .....               | 51  |
| Jennifer L. Woolley   |     |
| <b>5 Social Enterprises and the Financing of Different Scaling Strategies</b> .....                   | 67  |
| Wolfgang Spiess-Knafl and Stephan A. Jansen   |     |
| <b>6 Creating Public Value: An Examination of Technological Social Enterprise</b> .....               | 85  |
| Thema Monroe-White  |     |
| <b>7 A Replicable Evaluation Method of Social Entrepreneurship Centers and Programs</b> .....         | 111 |
| Noushi Rahman and Rebecca Tekula  |     |

### Part III Social Entrepreneurship and Global Change

|           |   |     |
|-----------|---|-----|
| <b>8</b>  | <b>Innovation Ecosystems in Brazil: Promoting Social Entrepreneurship and Sustainability</b> .....  | 127 |
|           | Ana Cristina O. Siqueira, Mario P. Monzoni, Sandra R. H. Mariano, Joysi Moraes, Paulo D. Branco and Ana M. Coelho                               |     |
| <b>9</b>  | <b>Social Entrepreneurship in the Arab World: Lessons from Lebanon</b> .....  | 143 |
|           | Dima Jamali and Liya Kreidie  |     |
| <b>10</b> | <b>Evolutionary Dynamics of Organizational Legitimacy of a Social Enterprise in a Developing Economy</b> .....                                  | 163 |
|           | Sougata Ray and Anjan Ghosh   |     |
| <b>11</b> | <b>Developing Businesses and Fighting Poverty: Critical Reflections on the Theories and Practices of CSR, CSV, and Inclusive Business</b> ..... | 191 |
|           | Mara Del Baldo  |     |
|           | <b>Index</b> .....  | 225 |

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# Chapter 1

## Framing the Inquiry into Emerging Research Directions in Social Entrepreneurship

Charles Wankel and Larry Pate

**Abstract** This chapter is an introduction and overview of the volume, *Emerging Research Directions in Social Entrepreneurship*. Over the last 10 years, there has been increased interest in social entrepreneurship, which focuses entrepreneurial attention on the launch and growth of businesses that address social problems and social needs. While some limited theory and research exists, for the most part it has been lacking in providing sufficient answers regarding the mix and sequence of factors within a social entrepreneurship program that are likely to bring about the greatest impact. This volume answers such questions as: how do we study and measure the impact of social entrepreneurship efforts? If the mission of social entrepreneurship is to add value in the form of large-scale, transformational benefit to people who are physically, financially, or otherwise unable to solve their own problems, how can social entrepreneurship researchers define and measure success? The first part of this book looks at the essential qualities of social entrepreneurs. What is the identity of a social entrepreneur? The next section investigates the wider impact of social entrepreneurship. How social entrepreneurial organizations create value and impact the various environments in which they operate. Entrepreneurs, social entrepreneurship scholars, and funders are all discussed. Finally, this book looks at the global impact of social entrepreneurship.

**Keywords** Social entrepreneurship · Innovation · Sustainability

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Never doubt that a small group of thoughtful, committed citizens can change the world. Indeed, it is the only thing that ever has. -Margaret Mead

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The study of new and emerging businesses has gained increased attention and legitimacy over the past 40 years as an academic discipline (Gartner and Liao 2012; Zanakis et al. 2012; Cassar, 2014). When the business schools at the University of Southern California and Harvard University launched their entrepreneurship programs, the first in the world to do so, there were no tenure-track faculty lines in entrepreneurship, no departments of entrepreneurship, no journals devoted to entrepreneurship theory and research, and barely any mention even of small business management in business schools worldwide. Today, in stark contrast, not only are there graduate and undergraduate entrepreneurship courses at most every university on the globe, along with tenure-track faculty positions and tenured faculty in entrepreneurship, there are also several departments of entrepreneurship, a few Colleges/Schools of Entrepreneurship, scores of unfilled endowed chairs and professorships in Entrepreneurship at even the most respected universities, and more than 40 journals devoted to research on entrepreneurship and innovation (Stewart and Cotton 2013).

More recently, particularly over the last 10 years, there has been increased interest in *social entrepreneurship*, which focuses entrepreneurial attention on the launch and growth of businesses that address social problems and social needs (Bjerke and Karlsson 2013; Stoner and Wankel 2007; Wankel 2010). Historically, addressing social issues has been the realm of government, academic, and philanthropic institutions. However, with mounting evidence of widespread moral decay throughout Corporate America, sparked by the Enron scandal, and coupled with similar acts of corruption and unethical leadership throughout the UK, Europe and Asia (cf. Bandsuch et al. 2008; Pate et al. 2008), business schools began placing greater emphasis on business ethics and social responsibility (Petrick et al. 2012). Business schools also stepped up to the challenge of offering solutions to deep-seated and long-standing social issues through their new entrepreneurship programs (Worsham 2012; Mirabella and Young 2012; Driver 2012). There is an emerging body of research documenting the size and scope of social entrepreneurial activity around the world (Salamon et al. 1999; Lepoutre et al. 2013; Terjesen et al. 2012).

With widespread global economic challenges brought on by a deep recession, and fueled by unemployment, poverty, inadequate sanitation and health care, rising gas prices, unstable home prices, a string of uprisings in the Middle East, and the ever-widening divide between the “haves” and “have nots,” the need for generating innovative solutions to long-standing social problems could not be greater (Amen et al. 2011). As a field of inquiry, social entrepreneurship offers practical solutions to pressing social problems. In turn, this new generation of social entrepreneurs is gaining the knowledge and skills needed to find their niche and make a difference in the world. Additionally, the growing field of social entrepreneurship is one that often addresses social issues at the grassroots level (Bornstein 2004; Brooks 2009).

When observing such social problems, many people *wish* they could be heroes. After all, who has not had their heart broken when observing extreme poverty, oppressive political upheaval, or the degradation of the world’s natural and physical resources? *Wanting* to be a hero is one thing. *Becoming* a hero is quite another. Business school must train future leaders to focus on ideas that matter, and limit and direct the search for innovation (Miller and Wedell-Wedellsborg 2013).

Social entrepreneurship, both as an emerging field and as a force for creating deep social change, draws from several disciplines, including business (Müller 2012), sociology (Goss et al. 2011; Maurer 2012), public administration (Hosu 2012; Short et al. 2009), and social work (Berzin 2012; Germak and Singh 2010; Savaya et al. 2008). While some limited theory and research exists, for the most part it has been lacking in providing sufficient answers regarding the mix and sequence of factors within a social entrepreneurship program that are likely to bring about the greatest impact (Sakarya et al. 2012; Fernandez et al. 2012; Ansari et al. 2012). Many theoretical questions remain as well. In order to design and implement effective social entrepreneurship programs that will provide the best possible educational experience to students, we need stronger theory and more convincing research evidence on the many possible cause-effect relationships inherent to a successful social entrepreneurship program (Pless 2012; McCarthy 2012).

The social and behavioral sciences have at their roots established methods of empirical investigation and critical analysis in the study of human social activity (Tashakkori and Teddlie 2010). Entrepreneurship, while perhaps less well defined as a discipline, has at its roots the ideas of creativity, innovation, imagination, entrepreneurial thinking, opportunity recognition/identification, risk taking, new product and service development, and profit creation (Armstrong et al. 2012). Each of these elements manifests differently depending on the individual(s), the context(s), and the culture(s) in which the entrepreneur interacts (Alvarez and Urbano 2012).

A social entrepreneur, then, is a person who identifies and attempts to solve a social problem on a large scale. His or her primary motive is not profit or financial gain—although being fiscally sound and even profitable are critical keys to sustainability—but rather added social value.

If the social and behavioral sciences rely on empirical investigation and rigorous analysis, whereas entrepreneurship relies on the whims of the marketplace to determine value creation through profits, how do we study and measure the impact of social entrepreneurship efforts? If the mission of social entrepreneurship is to add value in the form of large-scale, transformational benefit to people who are physically, financially, or otherwise unable to solve their own problems, how can social entrepreneurship researchers define and measure success?

*Emerging Research Directions in Social Entrepreneurship* examines these and other critical research issues that face social entrepreneurs. Research, in particular, is vital to the healthy development and understanding of social entrepreneurship. After all, if one cannot use the empirical investigation of the social and behavioral sciences or the profit margin of entrepreneurship as benchmarks, then how can funding agencies determine whether or not a social entrepreneur is creating sufficient social value to justify the resources spent in attempting to create that value?

**Part One** of this book looks at the essential qualities of social entrepreneurs. Although we are calling them “heroes,” do they identify as such? Or, is humility an important element of the social entrepreneur? What is the identity of a social entrepreneur?

In their chapter “Humility and Social Entrepreneurship: A Virtuous Circle,” authors Catalin Ratiu, Bennett Cherry, and Troy R. Nielson explore the link between

humility and social entrepreneurship. The extant literature on the broader topic of humility is summarized, as well as a contextualization and illustration of how these constructs interact. The authors identify linkages between humility and the characteristics of the entrepreneur, and explore the utility of humility in the social venture. They propose that the virtue of humility will increase the likelihood that individuals with entrepreneurial skills will engage in social ventures. The authors submit that a humble entrepreneur is more likely to recognize social and environmental needs, and to identify new and innovative entrepreneurial opportunities to address those needs. An integrated framework is developed that can be used to guide scholarly work in the area of humility in social entrepreneurs.

Chris Mason, in the chapter “Voices in the Fog: Accounts of Social Entrepreneurship Identity in the UK Third Sector,” explores the tensions in the establishment of social enterprise identity. Specifically, the chapter elucidates how the “talk” of social entrepreneurs within social enterprise reflects social, economic, and political rhetoric. The analysis shows the uncomfortable tensions between each of the three major themes, and often the presence of a *social mission* (collated under *advocacy*) is utilized as a linguistic framing device to distinguish between them.

**Part Two** of this book investigates the wider impact of social entrepreneurship. This section examines how social entrepreneurial organizations create value and impact the various environments in which they operate.

In her chapter “Opportunities for Social Value Creation across Supply Chain Interactions,” Jennifer Woolley discusses the process of social value creation by organizations. The framework that emerges shows that social value creation is not isolated to an organization’s customers or direct beneficiaries, but can occur in a wide range of downstream, internal, and upstream activities as well. Building on this model, this chapter examines the actions and interactions of a social venture that generate internal and external opportunities to create social value across the supply chain. From this, a framework of social value creation opportunities emerges that highlights the variety of activities and opportunities for social value creation, while providing insights into social entrepreneurship opportunity discovery and recognition. The framework that emerges shows that social value creation is not isolated to an organization’s customers or direct beneficiaries, but can occur in a wide range of downstream, internal, and upstream activities as well.

The chapter by Wolfgang Spiess-Knafl and Stephan A. Jansen, “Social Enterprises and the Financing of Different Scaling Strategies,” takes a closer look at the financing structure of social enterprises and the different scaling types. The authors show which financing instruments are available to social enterprises and which investors can provide the required funding. They also discuss how, depending on the structure of the cash flows, social enterprises have different options to finance their activities. Social enterprises also have access to different revenue streams which can be based on public or private funding. The authors discuss the role of public funding for social enterprises as public authorities are increasingly modifying their funding schemes to support social enterprises more actively. Moreover, the role of diversification for the income structure of social enterprises is discussed as there are various arguments pushing for a higher as well as a lower level of diversification of the income structure.

Next, the chapter by Thema Monroe-White, “Creating Public Value: An Examination of Technological Social Enterprise,” proposes that social enterprises aim to create essential public values via the search and exploitation of new opportunities—gaps left by markets and governments. Her research examines the mission statements of 150 technologically innovative social enterprises and offers broad implications for opportunity-seeking social entrepreneurs and policy makers interested in assessing the social impact of these organizations. Monroe-White’s study proposes that social enterprises meet needs that are unmet by markets and government, thereby generating essential public values.

In their chapter “A Replicable Evaluation Method of Social Entrepreneurship Centers and Programs,” Noushi Rahman and Rebecca Tekula develop a replicable evaluation method of social entrepreneurship centers and programs. This, of course, gets at the heart of using quantitative data to measure the success of social entrepreneurial ventures. Such an approach to examine social entrepreneurship centers and programs performance goes beyond the perception-based ranking instruments that popular magazines employ to evaluate subject-specific rankings. While the bulk of their chapter covers the mechanics of their measuring instrument, the vast implications for social entrepreneurship centers and programs, social entrepreneurs, social entrepreneurship scholars, and funders are all discussed.

Finally, **Part Three** of this book looks at the global impact of social entrepreneurship. We were fortunate to attract scholars and researchers from around the world. It is in Part Three that the global impact of social entrepreneurship becomes apparent. It is here that a small group of thoughtful committed citizens can truly change the world.

In the chapter “Innovation Ecosystems in Brazil: Promoting Social Entrepreneurship and Sustainability,” Ana Cristina O. Siqueira and her colleagues highlight cases of organizations that promote social entrepreneurship and sustainability in Brazil by supporting an ecosystem of innovation. Taken together, these cases illustrate the work of organizations involved in social entrepreneurship while enriching their local innovation ecosystems. Taken together, these cases illustrate the work of organizations involved in social entrepreneurship while enriching their local innovation ecosystems. The chapter is a key contribution to the literature on social entrepreneurship by emphasizing that the innovation ecosystem perspective can be valuable to understand the effects sustainability and social entrepreneurship initiatives have on their local communities.

Furthering the global theme, the chapter by Dima Jamali and Liya Kreidie looks at “Social Entrepreneurship in the Arab World: Lessons from Lebanon.” In this chapter, the authors provide a baseline understanding of the social enterprise sector in Lebanon, a country with significant opportunity to benefit from this emerging trend, by examining six cases of budding social entrepreneurship ventures from the Lebanese context. Through the cases, the authors illustrate the opportunities and challenges for social entrepreneurship in the Arab region. Their findings highlight the strengths and shortcomings of the social enterprise sector in Lebanon and bring to the forefront the role of institutional factors in shaping the potential development of social entrepreneurship.

In their chapter “Evolutionary Dynamics of Organizational Legitimacy of a Social Enterprise in a Developing Economy,” Sougata Ray and Anjan Ghosh explore the micro-level interactions of the actors of a social enterprise and show how the actors establish different types of organizational legitimacy with the key constituents of the organization’s external environment. The main objectives of the chapter are twofold: first, to make early contributions in understanding the criticality of legitimacy in the context of social entrepreneurship; second, to create some useful insights for the practitioners of strategy in social ventures.

The book wraps up with Mara Del Baldo’s chapter, “Developing Businesses and Fighting Poverty: Critical Reflections on the Theories and Practices of CSR, CSV, and Inclusive Business.” In it, she explores the development of inclusive businesses, paying particular attention to the mission and the motivations underlying the choices of sustainable businesses that benefit low-income communities, and bring added value for companies and people living in poverty alike. The driving aim of her study is to understand if the ethics underlying the approach (that can be read in the context of corporate social responsibility ethical theories) distinguishes diverse models or typologies of inclusive business practices.

*Emerging Research Directions in Social Entrepreneurship* offers insight and reflection into the direction of various social entrepreneurship efforts by providing the solid research tools to design and measure the impact of social entrepreneurial ventures. After all, it is not enough to feel like one is helping. One needs data to show that the efforts are, in fact, working.

It is clear that social entrepreneurs are the often-unsung heroes who tackle some of the hardest challenges in our world today. They feel the same heartbreak as others, but when they see that some part of society is “stuck,” they find what is not working and attempt to solve the problem by changing the system within which the problem evolved. In that light, we hope you enjoy and benefit from the thoughts, theories, and ideas contained in this book from some of the leading scholars who are actively engaged in research in this critically important field.

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**Part I**  
**Essential Qualities of Social Entrepreneurs**

# Chapter 2

## Humility in Social Entrepreneurship: A Virtuous Circle

Catalin Ratiu, Bennett Cherry and Troy R. Nielson

**Abstract** In this chapter we explore the link between humility and social entrepreneurship. We define and contextualize these remarkably interrelated constructs, justify their importance to entrepreneurial thought and action, and develop an integrated framework to guide future scholarly work in this area. Finally, through the profile of a well-known social entrepreneur, we illustrate these concepts and relationships.

**Keywords** Humility · Organizations · Virtue

### 2.1 Introduction

Social entrepreneurship is emerging as a force for both social change and business model innovation. While social ventures still make up a small part of the global economy, their impact is growing. Communities are benefiting from responsive and innovative new ventures. Other businesses are learning from social ventures how to effectively implement a triple-bottom line model. But we don't know much about the individuals who run these organizations, the social entrepreneurs. Are they different from other business leaders and entrepreneurs? If so, what do they do and how do they behave differently? Can these social entrepreneurs be cultivated from

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existing entrepreneurs? Is it possible to teach someone to be a social entrepreneur or is it dependent upon their past experiences and innate attributes? Along with these important questions, we ask, Why do individuals engage in social entrepreneurship?

In seeking an answer to this question, we position the chapter within work that explores the role of individuals in the success of social ventures (Hemingway 2005). To extend our understanding of personal characteristics of social entrepreneurs and their likely impact on the venture, we propose an examination of humility in conjunction with social entrepreneurship. In entrepreneurship research, humility has rested on the fringes and has not been explored at a sufficient depth. For instance, humility has previously been linked to religion-based entrepreneurial groups (i.e., the resourceful and self-sufficient Amish communities of America, in Dana 2010) and is briefly mentioned as a characteristic of an effective entrepreneur (i.e., one of many demands placed on the entrepreneur who desires to exhibit authentic leadership, in Jensen and Luthans 2006). A positive relationship between humility and social entrepreneurship is not clear-cut, nor has it been empirically verified. In fact, some have posited that humility may be an obstruction to successful entrepreneurship (Kraybill et al. 2010). For example, it can be argued that if humility is narrowly defined as meekness, an entrepreneur would have greater difficulty inspiring potential investors to provide needed resources to the early stages of the venture. We intend to reconcile these diverse thoughts and extend the topic to a broader entrepreneurship audience by proposing that humility among entrepreneurs is specifically and clearly evidenced in the behaviors of many social entrepreneurs.

Interest in social entrepreneurship is certainly not waning. Much has been written about the topic in the popular press and in academic research journals. In a recent review of social entrepreneurship education, Lawrence, Phillips, and Tracey conclude that “it is clear that social entrepreneurship and social innovation are no longer peripheral activities confined to the margins of economies. They are part of a growing and concerted movement seeking to find alternative solutions to some of the world’s most intractable social problems” (2012, p. 320).

Despite the growing interest in social entrepreneurship, the literature thus far is still in early stages of development when it comes to addressing questions about the individuals who start and manage social ventures (Zahra et al. 2009). Roper and Cheney (2005) describe social entrepreneurs as value driven and charismatic individuals with an interest to address a social change. However, Dey (2006) challenges the notion that social entrepreneurs are individuals “characterized by supernatural talents” and that this “image of the heroic individual makes us believe that social entrepreneurs are ‘sovereign and self-determining beings’” (Alvesson and Willmott 1996)” (2006, pp. 134–135). Some scholars have sought to explore whether social entrepreneurship is different (Shaw and Carter 2007) or mostly similar (Dacin et al. 2010) to conventional for-profit entrepreneurship. In partial answer to this question, other scholars point to personal characteristics as distinguishing factors between social and for-profit entrepreneurs, be they general personal values (Hemingway 2005), altruism (Tan et al. 2005), integrity (Achleitner et al. 2012), or optimism (James and Gudmundsson 2011). It is not our intention to contribute to this rhetoric by adding one more individualistic notion to the construction of a

social entrepreneur, but instead, we seek to bring further light to the topic and to a characteristic that is absent from the discussion, one which may help explain non-individualistic motives of individuals involved in social ventures.

Although social entrepreneurs have previously been defined as social change agents (Light 2006), social wealth creators (Zahra et al. 2009), value-driven (for a summary see Dacin et al. 2010), and charismatic individuals (Roper and Cheney 2005), we have yet to see a treatment of humility in the context of the social entrepreneur. In this chapter, we summarize the extant literature on the broader topic of humility, contextualize and illustrate how these constructs interact, identify linkages between humility and the characteristics of the entrepreneur, and explore the utility of humility in the social venture. Specifically, we consider humility as a value-enabling concept. Within the context of business, we propose that a humble entrepreneur is more likely to recognize social and environmental needs, identify new and innovative entrepreneurial opportunities to address those needs, and to more effectively implement a triple-bottom line venture. To illustrate these concepts and relationships, the case of well-known social entrepreneur, Blake Mycoskie, is discussed towards the end of the chapter.

## 2.2 Humility in the Organizational Context

Associating humility with effective business or social ventures would not be particularly novel, if we lived centuries ago. Humility has been considered an essential human virtue from which other virtues flourish (Peterson and Seligman 2004; Grenberg 2005, p. 133), and can be traced back to Buddhism, Taoism, Greek, and Judeo-Christian teachings (Peterson and Seligman 2004; Sandage and Wiess 2001). Despite these lengthy roots, it is only recently that organizational researchers have begun to explore the impact of humility on leaders and followers (Morris et al. 2005; Owens and Hekman 2012; Vera and Rodriguez-Lopez 2004). Business research on effective management and leadership has largely been concerned with ways to achieve wealth maximization, not with solving societal problems. The personal characteristics and ethics of managers or business owners were relevant to the extent that they had a measurable impact on profitability. Humility in organizational contexts has experienced a resurgence in the past decade, due in large part to the role of humility in effective corporate leaders described by Jim Collins in his best-selling book, *Good to Great* (Collins 2001). Around that same time, numerous corporate scandals demonstrated the significant consequences caused, at least in part, by the lack of humility in the leaders of those companies. Collins's summary of this high level of leadership prompted some researchers to conclude that he went "overboard in stressing the trait of humility" (Locke and Baum 2007, p. 109).

Prior to 2001, the management literature offered only scant research that even touched upon the variable of personal humility (see Owens 2009, for a detailed review). This is not the case in other social sciences, where humility has been proposed as a "classical source of strength" (Tangney 2000), a "universal spiritual

value” (Fry 2003), and a foundational virtue (Grenberg 2005) that tempers other virtues (Park and Peterson 2003). Yet, when searching for empirical studies in the social sciences, we encountered the following summative statement:

Scientific study of humility is still in its infancy. A review of the empirical literature from the last 20 years yields only a handful of research studies with any consideration of this long-revered construct. Furthermore, in virtually every case where humility is addressed, it has been tangential to the main research focus. (Tangney 2002, p. 411).

Owing in part to a broader movement called Positive Organizational Scholarship (POS), initiated by scholars at the University of Michigan, management scholars have recently refined the construct of humility (Owens 2009; Owens and Hekman 2012; Owens et al. 2011). Studies have examined humility as a critical factor in organizational success (Vera and Rodriguez-Lopez 2004), and as a set of behaviors that leaders may enact that result in more effective leader-follower relationships (Owens and Hekman 2012; Reave 2005). Humility has also been discussed in the context of authentic leadership (Jensen and Luthans 2006) and charismatic leadership (Nielson et al. 2010).

In his book, Collins (2001) never explicitly defined humility, but recent scholarly treatments of humility have offered more explicit definitions. Vera and Rodriguez-Lopez cited a definition from Solomon (1999) as the basis for their treatment of this virtue, stating that humility is “a realistic assessment of one’s own contribution and the recognition of the contributions of others, along with luck and good fortune that made one’s own success possible” (2004, pp. 394–395). Morris and colleagues defined humility “as a personal orientation founded on a willingness to see the self accurately and a propensity to put oneself in perspective” (2005, p. 1331). They further suggested three distinct dimensions of humility: self-awareness, openness, and transcendence, which they argued “can best be thought of as an acceptance of something greater than the self.” (2005, p. 1331).

In the most comprehensive review of humility in organizations, Owens (2009) defined humility as “a developmental orientation which is associated with: (a) a willingness to view oneself accurately, (b) an appreciation of others’ strengths and contributions, (c) teachability, and (d) a low self-focus.” Based on our own review of the humility literature, and limited empirical evidence to validate this multidimensional construct (Owens 2009), we subscribe to this definition. We will discuss briefly each of the four dimensions of this definition as they are pertinent to subsequent theoretical connections with social entrepreneurs.

### ***2.2.1 Accurate Self-Assessment***

The traditionally held view of humility as low self-esteem was discussed by Richards (1992) at length in his philosophical treatment of humility. Richards argued against the traditional view, which consisted of “having a low opinion of oneself” (1992, p. 3). He then offered a more comprehensive definition that formed the basis of his subsequent treatment of humility, which was “having an accurate sense of

oneself, sufficiently firm to resist pressures...to think too much of oneself” (Richards 1992, p. 5). Emmons (2000, p. 165) added that humility “is to have an opinion of oneself that is no better or worse than the opinion one holds of others.” Consistent with arguments made by other humility scholars (Exline et al. 2004; Owens 2009), we argue that humility helps individuals more accurately appraise their own strengths and limitations. Furthermore, we assert that such self-assessment becomes more accurate over time and with experience.

### ***2.2.2 Appreciation of Others’ Strengths and Contributions***

The virtue of humility enables individuals to recognize that they are not to be the center of attention, and to appreciate the strengths and contributions that others make. Those possessing humility are more likely to appreciate the contributions of others without feeling threatened by them (Exline et al. 2004). As individuals gain more accurate assessment of their own limitations, increased recognition occurs related to how others’ strengths mitigate the potential negative consequences of those limitations.

For instance, Sam Goldman and Ned Tozun (founders of d.light) in their letter to announce the appointment of the new CEO explain:

Our results are growing exponentially. It took us just over two years to reach our first one million lives impacted, eight months to hit the next, and in the last four months we hit another million. We are looking forward to growing substantially this year... All of you deserve to be recognized for making this happen. I hope you will find the time to congratulate and thank your families, partners, suppliers, distributors, and the entire extended d.light family, who have all worked so hard for this result. (Goldman 2011 in Mar 30 posting)

and earlier in their new venture, they relayed:

We would not be here today without the help of many family members, friends, mentors, partners and supporters. (Goldman 2011 in Dec 16, 2010 posting)

### ***2.2.3 Teachability***

Inherent in the construct of humility is the notion that we do not know everything, and therefore, we are open and receptive to learning (Tangney 2002). As greater recognition comes about personal gaps in knowledge, humility fosters an attitude of seeking advice and learning from others. Additionally, as Karl Weick has observed about leaders who can admit they don’t know the answer to every question, “that admission forces the leader to drop pretense, drop omniscience, drop expert authority, drop a macho posture, and drop monologues... listening and exploring is the consequence” (2001, p. 110). Individuals with humility are willing to be taught by others, by life experiences, or inspired by spiritual leaders (God, Buddha, or so forth).

To illustrate the concept of teachability and willingness to learn from mistakes, note how Martin Fisher and Nick Moon, founders of KickStart introduce the reader of their website to the company:

It would have been easy to be discouraged, but instead, they took a look at their projects (and the sector as a whole) with dispassionate, scholarly eyes. They knew that you can learn more from failure than success. By understanding what went wrong, they were able to build a new model to correct the failures of the past and create a successful way to help people escape poverty. (KickStart 2012)

### **2.2.4 Low Self-Focus**

While humility in our view of the construct does not imply thinking less *of* ourselves (low self-worth), it does demand thinking less *about* ourselves. Compared with the narcissistic tendencies in successful organizational leaders and entrepreneurs, humility involves a “forgetting of the self” (Tangney 2002, p. 74). Individuals with humility are prone to consider more accurately their place in the universe and avoid excessive self-absorption. The greater tendency toward being others-focused instead of self-focused enables a more pronounced attention on social problems that require resources and complex solutions. Humility directs energy more towards fulfilling the needs of others instead of the needs of self.

To illustrate this dimension, notice how David Green (credited with the development of sustainable, affordable, and accessible health care services to the world’s poorest individuals through Aurolab and Aravind Eye Hospital in India) discusses why he devotes his attention to the Bottom of Pyramid problems and markets:

I could apply my talents to making lots of money, but where would I be at the end of my lifetime? I would much rather be remembered for having made a significant contribution to improving the world into which I came than for having made millions. (Elkington and Hartigan 2008 footnote 3 in Introduction).

In this section, we have discussed the role of humility in the organizational context. We review and organize that literature, discuss the four dimensions of humility that are pertinent to the discussion on social entrepreneurship, and illustrate these dimensions with examples of social entrepreneurs. The next section focuses on contextualizing this discussion within the social entrepreneurship literature with a focus on individuals.

## **2.3 Social Entrepreneurship and the Social Entrepreneur**

Descriptions of social entrepreneurship and social entrepreneurs abound. Since there is not yet an agreed upon definition for each of these terms, various researchers and organizations have added their perspectives to this growing area of entrepreneurship research. As one of the leading organizations involved in the social

entrepreneurship space, leaders at the Skoll Foundation have defined social entrepreneurship as being composed of three dimensions: (i) the identification of a “stable but inherently unjust equilibrium that causes the exclusion, marginalization, or suffering of a segment of humanity”, (ii) the identification of an “opportunity in this unjust equilibrium, developing a social value proposition, and bringing to bear inspiration, creativity, direct action, courage, and fortitude” to challenge the status quo, and (iii) the development of a “new, stable equilibrium that releases trapped potential or alleviates the suffering of the target group” to ensure a different, and better, future (Martin and Osberg 2007, p. 35). This broad definition allows for many kinds of activities to be defined as social entrepreneurship, under the conditions that (a) direct entrepreneurial activity changes the *status quo*, and (b) societal needs are the driving force of this change.

While there are other means to achieve social goals, such as through nongovernmental organizations, social entrepreneurship as a form of organizing has caught our attention because it builds on the promises of achieving economic prosperity along with social benefits. Social ventures are built on the basis of efficiency and effectiveness, the optimization of resource allocation and utilization, along with a focus on creating opportunities for growth and economic sustainability, the latter of which is missing from other forms of organizing.

Past efforts at defining social entrepreneurship have included a focus on the individual-level characteristics of the social entrepreneur, the sector the entrepreneur operates in, the strategies and resources employed by the social entrepreneur, and the motivation and outcomes associated with the social entrepreneur (for an excellent summary of previous approaches used to describe social entrepreneurship, see Dacin et al. 2010). We further recognize Short, Moss, and Lumpkin’s (2009) recommendation to endorse Mair and Marti’s conceptualization:

First, we view social entrepreneurship as a process of creating value by combining resources in new ways. Second, these resource combinations are intended primarily to explore and exploit opportunities to create social value by stimulating social change or meeting social needs. And third, when viewed as a process, social entrepreneurship involves the offering of services and products but can also refer to the creation of new organizations. (2006, p. 37)

In one of the earliest writings on the topic, Dees (1998) characterizes the behaviors of social entrepreneurs as change agents in the social sector who: (i) adopt a mission to create or sustain social value; (ii) recognize and act on opportunities that match that mission; (iii) engage in continuous innovation and organizational learning; (iv) take bold actions despite resource limitations; and (v) maintain accountability to those benefiting from the social service and for the outcomes the social entrepreneur is creating. More recently, Dacin et al. have recommended that future research define the social entrepreneur by the extent to which the social entrepreneur demonstrates a mission focus to “create social value by providing solutions to social problems” (Dacin et al. 2011, p. 1204).

In their broad review of the extant literature and definitions of the construct, Dacin et al. defined a social entrepreneur as the “actor who applies business principles to solving social problems” (2010, p. 44). This brief definition highlights the importance of business skills upon which social ventures are built. It is often



regarded that entrepreneurial success is derived in large part from the entrepreneur's own knowledge, skills, and abilities (Dacin et al. 2010). This individualistic approach has been challenged by Dey et al. (Dey 2006; Dey and Steyaert 2010), shedding light on the increased interest in describing entrepreneurs and their behaviors among researchers and conventional entrepreneurs alike. These individual characteristics have included creativity (e.g., Drucker 1993; Schumpeter 1934), opportunity recognition (Baron 2006), and specific personality traits, such as, need for achievement, propensity for risk, innovativeness, autonomy, locus of control, and self-efficacy, among others (see Rauch and Frese 2007).

Based on drive (or motives), time horizon, scope of issues addressed, and inspiration, we synthesize below four characteristics of prototypical social entrepreneurs that are relevant to the topic of humility and present vignettes to illustrate these characteristics:

### ***2.3.1 Driven by a Sense of Mission***

According to Elkington and Hartigan, social entrepreneurs are propelled by emotion due to a “life-transforming experience, some sort of epiphany that launched them on their current mission” (2008, p. 12). Further, social entrepreneurs believe that their role is to fulfill a greater purpose than to simply build economic value within an organization. As a result, they formulate bold visions for their organizations that point to a desire to solve important societal problems. Often the sense of mission is derived from past experiences interacting with others in a depressed or distanced encounter, which provide a vantage point for seeing the world in a different way that would benefit others. For example, Better World Books was founded by Notre Dame students after exploring the online market for used books. The students had volunteered at a community center in the past, which allowed them to gain knowledge of the need of others. This experience prompted them to combine economic opportunity with a solution toward a social need—literacy. Started by three individuals in 2002, the company now has over 400 employees.

In another example, Sam Goldman, co-founder of d.light design served in the Peace Corps in Benin where he lived without electricity for 4 years. His experience showcases the willingness to solve a problem that the entrepreneur experienced for a time, yet others in the world experience on an ongoing basis. As he recalls, the experience “catalyzed my passion to bring affordable, and safe light to all” (Goldman 2011).

**Long time horizon** Social entrepreneurs are tackling the problems that have plagued and will likely continue to plague the world in the coming decades. “These entrepreneurs are doing early market research on some of the biggest opportunities of the coming decades... they address the critical challenges where traditional markets fail” (Elkington and Hartigan 2008, p. 2). This acts as an important distinction from conventional entrepreneurs, which seek opportunities within traditional markets. Furthermore, they are not interested in providing handouts or donations to

people in need. They truly believe that change only comes at the hands of individuals who have a stake in the present and the future. The founders of KickStart, an organization that sells low-cost human-powered pumps for irrigation, are clear in their message that they are not giving a handout to the poor, but rather they are providing a viable solution to help them out of poverty. Their “Money Maker” pumps provide a source of income for those in need which allows the person in need to see a way out of poverty. Entrepreneurs that have a longer time horizon tend to use the term *invest* rather than *giveaway* or *donate* since investment conveys a sense of expected return, along with measures of success.

The idea of long time horizon addresses issues of effectiveness and efficiency. An expression that often comes up in social entrepreneurship is ‘in it for the long haul.’ Elkington and Hartigan explain that “what motivates many of these people is not doing the ‘deal’ but achieving the ‘ideal’. And because the ideal takes a lot longer to realize, these entrepreneurs tend to be in the game for the long haul, not just until they can sell their venture to the highest bidder” (2008, p. 3).

**Global scope of issues addressed** Social entrepreneurs are motivated to address problems that have global implications. We acknowledge that in today’s world, even small conventional ventures have the ability to think globally but their focus often remains local or regional. Also, for social entrepreneurs, global focus is not just a source of economic opportunity, but the target of market-based solutions to social needs. In the process of solving these problems, social entrepreneurs question and tackle the myriad problems and unsatisfactory equilibriums embedded in the status quos in many parts of the world. In so doing, they are required to be “both creative problem solvers and skilled politicians—overcoming resistance from residential communities, government agencies, political factions, and corporate actors” (Lawrence et al. 2012, p. 321). This is not to say that social entrepreneurs always compete in global marketplaces or that conventional entrepreneurship is less global, in terms of product or service markets. The emphasis is on the issues addressed. It is now understood that one of the key dynamics of environmental and social problems is that they are global. For instance, air, ground, or water pollution in one country will affect other countries as well. Similarly, poverty or social unrest in one country will have implications across the world. As such, we argue that, as a result of being driven by a sense of mission, the social entrepreneur is not confined by any particular border in addressing a social or environmental need, therefore, the scope of *issues* addressed is global.

**Inspired by a social need and market opportunity** Finally, the source of ideas for social entrepreneurs is not represented just by market opportunities, but also by social needs. Dacin et al. (2011) mention that social entrepreneurs “balance” the dual priorities of social and economic value creation. Elkington and Hartigan (2008) explain that social entrepreneurs are highly ambitious, however unlike traditional or conventional entrepreneurs, their ambition is motivated not by self interest, but by the need to achieve a benefit for a larger group and society. Also, they are “driven by a passion to expand business thinking to reach people in need” (Elkington and Hartigan 2008, p. 6). Moreover, they operate from a different understanding

of what constitutes value and wealth creation. This effort is not directed at themselves or their family and friends, but the value they desire to create is for a larger group or society, in general. The wealth they wish to build can be shared among those impacted and contributes back to the growth of the social venture. At a minimum, the social entrepreneur considers a double bottom line to measuring societal outcomes and commercial performance, recognizing that this approach can easily lead to tension in balancing the two (Lawrence et al. 2012). Additionally, some social entrepreneurs employ triple and quadruple bottom lines to measure success.

Furthermore, social entrepreneurs are willing to share their knowledge and experiences with others, all in an effort to create social value. Sam Goldman, co-founder of d.light design, remarked on a personal statement that he welcomes competition, enjoys relationships with many of his competitors, and discusses shared goals and challenges with them. It is clear in his remarks that his focus is on achieving the social value and not just his personal or entrepreneurial value:

Not only do I respect and appreciate our competitors, but I think they're necessary. As we always say, there are about 1.6 billion people in the world without access to electricity. Even under the best of scenarios, d.light isn't going to be reaching all of them anytime soon. There is plenty of space for others to participate in our shared vision of improving the quality of life for off-grid families. The more partners we have in developing cool products and getting them out there to rural areas, the sooner we can achieve that vision. (Goldman 2011)

Entrepreneurship researchers and instructors are beginning to believe that social entrepreneurship can not only be taught, but that social entrepreneurs can be developed through exposure and education. Smith and Woodworth (2012) describe a course at Brigham Young University that has as its core objective to “empower students with a vision of how they can take initiative to address real societal problems.” They frame this course by using social identity theory (Tajfel and Turner 1979) and defining social entrepreneurship as a social category (i.e., a desire to help battle the world's social ills) that students can begin to identify with. They further augment the social entrepreneurship identity by exposing the students to prototypical members of the social category.

In this section, we reviewed the literature on social entrepreneurship with specific application to the individuals who start and manage these organizations. We highlighted four dimensions that set the social entrepreneurs apart, based on what drives them, the time horizon of their vision, the scope of issues addressed, and the source of their inspiration. Recall that we started by asking what might determine individuals to engage in social ventures. Note also that the four attributes of social entrepreneurs presented in this section point to a marked difference from conventional entrepreneurs. Similarly, we should expect that what drives individuals to engage in social entrepreneurial ventures will be different as well. Seeing that the scope of attributes of social entrepreneurs is generally broader and more socially involved than that of conventional entrepreneurs, we propose that elements of virtue would play a significant part in understanding social entrepreneurship behavior. While we do not propose a new definition or a new delineation of what constitutes social entrepreneurship or a social entrepreneur, we shed light on a virtue-based

**Table 2.1** Distinguishing conventional and social entrepreneurs

|                 | Conventional entrepreneur      | Social entrepreneur                  |
|-----------------|--------------------------------|--------------------------------------|
| Drive           | Wealth                         | Greater purpose, sense of mission    |
| Time horizon    | Short, medium                  | Long                                 |
| Scope of issues | Local, regional, international | Global                               |
| Inspiration     | Market opportunity             | Societal need and market opportunity |

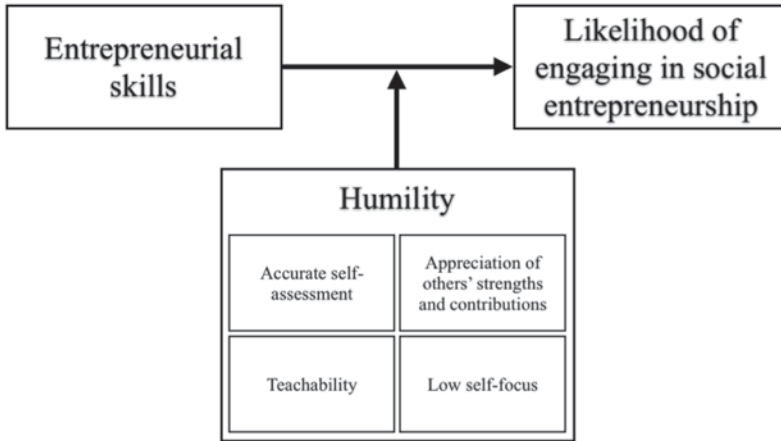
element that is missing in the conversation—humility. The nature of the relationship between humility and social entrepreneurship is explained in the following section.

### 2.3.2 *The Moderating Role of Humility in Encouraging Social Entrepreneurship*

Our underlying premise is that humility is positively correlated with the choice entrepreneurs make to engage in social entrepreneurship ventures instead of traditional entrepreneurship ventures. Additionally, we propose that humility will foster greater effectiveness of those entrepreneurs in their social ventures.

It may be useful to make an observation regarding the distinction between conventional entrepreneurs and social entrepreneurs. We are inspired in compiling the elements of this comparison by the work of Barendsen and Gardner (2004), Hemingway (2005), Roberts and Woods (2005), and Short et al. (2009). The dimensions relevant to this chapter are shown in Table 2.1 above which displays the perceived differences based on answers to four broad questions: What drives the entrepreneur? What is their time horizon? What is the scope of the issues they choose to tackle? What is their inspiration? Note that, while any entrepreneur can become engaged in social entrepreneurship, evidence presented earlier and synthesized in Table 2.1 suggests that it may be relatively straightforward to distinguish between these individuals. For instance, we argue that a conventional entrepreneur is driven primarily by wealth, prosperity, and the financial performance of the firm. The social entrepreneur, on the other hand, is predominantly driven by a greater purpose, and a sense of mission with clear societal implications and benefits.

Similarly, the two will differ on their time horizon, where the social entrepreneur will attempt to find solutions to social or environmental problems that have long-term implications. While in today's business environment, small firms can be global, the scope of issues they attempt to resolve is generally limited to some boundaries, even if the firm is born multinational. On the other hand, the social entrepreneur will attempt to resolve global issues and will rely on a global network to do so. You will notice in the case below, that TOMS functions in such a way, where resources from developed markets are shifted through commercial activity to solve problems in poor regions.



**Fig. 2.1** The moderating role of humility

Finally, the source of inspiration for conventional entrepreneurs is generally a market opportunity or a gap in product offerings in any given industry. The social entrepreneur, on the other hand, will be driven to act by a societal need in conjunction with a market opportunity. Finding ways to reconcile (or “balance” as described by Dacin et al. 2011) these two, often competing forces provides the social entrepreneur with the opportunity of creating an innovative business model.

Distinguishing between conventional and social entrepreneurship is important because it provides some sense of how individuals make business choices that lead to different outcomes. Additionally, the dimensions noted also act as a possible roadmap, as individuals can alter their choices along the way, and change the directions of their enterprise to fit a social objective.

Still, it is not sufficient to simply make this necessary distinction between conventional and social entrepreneurship. While it serves as the basis for discussion, the primary contribution of this chapter is to propose a moderating role for humility which influences the likelihood that entrepreneurially-minded individuals will engage in social entrepreneurship. As such, we propose that humble entrepreneurs are more likely to engage in a social venture than entrepreneurs who do not hold this virtue.

As shown in Fig. 2.1, we build on entrepreneurial research by linking conventional entrepreneurial skills with the likelihood of developing or engaging in a social venture through the moderating role of personal humility. The simple model we built offers a necessary nuance by including the construct of humility and its four dimensions as moderators of the link between entrepreneurial skills and the likelihood of engaging in social entrepreneurship. We develop two fundamental propositions pertinent to this relationship:

*P1* *Entrepreneurs with high levels of humility are more likely to engage in social entrepreneurship ventures than entrepreneurs with low levels of humility.*

*P2 Humility will moderate the relationship between the social entrepreneur's skills and their effectiveness as a social entrepreneur, such that social entrepreneurs with higher levels of humility will be more effective.*

The rationale for the first proposition centers on two of the humility dimensions—accurate self-assessment and low self-focus. Accurate self-assessment involves a clear recognition of personal strengths and weaknesses. The relationship between self-assessment and engaging in social entrepreneurship is less about accurate assessment of strengths and more about accurate assessment of limitations. Individuals who clearly recognize their own limitations are more likely to clearly recognize the needs of others and seek solutions to address those needs. Recognition of personal limitations is also likely to bring to mind experiences when the efforts of others have helped mitigate the negative consequences of such limitations. Thus, when individuals are exposed to societal challenges that impose frustrating limitations on others, they are more likely to try to apply their entrepreneurial skills to address those needs. Moreover, accurate self-assessment may include not only strengths and weaknesses but also motivations. Through the personal experiences of the entrepreneurs, a sense of mission emerges, which then makes it more likely that humility will foster a passion for particular societal causes.

Regarding low self-focus, Vera and Rodriguez-Lopez (2004) proposed that humility would strengthen a leader's genuine desire to serve both employees and customers. It seems sensible that such a desire to serve would extend to groups in need beyond organizational boundaries. The sense of connection with a larger universe is the most significant aspect of the moderating relationship, whether it is due to religious beliefs about the relationships between human beings and some form of deity, or an overarching sense of humanity.

Therefore, the extent to which entrepreneurs are thinking more about the needs of others and less about themselves moderates the extent to which they use their skills to solve social problems. Focus on self is more likely to lead to emphasis on wealth maximization and shorter time horizons (i.e., what is in it for me?). Morris et al. (2005) also suggested that humility would predict socialized power motivation instead of personalized power motivation. Entrepreneurs in typical for-profit ventures are expected to be more motivated by the betterment of self (i.e., personalized power), and as a proxy measure, the betterment of financial worth. Socialized power motivation is about the use of influence for the betterment of all group members rather than for self-promotion or glorification (McClelland 1975).

The second proposition is influenced by all four dimensions of humility. It actually can be argued that humility would improve the effectiveness of any entrepreneur, for-profit or social (with the possible exception of the effectiveness of fundraising activities), but humility is particularly important for effectiveness in social ventures because of the beneficiaries of those ventures. An egocentric entrepreneur trying to remedy the social needs of others is bound to exhibit behaviors that would be inconsistent with the purpose of the social venture. Such inconsistencies would erode the entrepreneur's credibility as a leader more quickly in a social venture than in a traditional for-profit venture. The importance of each of the four humility

dimensions to the effectiveness of the social entrepreneur will be demonstrated in the example of Blake Mycoskie, founder of TOMS, later in this chapter.

The four dimensions of humility have been discussed earlier. As shown in Fig. 2.1, these function together to form a composite variable—humility. For instance, an individual that displays accurate self-assessment but poor appreciation of others' strengths and contributions cannot be considered humble. Similarly, the presence of any other humility dimension, in whatever degree, while in the absence of another cannot qualify the individual as humble. The elements of humility are multiplicative in nature and not summative. The idea that these dimensions have to work together is important, because it allows us to confidently identify humility in individuals.

In the next section, we profile a prominent social entrepreneur who exemplifies the relationship between humility and social entrepreneurship that is highlighted in this chapter. This guides us towards a discussion that theoretically integrates the ideas of entrepreneurial abilities and inclinations, humility, and the likelihood of engaging in social entrepreneurship. Our underlying premise is that humility is positively correlated with the choice entrepreneurs make to engage in social entrepreneurship ventures instead of traditional entrepreneurship ventures. Additionally, we propose that humility will foster greater effectiveness of those entrepreneurs in their social ventures. Similar to Miller et al., we view social entrepreneurship as “the process of founding a market-based organization for creating social value” (Miller et al. 2012, p. 620). This definition relies heavily on the idea that social value is created through market mechanisms. As our illustration of TOMS shows, the ability to contribute meaningfully to needs of individuals in developing countries was funded through an innovative and profitable business model, which required economic self-sufficiency.

## 2.4 Entrepreneurial Profile: Blake Mycoskie

Blake Mycoskie is the award winning founder of TOMS Shoes and the visionary behind One for One™, a business model innovation that has changed the way companies think about social entrepreneurship. The company he founded is responsible for having given away more than two million pairs of shoes to children in developing countries, since 2006. The One for One™ concept has now expanded to TOMS Eyewear, which is focused on eye care for those in need. His approach to leadership and business development can be summarized in his own words:

Today's successful leaders are those willing to share credit as much as possible, who give away as much as they can, and who promote an environment of creative cooperation instead of rabid competition. (Mycoskie 2012, p. 130)

Based on publicly available documentation, we sketch a portrait of Blake Mycoskie and show how the dimensions discussed in this chapter come to life in his professional profile. First, a look at the entrepreneurial skills and social entrepreneurship characteristics.

**Entrepreneurial skills** Before starting TOMS, Mycoskie had already been a successful entrepreneur, having started four other businesses, some of which were sold profitably. His experience also includes competing in the CBS television series *The Amazing Race*.

**Sense of mission derived from transforming experience** Mycoskie is an avid traveler who has visited many countries around the world, including many less developed societies. He discloses that the idea for TOMS came after a trip to Argentina. During that trip, he saw that in certain parts of the country children grew up without owning a pair of shoes. He described that experience as “heartbreaking” when he witnessed “the intense pockets of poverty” which subsequently heightened his awareness (Mycoskie 2012, p. 5). He then decided that he would use his knowledge and business skills to help remedy this inequilibrium.

**Societal need and market opportunity** In conjunction with thinking about the need for shoes of Argentinian children, Mycoskie also realized that there was a gap in the market offering for quality shoes with a mission. The success of other social ventures, such as the RED campaign suggested that consumers from a developed country were becoming more interested in contributing to broader social goals through their purchases. He then created a business model that innovated upon other similar ventures to take advantage of this market trend.

**Global scope of issues addressed** The TOMS business model is not meant to simply resolve issues of a domestic market. Instead, the vision developed by Mycoskie is to build on global market forces to reallocate resources throughout the world. The social need for shoes in poor communities around the world can be satisfied through donations by consumers purchasing shoes in any market throughout the world.

**Long time horizon** Mycoskie’s interest goes beyond enriching the shareholders of TOMS. He has previously affirmed a passion for inspiring young people to include giving in everything they do. The vision he developed for TOMS is predicated on the assumption of a long term social impact.

We now turn to the personal characteristics of Mycoskie and identify the elements of humility:

**Accurate self-assessment** In Mycoskie’s retelling of the formative days in the founding of the business, he refers to himself as the “shoe entrepreneur who didn’t know shoes and didn’t speak Spanish” (Mycoskie 2012, p. 6), “loco” because he had very little idea of what he was talking about when discussing his concept with shoemakers in Buenos Aires (2012, p. 8), and, even after having hundreds of samples made and ready to sell in the USA, he “still didn’t know anything about fashion, or retail, or shoes” (2012, p. 9). These remarks underscore a person who views himself with fidelity and realism. After all, he didn’t set out to be a shoe entrepreneur when he embarked on his trip to Argentina. He saw a need, recognized an opportunity to contribute to others, and began the social entrepreneurial process, despite little experience and knowledge in the market.



**Appreciation of others' strengths and contributions** In reading his summary of the launching of TOMS, it is evident that Mycoskie recognized and appreciated the contributions of others. He not only acknowledged the role of Alejo Nitto, his Argentinian translator/partner/friend, but also the role of family, friends, and even skeptical local shoemakers in Argentina. He describes the important value that Alejo brought to the venture: "No matter how furiously we argued, and we did argue, each evening would end with an agreement to disagree, and each morning we'd resume our work. In fact, his entire family had stood by me..." (Mycoskie 2012, p. 9).

**Teachability** Although Mycoskie acknowledged that he didn't know everything, he also felt strongly about certain design aspects of the shoe. The lengthy debate between Alejo, Mycoskie, and the shoemaker illustrates a willingness to learn. As Mycoskie describes it: "Each day ended with a long discussion about the right way to create our *alpargata* [the traditional Argentinian shoe]. For instance, I was afraid it wouldn't sell in the traditional *alpargata* colors of navy, black, red, and tan, so I insisted we create prints for the shoes, including stripes, plaids, and a camouflage pattern. (Our best selling colors today? Navy, black, red, and tan.)" (Mycoskie 2012, p. 8).

Teachability is also evident in how a person responds to mistakes and failures. Mycoskie acknowledges that he's made "plenty of mistakes at TOMS" (Mycoskie 2012, p. 131), but by acknowledging and learning from these mistakes, he is building trust and demonstrating humility with the team. "As a leader, when you're willing to admit your judgment was poor, you show people that you aren't going to cover your mistakes or place them on someone else. I took 100% of the responsibility...the error in judgment was all mine" (Mycoskie 2012, p. 133).

**Low self-focus** Mycoskie's recounting of his initial encounter is palpable and reflective of a person whose focus is not on self: "I knew somewhere in the back of my mind that poor children around the world often went barefoot, but now, for the first time, I saw the real effects of being shoeless: the blisters, the sores, the infections—all the result of the children not being able to protect their young feet from the ground. I wanted to do something about it" (Mycoskie 2012, p. 5). He goes on further to share what it was like at the first Shoe Drop when they passed out the first 10,000 pairs of shoes to Argentinian children in need: "At each stop I was so overcome with emotion that I could barely slip the first pair of shoes on a child without crying with love and happiness" (2012, p. 15).

He further acknowledges that this has not always been the case for him and that when he first started a business his ambition was to become a "rock-star business leader" whose "fame would supersede that of others" (2012, p. 130). By learning more about business and with more experience in the ways of the world, he is more convinced than ever that the best leaders are those who are servants and focused on others.

Finally, an important outcome underscores the success of the social venture, and that qualifies as business model innovation. The demonstrated replicability of this business model qualifies as a social entrepreneurship innovation. Not only is this business format replicated by TOMS in the eyewear and eyecare industries, but the

One for One™ model can be implemented in other industries as well. Mycoskie acknowledges that many people in the industry thought that he was foolish in the early days of TOMS because the model was “unsustainable or at least untested.” Instead, what they’ve discovered is that “TOMS has succeeded precisely because we have created a new model” (2012, p. 19).

## 2.5 Discussion

We asked what drives individuals to engage in social entrepreneurship and proposed humility as a moderating variable. As such, the primary contribution of this chapter is to introduce the construct of humility as a necessary virtue that increases the likelihood that an entrepreneur will engage in a social venture. Humility is already established in the field of positive social psychology and its dimensions are surprisingly complementary to the characteristics of social entrepreneurs.

Research on social entrepreneurship can benefit from this addition as it provides necessary nuance to our understanding of what drives the development of these types of ventures. We narrowed the focus on individuals, and examined the moderating role of a virtue in influencing the likelihood of engagement. This work complements previous research that shows how other personal characteristics may lead individuals to think in broader, societal terms when founding a market-based organization. We cite the work of Miller et al. (2012) who show that compassion encourages social entrepreneurship. We agree that compassion is an important construct to include in the broader model and further argue that humility fits in the aforementioned model as a moderator. We also cite Owens and Hekman (2012) who show the importance of humility in leadership. Because it is considered a virtue, humility adds an important layer to the discussion of social entrepreneurship by suggesting that a mix of nature and nurture contribute to an individual’s interest and ability to be a successful social entrepreneur. Moreover, the model suggests that our ability to predict who is more likely to engage in social entrepreneurship is strengthened by the inclusion of humility.

Our core argument can be summarized as follows: to the extent that an individual seeks to attain a level of humility, social entrepreneurs can be trained. As shown earlier, social entrepreneurs are driven by a sense of mission, which they usually develop during a transformational experience. For the founder of TOMS, it was a trip to Argentina, where he was exposed to the realities of poverty and the need to provide shoes for local children, as a way to meet one of their basic needs. While Mycoskie had been a successful conventional entrepreneur prior to this moment, it was during that experience that he became aware of the opportunity to serve a social goal through business ventures. The model, therefore, suggests that organizations may foster the interests of individuals inclined to engage with issues outside of their core area. Furthermore, organizations may also develop training tools to inspire and nurture the four dimensions of humility. This argument makes additional sense in light of the conceptualization of humility as a developmental orientation

(Owens 2009). We believe that individuals become more or less humble over time based on their experiences.

While we spent most of our efforts here to describe the moderating role of humility in the entrepreneur's decision to engage in a social entrepreneurial venture, we also recognize that future research in entrepreneurial humility should take into account the antecedents and consequences of humility.

For example, we might propose that past entrepreneurial failures lead to increased humility by the entrepreneur. Dacin et al. invited future research along these same lines by stating "Scholars and practitioners of social entrepreneurship could learn a great deal from work examining the processes of loss and grief in conventional entrepreneurial failure research" (2010, p. 51). It is likely that past failure leads to increased humility since one of the key dimensions of humility is teachability. By focusing only on the social enterprises that succeed, we may be biasing the learning that could result and, in turn, help more startups succeed (Light 2006).

Additionally, we think it likely that entrepreneurial humility serves as an antecedent to important outcome variables for the entrepreneurial venture. Following from Kraybill et al. (2011) interesting work among the Amish religious community in the United States, we concur that a humble entrepreneur can serve as a catalyst for continued organizational growth and viability. This short excerpt from their study illustrates an application of entrepreneurial humility:

One widespread disposition of Amish owners, rooted in humility and made possible by small-scale operations, is a willingness to work alongside their employees, even in unpleasant tasks. The owner of a wood-finishing shop with nine employees said: I would never ask an employee to do something that I wouldn't do—ever! If it's too dirty, or too filthy, or too crappy of a job for me to do it, I wouldn't ask an employee to do it. This hands-on, humble approach motivates employees, strengthens their respect, and increases their commitment to the goals of the enterprise, thus leveraging human capital for increased productivity. (Kraybill et al. 2011)

Further research can focus attention on a number of outcome variables. We propose a starting point inspired from the area of authentic leadership, which demonstrated the links with employee engagement and motivation, and increased employee commitment which leads to increased productivity through the leveraging of human capital. Related to these organizational outcomes is the outcome of strong leadership succession that Collins (2001) found. For social ventures to achieve sustainability, capable leaders need to be in place to assist and eventually replace entrepreneurial founders. We expect humility of the social entrepreneur to increase the likelihood of such positive succession.

Perhaps the greatest challenge for business owners and managers attempting to address socio-environmental concerns is to reconcile the disconnect between the core economic activity and the impact of that activity on the general environment. In this chapter, we suggest that humility enhances people's ability to reconcile competing logics and integrate triple-bottom line considerations in the business model itself, thereby innovating how a company earns its revenues and transforming the industry in the process.

## 2.6 Conclusion

Social entrepreneurship is becoming an important field of investigation for scholars. More importantly, social ventures are proving key to solving important environmental and societal challenges worldwide. As such, social entrepreneurship has been shown here and elsewhere to be substantially different from conventional entrepreneurship. In comparison with other organizational forms (e.g., NGO), social entrepreneurship is effective in the application of multiple bottom line performance measurements, while innovating business models that allow for intrinsic economic incentives. In addition, we know that individuals (usually founders) are important to entrepreneurial ventures, because they infuse the organization with a set of core values that make up the cultural imprint that brings stakeholders together. The importance of individuals to entrepreneurial ventures has led scholars to investigate personal characteristics of individuals that influence the success of a venture. In the context of social entrepreneurship, we propose the virtue of humility, because it complements known characteristics of social entrepreneurs and we argue that it will increase the likelihood that individuals with entrepreneurial skills will engage in social ventures. We suggest that successful social ventures are built on the ability of individuals to reconcile multiple dominant logics or ways to see the world (i.e., economic, social, environmental) and propose that humility can facilitate that ability in entrepreneurs.

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# Chapter 3

## Voices in the Fog: Accounts of Social Entrepreneurship Identity in the UK Third Sector

Chris Mason

**Abstract** The purpose of this chapter is to explore the durability of social entrepreneurship (SE) identity gleaned from narrative accounts of SE. Specifically, this chapter draws on in-depth narrative interviews with five leading social entrepreneurs in the United Kingdom to explore the contested nature of this identity in broader third sector discourse. These interviews were collected at intervals over a period of 2 years (2010–2011), and were driven by the development of political projects (such as Big Society) aimed at creating a cohesive sense of third sector organisations. SEs are at once simply described but also ambiguously identified, and there are many conflicting opinions about the way forward for researchers in this area. Also, we recognise that broader discursive forces have a direct influence upon our understanding of organisational sense-making and identity. This chapter argues that the enforced ‘top-down’ approach to identity shaping by powerful political and economic discourse participants is only partly resisted by social entrepreneurs. The central research questions for this study are: What identities are portrayed of social entrepreneurs? And, are these constructions accepted or resisted? This research helps to address these questions through the narratives developed by social entrepreneurs in the UK. Using a discourse and content analysis frameworks, this chapter utilises this qualitative data to isolate the articulations of resistance to the imposed SE identity. Furthermore, it is possible to identify resistance, and even counter-discourse, among SEs that would be seen as ‘successful’ in terms of their organisational growth and measures of economic and social benefit.

**Keywords** Identity · Discourse · Narratives

### 3.1 Introduction

The purpose of this chapter is to explore the durability of social entrepreneurship (SE) identity gleaned from narrative accounts of SE. Specifically, this chapter draws on in-depth narrative interviews with five leading social entrepreneurs in

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the United Kingdom to explore the contested nature of this identity in broader third sector<sup>1</sup> discourse. These interviews were collected at intervals over a period of 2 years (2010–2011), and were driven by the development of political projects (such as Big Society) aimed at creating a cohesive sense of third sector organisations. As we know from existing research, SEs are at once simply described but also ambiguously identified, and there are many conflicting opinions about the way forward for researchers in this area. Also, we recognise that broader discursive forces have a direct influence upon our understanding of organisational sense-making and identity. The key literatures drawn from in this chapter belong to both discourse and SE fields, in particular this analysis focus on the interplay between discourse, identity and institutionalisation (Battilana and Dorado 2010; Hardy et al. 2005; Maguire and Hardy 2006). Doing this allows for more clear explication of the discursive factors that influence SE identity at macro, meso and micro levels. As such, I develop an argument that the enforced ‘top-down’ approach to identity shaping by powerful political and economic discourse participants is only partly resisted by social entrepreneurs. In terms of the SE literature, a recent paper by Dacin et al. (2010) has argued that the more profitable way forward in this field is to recognise the way SE works within key contexts. As such, SE becomes a delimited subject, one that can be applied to many different conventional, cultural and institutional frameworks. Alternatively, there are other competing voices in this academic discourse that seek to keep this critical debate alive (Teasdale 2012). This approach challenges our understanding of SE, and argues that SE is shaped by political, economic-oriented and social-historical discourses. Directly or indirectly, this in turn influences how we (mis)understand SE and the implications of this on how SEs (as part of the third sector) operate in post-Global Financial Crisis economies (Alcock and Kendall 2011; Carmel and Harlock 2008; Mason 2012).

As such, this chapter takes up some of the challenge posed by both of these current research streams. From the UK experience, a number of interesting developments have taken place over the past few years. A change in Government has not necessitated a sea change in SE policy, rather SE has arguably been placed more centrally at the heart of public sector reform. In some ways, this is a positive sign of recognition of the key role that all ‘third sector organisations’<sup>1</sup> (including SEs) have in delivering important services to communities. Significant State resources have been expended on developing this third sector and have arguably been pivotal in fostering new generations of local leaders intent on pushing greater level of community development through entrepreneurship. However, these developments

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<sup>1</sup> The third sector is a term used in some national policy discourses (particularly in Europe) to refer to the ‘space between’ the public or welfare state and the private sector, and third sector organisations are the wide range of organisations that work within that space. These organisations comprise SEs as well as the range of non-profit, voluntary and community organisations accordingly, creating a very large spectrum of possible TSOs.

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also create issues within SE discourse that require further analysis, especially that regarding identity. The central research questions for this study are:

- *RQ1: What identities are portrayed of social entrepreneurs?*
- *RQ2: Are these constructions accepted or resisted?*

This research helps to address these questions through the narratives developed by social entrepreneurs in the UK, a methodological approach already used successfully in this area (Jones et al. 2008). Using a discourse and content analysis frameworks, this chapter utilises this qualitative data to isolate the articulations of resistance to the imposed SE identity. Furthermore, it is possible to identify resistance, and even counter-discourse, among SEs that would be seen as ‘successful’ in terms of their organisational growth and measures of economic and social benefit. The chapter concludes by drawing attention to the key contributions to knowledge arising from the study, in response to the two RQs. Firstly, the study identifies a clear picture of the self-identities of the SE participants, and empirically illustrates the fragmented nature of these identities as shown through the narratives. Thus, this finding aligns with some current research suggesting the SE discourse is, in a broad sense, fragmented. As such, this provides some compelling evidence linking macro-level SE discourse with the micro-level. With regard to RQ2, we find that the reports from SEs combine a hybridised identity that draws on economic concepts of SE, but also resist notions of SE policy as promoted by successive UK governments.

## 3.2 Social Entrepreneurship Discourses

One of the most striking developments in social entrepreneurship (SE) research in the past few years has been the heightened focus on critical analysis of the concept. The conflicting views on both the content of the debate, as well as the presence of a debate at all, provide fertile ground more concerted work on this matter. In relation to the *content* of current debate, research has begun to explore the very wide scope of critical challenges that SE faces, as a practice and as an idea that remains keenly contested and typically ambiguous. The question of *what* SEs are and how this information is diffused is seen by some as a direct result of *who* controls and drives the development of SE. Furthermore, it seems that the broader discussion of what constitutes an SE is clouded by plurality of forms—as well as political interests. For example some recent research has tried to understand the effectiveness of SE policy, especially in the United Kingdom, in efforts to trace how policy supports these organisations, and also goes beyond these boundaries by shaping our knowledge of SE along particular lines (Mason 2012). This shaping process occurs at the micro-level (individual) and is influenced heavily by the dominant discourse participants in a given context. To this end, researchers are encouraged to explore

SE as a contested concept within defined political, social and cultural environments, and to understand that our search for a more unifying SE concept is less crucial than theory building efforts that draw on SE in all its diverse forms and locations.

A consequence of this is the possible rejection of, or at least a reluctance to engage in, developmental policies to encourage the growth of SE and related activities. Naturally, this seems a counter-productive outcome following the resources expended on developing political frameworks intended to support SE. This would also seem to indicate that SEs may seek to disengage with prevailing political structures that offer access to much needed resources to assist them. Furthermore, the notion of SE as an evolving, and self-constructed idea is a strong theme in other work (see Teasdale 2012), and it is this factor that warrants further consideration in light of the developments in the SE conceptual space. One implication of this research is that, as Dacin et al. (2011, p. 1203) claim, that “[perhaps] as a consequence of these fundamental definitional and conceptual issues, researchers continue to struggle to delineate boundaries of the field...to arrive at a meaningful set of research questions”. Presupposing that our knowledge on all areas of social life is conceivable as discrete enough to exist as unique domains—there appears to be some validity to this point on solid conceptual foundations. Indeed, much debate among SE, and all relevant stakeholder groups, continues on such issues, although that has been no impediment to political support for SE and related-programs. However, it is not definitional clarity alone that preoccupies scholars in this field, and more recent discussion has adopted a slightly different tack in addressing why SE appears ambiguously to different audiences (Mason 2013). Rather than assuming a stable and enduring SE identity, it should be equally plausible to acknowledge the opposite scenario—i.e. conceptual plurality produces a perceived instability, and this traceable through the texts that are used to inform our knowledge of a discourse. This is one of many possible ways of exploring the meaning of SE. As Dacin et al. (2011) note, there are a number of other unexplored (or under-explored) areas for further inquiry: notably, image and identity and how these concepts relate to SE.

This line of argument provides a significant opportunity for further development through empirical work—an area that has been largely ignored when looking for the voices of SEs and the nature of their self-identification (Cukier et al. 2011). We remain locked into this debate because the essence of SE is always located at the heart of its practice. Consequently, the identity debate (although entirely valid and worthy of further development) lacks a synthesis between the academic contestation and further detailed evidence from the field. Thus, the first research question under consideration here is:

*RQ1: What identities are portrayed of social entrepreneurs?*

To go some of the way to answering this question, existing research shows that SEs are typically portrayed in a positive way, emphasising their uniqueness and organisational hybridity, and their ability to meet challenges in society that other providers cannot, or will not broach (Harding 2004; Robinson et al. 1998). As such, they are seen to be an agent of social change in society at large, capable of enacting new solutions and working alongside private, public and non-profit organisations. Furthermore, although scholars have attempted to identify SEs as being intrinsically

good for society, they face management challenges in trying to accomplish this work (Cornforth 2003; Diochon and Anderson 2011; Spear et al. 2009). The development of a management-based literature on SEs has dominated much of the writing to date (Cukier et al. 2011). Some go further and argue that SEs encounter problems based on their place between markets, and between institutions. One example of this is the ‘heroic’ narrative that often accompanies promotion of SE in a public space and in discourse (Teasdale 2012). The implication is that SEs would naturally deem themselves to be heroic if their social ventures had been successful, and more easily identify with this perception (Dacin et al. 2011). Here SEs are portrayed as visionaries *and* fixers—the idealist-pragmatist hybrid capable of transforming beneficiary communities by acting beyond existing institutional boundaries (Battilana 2006; Battilana and Dorado 2010). Consequently, the academic discourse on SEs is rather fragmented into paradoxical and/or configurations. SEs are both heroic individuals elevated to a position of social superiority and goodness. Simultaneously, they are hands-on practitioners capable of motivating people and harnessing previously inaccessible financial and social resources—as institutional entrepreneurs. It becomes impossible to distinguish between the many faces of a SE and as Haugh (2012) noted, the field is lacking its own suite of theories to anchor and support research, and this perhaps risks the steady decline into obsolescence as feared by sector luminaries (e.g. Bill Drayton). The time is therefore ripe for more empirical work that seeks some insight into the many-faceted SE identity/identities to offer sway toward a more cogent ‘theory of social entrepreneurship’.

Mindful of these perspectives on SE research and the discourse of its identity, and not presupposing their completeness, a further step is now required to determine whether there is a legitimate basis for them to be either aligned with or distanced from, SE identity. For example, we have little or no empirical basis to predict how SE identity is characterised in different contexts, although some very interesting work has already been undertaken exploring identity and narratives. Among the first to tackle to issue of SE discourse and its link with identity were Parkinson and Howorth (2008) and Jones et al. (2008). Both sets of authors recognised that social entrepreneurs were influenced by a political discourse which was, to a greater or lesser extent, articulated in narratives. The former research focused strongly of the proliferation of already known discourses (i.e. entrepreneurship) and how SE can be evaluated against those competing discourses. Jones et al. (2008) took SE identity and posited three identification categories (Me, Not-Me and Suppressed-Me) that were discernable from narrative accounts. Combined, both works are helpful in providing foundations for more searching questions about the nature of SE identity. This is both for recognising the impact of discursive themes that surround SE as a social activity as well as whether researchers can pinpoint which discourses are accepted, rejected or simply suppressed. To extend these works further, the second research question is proposed.

*RQ2: Are these constructions accepted or resisted?*

This question is important to this study because it sets the empirical basis for determining any validity claims to the four domains described above. Also, it also prompts a closer analysis of the presence of any (or all) of the four discursive

themes as described in the articulated inner narratives of the interviewees. As is clear from existing research, SE discourse filters down from macro to micro-levels and is highly likely to be internalised at the micro-level. Yet, it is also highly contested as a concept and the next section explains the method for capturing more SE narratives and the analytical techniques required to illustrate both the broader discursive themes and inner narrative identification.

### **3.3 Methods**

The choice of methods in this type of study was critical, since the broader conceptual discussion above points to a number of conflicting issues which might be captured using a number of approaches. With regard to the first research question, the methodological requirements relate to two components. Firstly, how can discursive themes be identified in a qualitative data set? This relies on the assumption that discourse informs identification, which is rooted firmly in current SE research. Resolving this first issue would allow for a range of themes to be both identified and then synthesised, and lead on to the second component, relating to capturing an identity from the discourse. The second issue concerns the subsequent categorisation of identities from the data set, and examining consonance or dissonance with the prevailing academic views. Both components of this research question are surmounted using discourse and content analysis, and this procedure is described in more detail below. The second research question is more appropriately resolved in the Discussion section, once the narratives have been described in the detailed Findings section.

The remainder of this section addresses some of the methodological choices made, in particular sample choice, data capture and handling, and the analytical procedures adopted for discourse and content analyses.

#### ***3.3.1 Sample Choice***

The five participants used in this study were chosen from a small sample of social entrepreneurs, drawn using a purposive sampling technique and utilising existing practitioner networks. This approach was critical to gaining access to the type of social entrepreneurs that might be considered to be sector ‘role models’, given the degree of local and national success they had managed to achieve. To this end, four participants were captured in the sample, and their anonymity was assured due to their non-involvement in the official UK Government sponsored recognition scheme. The general characteristics of the participants is shown in Table 3.1.

Although the sample contained a small number of participants, the suits the research requirements of high quality and ‘rich’ data, thus in-depth procedures were designed and adopted to acquire depth.

**Table 3.1** Respondent and organisation characteristics

| Respondent | Organisation mission | Years active | Local, regional or national focus |
|------------|----------------------|--------------|-----------------------------------|
| A          | Gender equality      | 12           | Regional                          |
| B          | Economic inclusion   | 6            | National                          |
| C          | Economic development | 4            | Local                             |
| D          | Economic inclusion   | 9            | Regional                          |
| E          | Sector development   | 15           | National                          |

### 3.3.2 Procedure

A multi-stage, semi-structured interview process was adopted, chosen by virtue of the need for open discussion between researcher and participant about the four major themes arising from the review of SE discussed above. As such, data-rich narratives were captured following three interviews with each participant. Each interview (lasting approximately one to two hours in duration) asked participants to recount their SE ‘story’, and to explain how this story unfolded over time. The interviews were transcribed *verbatim* from the recordings. The interviews were conducted between 2010 and 2011 in the UK, and in total comprised a document of approximately sixty-six thousands words in length. Once this data had been compiled, it was subjected to analysis as described beneath.

### 3.3.3 Analytical Strategy

To analyse the interviews, a two-stage discourse and content analysis was the chosen method and applied to all qualitative data. The first stage relied on a computerised analysis of the data set. This stage comprised condensing the interviews into plain text for each of the interviews, as required for appropriate analysis using the chosen qualitative software package, Wmatrix. The choice of analysis software was taken on the basis of its suitability in dealing with large quantities of text to discern semantic meaning in a critical discourse analysis. Furthermore, Wmatrix utilises statistical procedures to determine the presence of correlations between the frequency of words in texts, and predefined semantic domains taken from the million-word British National Corpus (BNC—for a more detailed exposition of WMatrix, see Rayson 2008). Thus, the value of this tool is to trace meaning based on a pre-existing set of domains within a given cultural context (the UK), and guides the analyst to further probe micro-level implications (i.e. SE identity). However, previous studies that have utilised a critical approach to discourse analysis of SE using Wmatrix have focused on macro-level impact (Mason 2012). Consequently, this study takes a different approach, because the focus of the study is linking the macro and micro levels of analysis. Therefore, this technique was used in the first stage as an exploratory tool—to determine and set up the discourses that are found in the data set and how they link to the overall discourse found in the UK through

**Table 3.2** Semantic domains per respondent

| Respondent | Semantic domain                     |                              |                                     |
|------------|-------------------------------------|------------------------------|-------------------------------------|
| A          | Belonging to a Group                | People: women                | Social action: states and processes |
| B          | Belonging to a group                | Business: general            | Work and employment: general        |
| C          | Social action: states and processes | Government                   | Business: general                   |
| D          | Money and pay                       | Cause and effect: connection | Inclusion                           |
| E          | Business: general                   | Belonging to a group         | Green issues                        |

comparison against the BNC. The general discourse is framed as *SE discourse in the United Kingdom*, and relates to the specified chronology of 2010–2011, when the interviews were conducted.

To complement the initial, automated analysis, the second stage relied on a content analysis performed by the researcher. Thus, having condensed semantic themes from the data set, content analysis permitted deeper analysis of specific language. This assisted with dealing effectively with RQ2, where closer attention needs to be paid to adoption, rejection or suppression of the discourses arising in the academic literature and in wider public life. Using the initial semantic domains identified in the first stage as ‘codes’, the researcher re-examined the full interview transcriptions to pick out key excerpts that linked to each domain. This assisted in pin-pointing the actual language used by the interviewee that shows adherence (or otherwise) with elements of the political discourse. Consequently, this allows for clearly argumentation that links the macro and micro levels of discourse and identity. The following section describes the findings for both stages of analysis.

### 3.4 Findings

This section describes the outcomes from the qualitative analysis of the interview data. In keeping with the discussion on the literature, the data was clustered into four thematic domains: political, social, economic, and advocacy which appears to cross through the others. Each sub-section contains an applied discussion of the context within which each respondent composed their response to questions about their motivations, organisational goals and operational environment.

#### 3.4.1 Discursive Identities

Following the exploratory stage of the analysis, the findings showed clear themes arising from the interview derived corpus. Table 3.2 shows the three dominant semantic domains from each interview.

As the table shows, there are some notable similarities between respondents and the semantic domains identified by WMatrix. The most common domains that appear across them are: ‘Business: General’, ‘Belonging to a Group’, and ‘Social Action’. Given the existing SE definitions, it is perhaps unsurprising to find a strong discursive link with business, community and social purpose. This shows that the language of SE remains firmly rooted in these themes although it does not, yet, show us the context within which these ideas are articulated. Interestingly, ‘Government’ appears as a domain linked to some of the responses which positions a political theme alongside the more common and expected SE domains. This suggests that much of SE talk embeds a political element, since the UK Government plays a prominent role in policy and infrastructure support for the sector. At this level of analysis, it becomes clear that three general areas connote to the social entrepreneurs reflections on their practice and beliefs, i.e. social, economic (via business) and political. Lastly, most respondents (although not all) also show a strong connection with a particular issue of advocacy, i.e. ‘People: Women’ and ‘Green Issues’. This acknowledges a separate fourth domain that places advocacy alongside the pursuit of social benefit, and although they may be spoken of in the same context, further examination is required of this relationship. Thus, a four theme identity emerges from the interviews: political, social, economic and advocacy.

### 3.4.2 *Political*

Given the preceding discussion concerning SE discourse and this macro-level assessment of discourse in narratives, it is unsurprising to find that SE has a political dimension. The nature of SE activity is frequently drawn into political domains due to the availability of resources, particularly grant-aid and contracting opportunities. To this end, an SEs social aims are often political too, meaning SEs are in a position to service the aims of political institutions as well as independently. In Europe, we have seen a number of studies exploring this inherent political facet.

The political dimension comes through very strongly in the stories of the three respondents. As the quotation below shows, a key part of the SEs orientation is working closely with political institutions, albeit in this instance lamenting the failure of elements of the UK infrastructure to support SE. *Recognition* is a central aspect of this response, striving to be seen and heard by key political decision makers, as the excerpt below shows:

If we look at our female counterparts in the United States we have seen a trajectory upwards and about forty-eight per cent of all new business starts are women...So a Government agenda, no I think we’ve being pulled by the Government. The previous Government...we have managed to get them to recognize us for sure and we have managed to strategic frame of enterprise on the table in terms of heavily influencing it and also pushing it along to get it developed and to get it I suppose to get it invested in...to take on board that female entrepreneurship should be a priority in terms of their delivery plan... and we were successful at that but it’s all up in the air now again. Respondent A

Here it is evident that the respondent deems themselves successful in the past in engaging with a political agenda through Government initiatives, in this instance championing women's rights. However the emphasis changes part-way through, which signifies an uncertainty over the future following regime change. So, the emphasis is on political engagement and the value that can be gleaned from this but also being prepared to disengage should the political climate change. SE appears to be about adopting a pragmatic, rather than ideological, political stance and utilising political means where resources and support can assist the organisation and/or cause, similar to prior research (Baines et al. 2010). The excerpt below reaffirms this but also takes a slightly different tack and concerns more the inability of the organisation to properly exploit Government support:

I'm talking personally about ... local labour and training, but problems were in the Labour Government actually, I mean, I think that we've seen today immense and significant investment in capital works, whether it's been housing, whether it's been schools, whether it's been hospitals. I think we've seen more money going into the physical redevelopment of areas. Have we really maximized the opportunities to developing skills, labour, employment opportunities—no. Respondent C

I think you need hopefully buy-in support from, you know, public sector organizations that are willing to enter into a partnership and promote what you do. We have invested heavily here in terms of I suppose particularly staffing resource and as I see it as our job in many senses, we are there to be the corporate social responsibility agent of private business. So ideally I would like your head and heart but I accept your head in lieu and I may not get your heart but I am pragmatic enough not to worry about that, I will provide your heart. But actually in fairness to a lot of companies they say that they actually want to give the young. Respondent D

This first component from respondent C shows that the political side of this activity is generally accepted as a reality of doing the job. Specific political ideologies may be only guardedly suppressed if the opportunities created through political and public sector engagement can maximise organisational impact. Of course, this seems entirely credible if we consider that we are also dealing with a general business discourse, as noted in the first analytical stage. However, it also suppresses the idea that SE can operate largely exclusively of the public sector, and the inability to maximising impact is solely down to organisational deficiencies. This is symptomatic of the impact of large scale investment in public/third sector partnerships, and the collapsing of ideological boundaries between the sectors in the UK. Consequently, the way of *thinking* about SE *must* connote with the political dimension, even though this excludes SE that works outside of the public policy environment.

Respondent D shows a different side to this theme that weaves advocacy through a discussion on Government support. In particular, attention is drawn to the idea that public sector support can be utilised as a resource to promote the organisation. Also, this respondent uses another concept, corporate social responsibility<sup>2</sup> (CSR),

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<sup>2</sup> CSR is, of course, a popular concept derived from the well-developed business ethics literature, and is a staple item of management and Government discourses concerning corporations and expectations for their existence alongside (or rehabilitation with) different stakeholder groups. Some



and clearly positions SE as an enactor of this for business. This notion is highly contested in both SE and CSR literatures but for these purposes it is a significant shift of focus. Given that SE is seen to be an ambiguous concept, it is ironic that SE is spoken of to encourage the conflation of another idea in public discourse—in this case, CSR. Aside from opening up another debate over the merits of CSR and the position of SE within (or outside) of it, we can see that identifying what *is* SE is not easily captured because those involved sidestep such easy categorisations. As the above quotation shows, SE is notoriously difficult to pin down because the *doing of* SE entails a restless shifting from one approach to another. This means no single approach works, and the entrepreneurial method illustrates how the different discursive domains interact at the micro-level as identified in the literature (Diochon and Anderson 2011).

### 3.4.3 Economic

The second element of this SE identity is the economic basis for much of the activity undertaken by these social enterprises. So although its presence is unsurprising, it is interesting to note how this economic factor is embedded in the responses, especially in terms of a business focus. This is illustrated in the excerpt below:

I think actually the motivation—the bottom line is your balance sheet and that can enable you to do the borrowing part and financing in going forward, but for us it was that but it was also about basically having a shop front window for entrepreneurship in the U.K. Something that was actually substantial in terms of delivering on our mission in regard to being able to influence and to be able to, I suppose, raise awareness and captivate people's attention and show that you are serious. You have to be serious and that means that you have to have something that is sort of different from the usual. Respondent A

Here it becomes evident that the business component to SE is heavily imbued with the organisation's social mission and ideology, so it becomes a fully visible and accepted part of SE identity. The economic theme may be both expected and secondary in order to social elements, but it is spoken about as an *enabler*—a 'shop window' for the mission and the 'bottom line' approach is unavoidable. The notion of 'seriousness' is also connected to this idea, that to fully pursue the social goal and raise awareness ('to captivate') is also to enact the means necessary to do so. Not all respondents responded in the same spirit, with some indicating that the business-case is actually weakened by the stipulation to work with other sectors. This illustrates a rejection of part of the economic identity, where using social enterprises in partnership with the public sector does not produce desirable outcomes:

Government is very much why don't you talk to the voluntary sector about how you might be able to do things in a better, more appropriate way and its gone quite the opposite. But we see this in a number of local authorities because the first thing they do is to track little

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excellent research on CSR discourses can be found in Archel et al. (2011), Spence and Thomson (2009) and Spence (2007).

contracts thinking they might be able to make some savings because they can have an overhead which is not actually expanding much they bring little things back in house and keep the people on the same terms ... we will just see how it plays out or just cancel them.  
Respondent E

People would be steeped in working for the public sector and when people say to me “Oh he knows no different between public and private”—let’s be honest about it I have the same beliefs, the same values, when I worked for [the public sector] as I do here. It’s different, of course it is, in a sense of the local authority in my particular world was break even as much, was not necessarily making a profit, but the same business principles ought to exist.  
Respondent D

With regard to the possibility of a social/economic dichotomy, and especially how these competing claims are reconciled, it is clear that a much more pragmatic view is taken, as the account above shows. Simply, the values from one context have been taken and applied to the ‘private’ sector—the social entrepreneur in this example equates SE with private sector work but draws on public sector values to do the job. This arguably shows that the social entrepreneur relies on a flexible approach to tackling key problems, and can adopt, adapt and apply ideas from different contexts.

### 3.4.4 *Social*

Many SEs have intrinsically social outcomes to their operations, even those that have an environmental core aim. The social components of the narratives comes through very strongly, as we would expect from SEs, although the nature of their social focus is very interesting. The presence of *pragmatic realism* comes through very strongly in the two accounts below:

On our track records we felt that we needed to look at the model of our offer really and what would enable us to equip as an organization or to be much more effective at you know lobbying and influencing on our agenda, which is primarily about recognizing the female entrepreneurship in an untapped market in the U.K.—probably worldwide really but particularly in the U.K. and that female entrepreneurs that grow and sustain enterprise make you know, if there are policy initiatives which are directed at female entrepreneurs the likelihood is that you are going to have a huge trajectory upwards. Respondent A

We have re-orientated this business as a social enterprise which sounds dramatic in one sense in terms of reorientation; actually corporately it was very simple because the ethos and culture was already here, in many senses I would say was steeped in social values and always has its focus on the young people rather than making loads of money as a private business. Respondent D

Taking respondent A first, it is clear that the social aspect is spoken of as a measurable variable (‘our track record’) as much as a core principle. We also see here that the social is conjoined with the economic through particular language (‘an untapped market in the UK’). The social entrepreneur accepts an economic identity as part of the social, that are also a feature of advocacy achieved through political means (i.e. ‘if there are policy initiatives...’). This shows a lack of clear distinction across

thematic domains, in terms of how the practical implementation is achieved. Respondent D explains that their organisation started life as a business but then states the social values, ethos and culture are the key feature of the social enterprise. This is more in-keeping with an expected SE identity, where core social values form the basis for the organisation's orientation irrespective of its structure or legal form. Furthermore, this shows that SEs do not necessarily associate an organisational form with SE *per se*, and as we might now expect, social entrepreneurs are more open to different choices in how they organise their operations. As such, they accept a clouded social identity in order to suppress one that is more clear cut—and probably be easier for other interested groups to recognise and support. The final section discusses these findings in more detail and proposes the next directions that further empirical work on identity might take.

### 3.5 Concluding Comments

This chapter has presented the idea that SE research looking into identity and self-identification could do worse than continue to explore the internal narratives of social entrepreneurs themselves. In support of this, the data analysis above illustrates how social entrepreneurs do not necessarily, or easily, self-identify with any particular interpretation of SE. Moreover, the picture forms of a fragmented SE identity, one that portrays conflict across a number of discursive domains. As the overview of the literature argued, these discursive domains tend to fit within four (admittedly rough) categories: social, political, economic and advocacy. The latter category does not appear as distinctly in the data as the other three. Rather, it appears interwoven throughout the political, economic and social domains. Given the cultural and political context within which the interviews took place, it is clear that there are some components of SE identity that are either rejected or suppressed. The current literature shows that UK discourse on the 'third sector' and 'social enterprise' has been created to support and simultaneously 'shape' how SE is understood (Mason 2012, 2013; Teasdale 2012). Only part of the analysis supports this view in the current study. At the level of discursive domains, it becomes clear that very strong, over-riding themes apply to the narratives told by the interview participants. This confirms that SE identity contains *at least* three/four elements, however it becomes implausible to suggest that these are temporally 'fixed'. Instead these components are used together in combination to reflect an idea of self-identity—for example, social/economic and economic/political—and these may be used to link to other concept and ideas, such as CSR. This fragments the picture we often try to capture of what SE is, because the data here shows that although we can sketch some general factors that make the concept (partly) whole, the individual case shows how malleable identity is or can be. When addressing their self-identity, participants utilise these conceptual fragments in a strategic and pragmatic way, portraying themselves as *enactors* of social or environmental change that keep these

competing ideas in check. Notably, this does not help in the pursuit of clarifying what SE is, moreover it provides some further empirical credence to the idea that SE is not a discrete domain in its own right. Rather, SE ‘bleeds’ into other domains of thought and social activity. The experiences of the social entrepreneurs in this sample show that ideas and values in private (corporate) and public sectors are transferred across to ‘add value’. A tone of *realism* is deployed in the data to show that this process, sometimes referred to a social bricolage in this context, is simply more reflective of *how the job is done* (Di Domenico et al. 2010; Phillips and Tracey 2007). This is in place of the neat, perhaps overly deterministic, definitions that are used in scholarly and political environments.

This study contributes to existing research by extending both Parkinson and Howarth (2008) and Jones et al. (2008). It does this through connecting the discursive (macro) and individual (micro) levels through social entrepreneur narratives, and then pushing further to illustrate which discursive domains are accepted, resisted and suppressed. Specifically, this chapter has tried to illustrate how these three possible responses are articulated together, explaining how the micro-level analysis can re-cast how we see the major discursive themes. Future research needs to extrapolate this kind study much further and wider to compare the inter-cultural differences/similarities in SE discourses, particularly focusing on emerging economies in South Asia and Central and South America. These emergent discourses where so much developmental work is on-going in the SE field should be understood in light of the lessons learned in Europe and to a lesser extent, North America where the SE idea is rather more entrenched in political and social history. This will allow for a much clearer, global overview of SE discourses without getting lost in the meaning making debates that happen in very specific cultural frameworks.

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**Part II**  
**The Wider Impact of Social  
Entrepreneurship**

# Chapter 4

## Opportunities for Social Value Creation Across Supply Chain Interactions

Jennifer L. Woolley

**Abstract** Social value creation is important to not only social ventures, but also traditional and hybrid organizations seeking to increase their corporate social responsibility. Thus far, work on social value creation has focused on the customers or end users as the main beneficiaries of social value creation. Little work has addressed other beneficiaries or opportunities to generate social value and social wealth outside of that for direct recipients of products or services. This chapter extends work on value creation in strategic entrepreneurship to consider social value. Specifically, social value creation opportunities are identified across supply chain interactions both up and downstream from the organization. Implications for entrepreneurial and traditional ventures are discussed as well as possible research trajectories.

**Keywords** Social value creation · Supply chain interactions

### 4.1 Introduction

Social value creation provides a piece of the fundamental foundation that holds societies afloat, even during the darkest of times. Social value is the enrichment or sustained significant impact on society among one or more social welfare dimensions such as health, education, and environment (Dees 1998a; Peredo and McLean 2006; Zahra et al. 2009). As welfare pertains to the basic needs of people, an increase in social welfare impacts some of the most fundamental of human conditions. Thus, without the creation of social value, a society's most basic needs are not met (Young 2006).

One of the most distinguishing factors for social ventures is the goal of social value creation (e.g. Dees 1998b; Austin et al. 2006; Cho 2006; Nicholls 2006). Social ventures are a long-standing organizational form, defined as enterprises that attempt to meet society's needs that existing government and economic structures cannot or will not suffice (Thompson et al. 2000). Thus, social entrepreneurship improves social welfare by creating social value. In many instances, these social

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ventures provide goods and services that existing organizations do not recognize as appropriate, to a populace deemed unprofitable. As such, social ventures act outside of capitalistic and economic norms, challenging the conventions of a society based on these norms, while supporting the very foundation of that society. These same ventures attempt to meet society's needs underserved by the existing institutions created and propagated by these same norms and conventions. This contention highlights the importance of social ventures to social welfare and the unique challenges faced by this organizational form.

A main stream of work on social value and social entrepreneurship has focused on identifying *who* is a social entrepreneur, in particular, individuals and institutions (Dacin et al. 2010; Thompson et al. 2000; Zahra et al. 2009). The other stream of work has focused on measuring how much social value is created (Florin and Schmidt 2011; Ormiston and Seymour 2011; Young 2006). This trend is reflected in practice as well. For example, both the Clinton Global Initiative and the Gates Foundation have launched programs to study the measurement of social value. Given the importance of who creates social value and how much is created, clarifying *how* organizations create social value is critical to further development of research in this area (Ormiston and Seymour 2011). Thus, this chapter builds theory by examining the mechanisms by which an organization can create social value.

The struggle to meet basic welfare needs unmet by existing governmental infrastructure and economic transactions highlights how social ventures operate in a world that may challenge their objectives and question their validity. As such, Mair and Marti (2006) suggest that understanding social ventures requires knowledge about the environment in which they operate. The exploration of how social value is created requires a consideration of a venture's interactions with its environment. This chapter explores social value creation by considering a venture's resource orchestration, particularly throughout its supply chain. Hitt et al. (2011) proposed an input-process-output model of strategic entrepreneurship concentrating on resource orchestration to create economic value. The authors argue that economic value can be created in each type of activity of a new venture: input, internal processes, and output. Building on this model, this study highlights the actions and interactions of a social venture across the supply chain that generate internal and external opportunities to create social value. The framework that emerges shows that social value creation is not isolated to an organization's customers or direct beneficiaries, but can occur in a wide range of downstream, internal, and upstream activities as well. The framework is further examined using examples of social entrepreneurship around the world. Particular attention is given to recently created social organizations that have participated in the Global Social Benefit Incubator (GSBI) at Santa Clara University. Since 2003, the GSBI has helped over 120 social ventures develop sustainable business models through an intensive residential and online program. A third of the organizations operate in South East Asia (mainly India), a quarter in Africa and the Middle East, 15% in South America, 5% are located in Asia, and the remaining operating in the Middle East, United States, or multiple areas. The GSBI chooses organizations to participate based on the organization's social-oriented



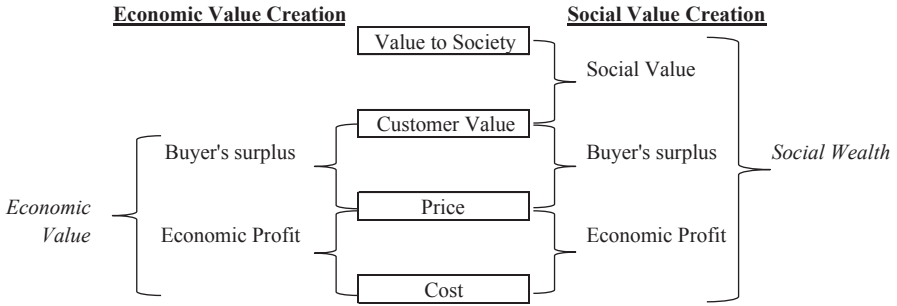
mission, commitment to the social mission, potential benefit to society, and the likely scalability of the social venture. While their list is biased toward successful organizations, these data were chosen for that very reason; they provided detailed information about the business models that were effective for social venture survival. Over 90% of the participating ventures were still alive in 2011. Data were collected for each venture regarding its operations and social value creation activities. The cases portrayed here are an illustrative sample of these data.

This chapter contributes to the body of research regarding social enterprise by extending the theoretical underpinnings of strategic entrepreneurship to social ventures. First, the chapter responds to the call for clarification of some of the fundamental concepts of the emerging field including social value and social wealth (Zahra et al. 2009). Instead of focusing on economic outcomes or single-target group benefits (Haugh 2006), this chapter considers economic and non-economic, direct and indirect benefits across multiple levels of impact. Next, this chapter suggests a theoretical grounding for the study of social ventures by extending the strategic entrepreneurship input-process-output model for value creation to social entrepreneurship. From this, a framework of social value creation opportunities emerges. The framework highlights the variety of activities and opportunities for social value creation, while providing insights into opportunity recognition literature primarily in the traditional entrepreneurship domain (Alvarez and Barney 2007).

## 4.2 The Importance of Social Value and Social Wealth

The most prevalent goal of traditional ventures is to create economic value (Porter 1980; Sirmon et al. 2007; Hitt et al. 2011). In contrast, social ventures are distinguished by having the objective of social value creation (Austin et al. 2006; Cho 2006; Zahra et al. 2009). Social value is the improvement of social welfare, or meeting the needs of society that are underserved by government and economic organizations (Dees 1998a; Peredo and McLean 2006; Zahra et al. 2009). However, social ventures ‘are sustainable only through the revenue and capital that they generate; thus, their financial concerns must be balanced equally with social ones’ (Dacin et al. 2010, p. 45, see also Webb et al. 2009). Hence, to survive, a social venture must create value not only for the collective good, but also for the organization’s continued operations.

This balance need not be opposing; social and economic value can be both conflicting and complementary (Ormiston and Seymour 2011). For one, social value builds on economic value. Figure 4.1 depicts the traditional view of value creation on the left side. Traditionally, organizations are evaluated in terms of their economic transactions and value appropriation from customers. Social value creation is more than economic transactions and estimates of customers’ willingness to pay. The right side of the Fig. 4.1 illustrates the relationship between social value and economic value. Economic profit and buyers’ surplus remain the same. Social value can be thought of as the value of a product or service beyond its economic value. Social



**Fig. 4.1** Economic and social value creation

value includes not only the value to a customer; it is ‘irreducible to and greater than the sum total of individual welfare functions’ (Cho 2006, p. 37). Defined as a sustained significant impact benefiting society’s welfare (Dees 1998a; Peredo and McLean 2006; Zahra et al. 2009), social value transcends individual customer value to include multiple stakeholders across levels of analysis such as community, environment, industry, and supply chain. Social wealth is the collective value of the product or service when taken in aggregate. For example, providing affordable, clean drinking water benefits each individual customer and customer value can be determined by the amount paid for the product. At the same time, providing water to an impoverished customer creates social value by reducing the likelihood that she gets sick and infects other community members. If she has a family, the end users who consume the water and its products will also be less likely to become sick. In turn, the economic contributors (working members) to the family will suffer fewer days missed from work due to waterborne illnesses, thus increasing earning power. Social value also includes the contribution of value to indirect customers and stakeholders. As such, social value incorporates the value generated by the interactions of the focal organization with community members and the community-at-large. In the case of clean water, social value is created for the community by reducing the number of members getting sick, thus reducing the health care costs paid by the community.

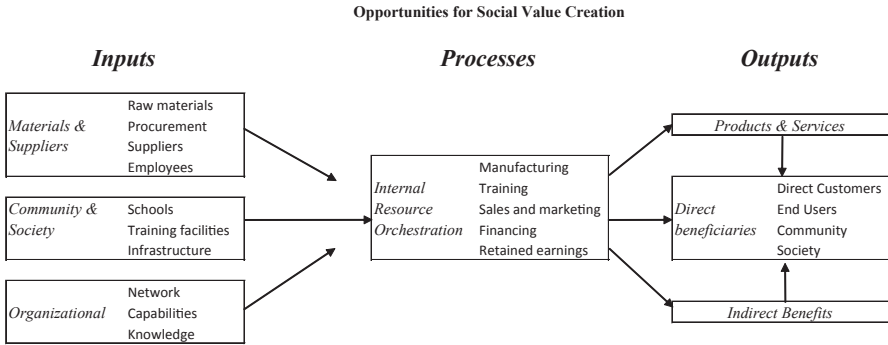
It is important to note that be they non-profit, traditional, or governmental, the distinguishing factor for social ventures is their dedication to generating economic value beyond the boundaries of their own organization. While value chain analysis focuses on the economic value created by a firm through the sale of goods or services, social value is not reflected solely in value appropriation to the organization alone. We must go beyond the organization to understand the creation of social value. Similarly, social wealth is the collective gain to firms, customers, and society. As such, social wealth includes the value created for the organization, the value created for direct and indirect customers, and the value created for stakeholders and society. Therefore, social wealth includes benefits or contributions to the overall welfare of society, covering all levels of analysis from individual

and firms to communities and the environment. Social wealth also captures the triple-bottom-line or social, economic, and environmental value. Taken together, the community has social wealth in the economic profit, buyer's surplus, and social value created.

### 4.3 Creating Social Value and Wealth

While the creation of value in traditional ventures has been a popular topic of research, we know little about how an organization creates social value or the creation of social wealth as a whole. Thus far, social entrepreneurship work has focused on the consumers of a social venture as its primary beneficiaries, be they direct customers, end users, or community members (Haugh 2006). This attention may be due to the field's use of customer counts and economic outcomes as indicators of the beneficial impacts of an organization's activities (Florin and Schmidt 2011). Example of such metrics include the number of people that an organization provides access to clean water, the number of vaccine vials administered, and a count of meals served. However, these metrics capture only part of the picture as they tend to focus on direct downstream beneficiaries in single level analysis. Since organizations can create social value by improving the welfare of direct and indirect customers, stakeholders and society, it follows that the field must extend the analysis of social value creation to include opportunities with beyond the target beneficiaries. A recent effort led by standardization organizations such as the International Organization for Standardization and B-Labs is starting to provide organizations with tools to measure their social and environmental impact, including standards regarding community engagement. Other organizations such as Ceres, Global Reporting Initiative, GoodGuide, and Underwriters Laboratories have joined this effort. However, no set of metrics has been adopted and the organizations range greatly on what they consider pertinent. Thus, the analysis of social value creation remains unresolved.

An organization interacts and connects with society not only in the sale of its output, but also in its interactions with inputs and the internal processes. Thus, social value is not simply what the organization does for its end users. Additionally, while work on social ventures tends to focus on direct beneficiaries; positive (and negative—see Dacin et al. 2010) social externalities at large may outweigh individual gains. Similarly, in addition to downstream beneficiaries, social value is created when an organization attends to societal needs that exist upstream to their firms as well. For example, *Coast Coconut Farms* not only produces an eco-friendly line of skincare products, but also they use sustainable procurement practices to obtain raw materials. To better understand social value, we must consider other entities with which an organization interacts that provide opportunities to create social value. The following section discusses the creation of social value in multiple parts of the supply chain and levels of analysis.



**Fig. 4.2** Opportunities for social value creation in the input-process-output model

If we traditionally evaluate an organization’s economic value creation in terms of their economic transactions, it follows that their social transactions will provide insight into their social value creation. We can do so adopting and extending an economic framework, such as the supply chain of an organization. All organizations take in resources to create economic value in the form of a product or service for customers. Hitt et al. (2011) developed an input-process-output model of value creation for strategic entrepreneurship from its supply chain interactions. This model was based on a more general model proposed by Ireland et al. (2003) that concentrated on defining the domain of strategic entrepreneurship. The input-process-output model articulated value creation for the firm, stockholders, and stakeholders such as society at large. Building on this model using the literature on social value and social wealth, I have extended the strategic entrepreneurship model to social entrepreneurship. Figure 4.2 illustrates the adapted input-process-output model for social entrepreneurship. This model depicts the three primary areas in the value creation process: the inputs or upstream resource providers, the process or internal operations, and the output or downstream customers and stakeholders. This arrangement goes beyond what is commonly referred to as a supply chain by providing a multi-level view of an organization’s ecosystem. On the left side of Fig. 4.2 are inputs that include materials and resources from suppliers, community, society and the organization itself. Next to each input is an illustration of social value creation. For example, an organization can create social value through its choices of raw materials (e.g. choosing sustainable materials over others types). Similarly, procurement practices such as transportation considerations provide additional opportunities. Supplier choice and sources of employees follow in this regard. An organization’s relationships and interactions with its community also provide opportunities to create social value through the commitment to support social welfare in the area. Organizations also use their own resources as inputs to create social value.

The internal processes of the focal organization are depicted in the middle of the Fig. 4.2. These can be thought of as resource orchestration, which is essential for gaining a competitive advantage (Sirmon et al. 2011). Internal to an organization

resources are orchestrated and inputs are transformed, thus creating economic value. How an organization operates influences the social welfare inside and outside of the firm. Examples that will be developed further in this chapter include employee training, community development, manufacturing, finance, and use of retained earnings.

Finally, outputs are depicted on the right and consist of products or services and benefits derived from their use. An organization creates products and services as well as externalities, or those indirect beneficiaries and unintended consequences, all of which can create social value. In addition to individual customer value, outputs can create value for organizations, communities, and society. Thus, organizations create social value by improving the welfare of those with whom it immediately interacts and indirect beneficiaries.

As described here, social value creation can occur throughout the input-process-output model. Table 4.1 illustrates examples of opportunities to create social value in the three areas of the model, as well as examples of organizations that work to create social value in these areas. While most social organizations do not create social value across all three primary areas—input, process, and output—Table 4.1 shows that some companies act on opportunities throughout the system. In particular, *Cows to Kilowatts*, *Xayan IT*, and *Ideas at Work* provide examples of organizations that create social value on multiple levels throughout the system. For example, *Cows to Kilowatts* is a Nigerian energy organization formed from the partnership between Dr. Joseph Adelegan, who holds a doctorate in civil and environmental engineering, and the Biogas Technology Research Centre in Bangkok. Together they worked to reduce the amount of pollution being created by the largest slaughterhouse in Nigeria, the Bodija Market Abattoir. To do so, the organization engaged its inputs, internal processes, and outputs to create social value on all fronts. Figure 4.3 illustrates the company's efforts. The next section elaborates opportunities for social value creation in each area of the input-process-output model using the *Cow to Kilowatts* organization as a foundational case, supplemented with examples from other organizations.

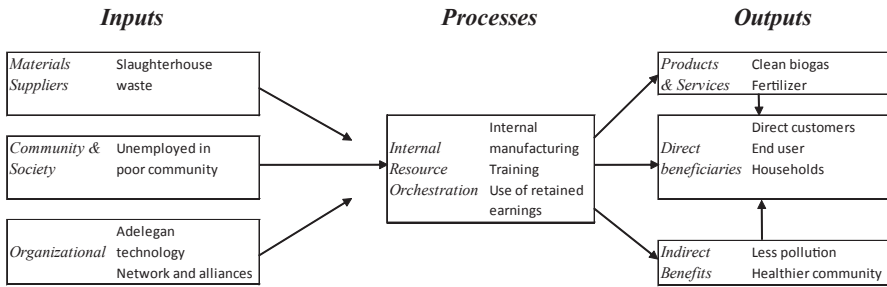
### 4.3.1 Social Value Creation with Outputs

Since work measuring value creation traditionally focuses on outputs in products or services, it is appropriate to start the discussion of social value creation examples here. As discussed, outputs create social value when they are used to address social problems. Organizations using outputs to create social value often target downstream recipients of their products or services who are most vulnerable to the social problem at hand. Organizations can reach those suffering the social problem through three means: their product or service, their direct target customers, and indirect beneficiaries.

Products and services attend to social problems by attempting to directly alleviate the issue. For example, many areas of the world lack access to energy sources that do not pollute their air and water. *Cows to Kilowatts* addresses the overwhelming lack of clean energy sources in Nigeria by supplying poor communities with

**Table 4.1** Examples of social value creation opportunities across the input-process-output model

| Area           | Topic                  | Example opportunity  | Examples of social organizations   |
|----------------|------------------------|--|--|
| <i>Outputs</i> | Products/services      | Sustainable energy<br>Safe drinking water  | Cows to Kilowatts, Lifeline Energy, Greenstar, Blue Energy<br>Riverbank Filtration, BushProof, Naandi, Rural Africa Water Development Project                        |
|                | Direct customer        | Affordable transportation to hospitals<br>Marginalized communities<br>Poverty stricken | Ambulance 1298<br>Greenstar, Blue Energy<br>Lifeline Energy, Riverbank Filtration, VisionSpring, Ikamva Youth, BushProof, Naandi, Ambulance 1298, Ideas at Work      |
| <i>Process</i> | Indirect benefits      | Disabled<br>Healthier community  | VisionSpring<br>Cows to Kilowatts, Greenstar, Blue Energy, Riverbank Filtration, BushProof, Naandi, Rural Africa Water Development Project                           |
|                | Resource Orchestration | Higher employment<br>Employee training & management                                    | Ikamva Youth, Xayan IT, Rwanda Rural Initiative<br>Cows to Kilowatts, Digital Divide Data, Xayan IT, Rwanda Rural Rehabilitation Initiative, Ikamva Youth            |
|                |                        | Community development  | Xayan IT, HoneyCare Africa, GreenMap CLEAN-India, Ajb'atz Enlace Quiche, Naandi, Bushproof, Riverbank Filtration   |
| <i>Inputs</i>  | Raw materials          | Manufacturing<br>Financing and reinvestment<br>Polluting<br>Sustainable<br>Local       | Honey Care Africa, Ajb'atz Enlace Quiche<br>Ideas at Work<br>Cows to Kilowatts, All Green Electronics Recycling, Ash Recyclers<br>Industree Crafts                   |
|                | Suppliers              | Disadvantaged artisans   | Coast Coconut Farms, Meds & Food for Kids<br>Community Friendly Movement, CraftNetwork, eShop Africa, Industree Crafts   |
|                | Community              | Rural farmers<br>Unemployed  | Coast Coconut Farms, Industree Crafts, Patagonia Wool Co-op<br>Rwanda Rural Initiative, Cows to Kilowatts  |
|                | Organization           | Disadvantaged or untrained<br>Founder's network<br>Knowledge and technology            | Digital Divide Data, Xayan IT, Ideas at Work, Ikamva Youth<br>Ideas at Work<br>Cows to Kilowatts, Rwanda Rural Rehabilitation Initiative, Xayan IT, HoneyCare Africa |



**Fig. 4.3** Cows to Kilowatts social value creation through the input-process-output model

cleaner-burning cooking oil, biogas, and fertilizer. Other organizations such as *Lifeline Energy* provide technology to produce sustainable energy from solar and wind sources. *Riverbank Filtration* treats polluted water to provide safe clean water that not only improves the environment, but also reduces illness for those who drink it. *Bushproof* provides clean water and renewable energy products to rural communities in Africa. Thus, products and services in themselves are an essential source of social value.

Social value creation is perhaps easiest to identify when an organization directly targets customers suffering a recognized social problem. Poor communities have been recognized in Sub-Saharan Africa and India and alleviation of their poverty is the focus of *Cows to Kilowatts*, *Lifeline Energy*, and *Riverbank Filtration*, respectively. During emergencies, many Indians lack affordable transportation to health care facilities. *Ambulance 1298* provides such transportation to improve the health of the poor throughout Mumbai. *VisionSpring* provides eyeglasses to the impoverished and disabled in India. *Ikamva Youth* provides education, training, and mentorship to disadvantaged high school aged youth in South Africa. *Greenstar* and *Blue Energy* are two other organizations that create value by providing marginalized customers a product—energy—to which they would not normally have access. Depending on the cost, price, and customer value, an amount of economic value is produced. However, the social value created may be invaluable to those being served.

Social value can be created beyond immediate customer value when the product or service indirectly influences the welfare of a community or society, particularly those collectively suffering from a social problem (see Fig. 4.1). Indirect beneficiaries of social value creation are neglected in the literature; however, direct and indirect benefits aggregate into social wealth, which is critical to understanding the health of a community or society. For example, the customers of *Cows to Kilowatts*, *Greenstar* and *Blue Energy* can use the energy provided as a means to do actions that they were not able to perform previously, or as means to make an activity easier. This ability can improve their way of life and level of health. But social value creation is not just the impact on customers or stakeholders; it includes the interaction between the social enterprise and society. Social value creation can occur in the

effective development of an organization's relationships. *Cows to Kilowatts*' social mission entails reducing water and air pollution produced by slaughterhouses in a poor Nigerian community. The primary measure of social value creation is the number of people served by improved water supplies that were affected by pollution, not the amount of oil sold. While their direct customers benefit from the product, the community at large benefits from lower pollution, which may improve the health of current and future generations. In fact, indirect beneficiaries far outnumber the direct customers. In the cases of *Ikamva Youth* and *Xayan IT*, the training services that they provide directly increase the labor options of the recipients. The addition of skilled workers to a community shifts the labor market to jobs that require more education and training, which typically garner higher wages. A well trained community labor market that brings in higher wages can contribute to the economic development of the community. Social value here is created at the individual and societal levels. Consequently, the social value created by an organization may be underestimated if indirect beneficiaries are not considered.

### 4.3.2 Social Value Creation Inside the Organization

In addition to an organization's outputs, internal opportunities abound for social value creation. Areas of internal resource orchestration that are particularly well suited for social value creation include employees, community development, manufacturing, financing, and use of retained earnings.

Employees can be the beneficiary of social value creation in many ways. In *Cows to Kilowatts*, employees are trained and provided opportunities for job advancement that they would not typically have access to due to the remote location or lack of education. *Xayan IT* hires employees from Bangladeshi universities and trains them further in technology areas to supply IT services to *Xayan IT*'s clients; thus creating employment for Bangladeshi youth while meeting the needs of its customers. *Digital Divide Data* hires and trains disadvantaged youth in Cambodia and Laos to provide IT services to clients around the world. *Rwanda Rural Rehabilitation Initiative* provides jobs to marginalized Rwandans in rural areas who would not have access to education through traditional means to work on community improvement projects. In these cases, social value is created through the internal training process. This is often not the direct product or mission of a social entrepreneur. Several socially attentive organizations (those that consider a wider range of social value creation opportunities) work with schools to create programs for underskilled or untrained community members that will ensure their employment in the organization after completion. Other opportunities to create value through employment include working with marginalized universities, training facilities, and communities. Organizations also create social value for employees by providing fair pay, safe working environments, or long term employment opportunities.



Community development is another area that is difficult to assess in terms of social value creation. However, this level of analysis is important since in some cases, the social value of outputs and training is contingent on the organizations interactions with the community. For example, supplying equipment to create safe drinking water for the poor has little value unless the organization develops a relationship with the community and educates members on the necessity of safe drinking water and how to produce it. *Rural Africa Water Development Project*, *Riverbank Filtration*, *BushProof*, and *Naandi* all worked with their local communities to establish sustained use of water cleaning equipment. If they did not do so, the projects would not survive and the organizations could not move to other communities to scale their solutions.

*Honey Care Africa* brings together community development and its internal resource orchestration to create social value. In its manufacturing process, *Honey Care Africa* centers its operations around the communities in which it operates. The organization uses each community's unique structure and skills to organize the field operation of bee hive maintenance and honey collection. To succeed, *Honey Care Africa* emphasizes collective community engagement. As the community gains skills and increases its economic health, invaluable social wealth is built. Other organizations create social value in the manufacturing processes by minimizing environmental harm. *CLEAN-India* provides education to build community involvement to solve environmental issues in the area. *Green Map System* provides online tools to support collaborative mapmaking based on sustainable community development and environmentally friendly living practices. For each map, community members work together to supply and organize information about local environmental resources, organizations, educational institutions, issues, and services of interest. *Ajb'atz Enlace Quiche* supports community development in Guatemala through education about the Mayan culture. The range of social value creation through community development is vast.

Some organizations create social value through the financial aspect of their business such as pricing and the use of retained earnings. For example, *Ambulance 1298* uses a unique pricing structure for their transportation services in Mumbai. The city has a large population of poor residents who cannot afford health care, let alone transportation to a health care facility. In an emergency, these residents go without. *Ambulance 1298* offers transportation to hospitals using a tiered pricing scale. In general, the organization charges the customers taken to private hospitals, but not those taken to public hospitals who are less able to pay. Using this structure, they are able to supply emergency medical services to everyone in Mumbai. Instead of paying retained earnings out to shareholders, some organizations specify the re-investment of those funds into other social value creation projects. For example, *Ideas at Work* invests 25% of profits into improving the living conditions of local Cambodian orphanages. Other organizations use retained earnings to build schools, fund charities, or help other social value creation activities outside of the organizations' reach. Hence, resource orchestration enables organizations to create social value beyond their target markets.

### 4.3.3 Social Value Creation with Inputs

Inputs are not generally considered opportunities for social value creation; however, raw materials and the ways an organization obtains resources and materials produce interactions with social ramifications. Thus, raw material and their procurement, relationships with supplier organizations, community inputs, and organization-specific inputs are opportunities for creating social value. Raw materials represent an underestimated source of social problems and opportunities. For example, the number of substances polluting the environment is countless. This is especially apparent in communities near factories that are often plagued with polluting by-products from manufacturing. As mentioned, slaughterhouse waste is one such polluting by-product that is difficult and costly to dispose of and is filled with disease. *Cows to Kilowatts* addresses this social problem by using the slaughterhouse waste as its raw material. Traditional waste-treatment methods use a smelly, inefficient process that emits methane and carbon dioxide into the air. Once treated, this waste processed and rinsed into open drains, thus literally flowing into the water supply, polluting the water supply and making people sick. *Cows to Kilowatts* creates value by safely and effectively disposing of this waste that contributes to illness in the region and takes up landfill space.

Similarly, e-waste or disposed electrical and electronic equipment, consume a large amount of space in overflowing landfills, pollute land and water as they break down, and take a long time to degrade. Disposal companies in countries with lenient environmental regulations import e-waste. These countries tend to have a large impoverished population. The e-waste is discarded in poor communities, thereby polluting their land and water. Organizations such as *All Green Electronics Recycling* and *Ash Recyclers* use computers, cell phones, and televisions that have been thrown away as their main inputs. The organizations that use these waste materials reduce the burden to society by reducing garbage and helping the natural environment.

Other examples of social value creation through material inputs include using local, fair trade, organic and sustainably farmed raw materials. *Industree Crafts* focuses on using natural fibers that are sustainable in India. *Coast Coconut Farms* produces extra virgin coconut oil by using local wild organic coconuts through a fully sustainable and earth friendly process. *Meds & Food for Kids* emphasizes the use local raw materials in the production of their ready-to-use therapeutic food for Haitians.

Social entrepreneurs can also address social problems by considering the social value creation opportunities when choosing its suppliers. For example, organizations can create social value by obtaining materials or inputs made by non-traditional or local suppliers who may have few other opportunities. *Community Friendly Movement* acts as a manager for multiple artisan communities, connecting them with retailers and wholesalers who are looking for quality handmade products from India. Community Friendly Movement opens market channels and supply skills unavailable in rural villages. Similarly, *eshopAfrica* is a firm in Ghana that obtains products from underdeveloped artisan groups and community orga-

nizations. In doing so, *eshopAfrica* enables these artisans to earn a living. How an organization interacts with local communities can influence the creation of social value. For example, one critical input to any organization is its human resources. Organizations have many options in their search for employees and volunteers, but people are always needed. By employing jobless, disadvantaged, or untrained, the community benefits by developing active community members who are now able to contribute to the economic well-being of the area. Even traditional ventures have increased their social value creation by using more socially responsible procurement (Prahalad 2004). Examples include reducing waste or emissions in transportation of materials, ensuring human rights within supplier firms, and requiring higher standards for inputs.

#### 4.4 Discussion

Organizations have many opportunities to create social value. The current literature tends to define social ventures dichotomously: either the organization is or is not “social.” This characterization oversimplifies the possibilities for social value creation and limits our understanding of social entrepreneurship. All organizations interact with suppliers, resources, employees, and customers. I suggest that we look at the activities of organizations across their supply chain to better understand how they can create social value and at what level. Doing so helps refine theory about social entrepreneurship. By examining these interactions, we can move from viewing social ventures as a homogenous, niche group to heterogeneous individual organizations (Florin and Schmidt 2011). At the same time, instead of fragmenting the study of social ventures, refining our view of their characteristics facilitates the analysis of patterns and typologies. As the study of social entrepreneurship develops, researchers can use this framework to create more precise definitions and better measures of social entrepreneurship.

Measuring the performance of social ventures continues to be challenging due to the variation in definitions and confusion in the field (Short et al. 2009; Dacin et al. 2011). Using the input-process-output framework of social value creation elaborated here facilitates the study of the differences in social venture performance by categorizing social value creation activities. Each of these categories can be measured and compared. Similarly, integrating these categories into a multi-item measure of social value may prove useful.

This chapter also draws attention to the importance of examining social value across levels of analysis, from individuals to societies. By focusing on direct beneficiaries as the measure of social value, work has largely overlooked that created for indirect beneficiaries. For example, externalities are ordinarily considered negative. However, we have discussed how the externality of reducing pollution creates social value. Thus, this chapter contributes to social entrepreneurship and social venturing scholarship by extending our understanding of social value creation to a wider range of activities and recipients.

The input-process-output framework of social value creation suggested here only offers an overarching perspective of social venture activities. Each type of opportunity for creating social value is a deep and curious area for future research. Within each opportunity, much work remains. For example, this chapter highlights the input-process-output model for social value creation; however, each activity described deserves particular attention from raw materials procurement to influencing society at a macro level. Further analysis of the social value of networks and relationships will build on both social venture and network research. More study of resource orchestration will extend the resource based view of social entrepreneurship. Additional exploration of entrepreneurial opportunity discovery and creation through a social venture's input, internal processes, and output will deepen our understanding of entrepreneurship on the whole.

This chapter highlights but only a few opportunities for social value creation, but the possibilities are limitless. Organizations can create social value in every action that it takes. However, not all opportunities are equal and not all environments are welcoming or accessible. In some cases, these options may undermine other social value creation in the organization (Austin et al. 2006). In other cases, tackling too many opportunities is not sustainable. Although *Cows to Kilowatts* creates social value across many activities, some social entrepreneurs and ventures choose to focus their value-producing activity. It is imperative to recognize that acting on multiple opportunities does not classify an organization better or worse than more focused organizations. Similarly, actions that create social value in one setting may destroy it in another. Thus, options must be weighed carefully in light of each organization's context and circumstances. In our attempt to quantify social value creation, we must be careful not to simplify the equation to a few variables, losing the full picture (Weerawardena and Mort 2006). Just as there are many opportunities, each context holds a myriad of impediments equally challenging to measure.

As organizations develop and relationships change, the type and level of social value creation may change as well. For example, there may be a pattern of development for social entrepreneurs in which the locus of social value creation shifts from one type of activity to another. On the other hand, there may be a pattern in the depth of social value creation as a social venture matures. A line of research investigating changes in social value creation activities can enrich theory building.

This chapter has implications for entrepreneurs as well. Entrepreneurs aiming to start a social venture can use this framework to better understand areas that fulfill their social mission or identify socially beneficial opportunities. Existing, traditional firms can also use this framework to determine which activities they may be able change to become more social and thus enhance their triple bottom line.

In summary, this framework provides a broader way to look at social value creation than simply the organization-customer link. While many organizations are already doing these activities, perhaps more attention is needed to emphasize or recognize these activities. By doing so, we include a large spectrum of the society and have a broader reach. Now we must act on our own opportunities.

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# Chapter 5

## Social Enterprises and the Financing of Different Scaling Strategies

Wolfgang Spiess-Knafl and Stephan A. Jansen

**Abstract** This article discusses the financing options and scaling models of social enterprises. Social enterprises use various revenue streams to cover their operational expenses and financing instruments for longer-term investments. Revenue streams include fixed fees, earned income or membership fees while financing instruments are grants, debt capital, equity capital, mezzanine capital or hybrid capital.

Based on the degree of control of the business model and the speed of scaling four different scaling models can be identified. Social enterprises can either be networkers, blueprinters, localizers or scalers. The article discusses the elements of each scaling model and analyzes the financing strategies as well as their implications.

**Keywords** Public funding · Scaling · Internal financing

### 5.1 Introduction

Social entrepreneurship is a promising concept for the solution of pressing social issues by applying business techniques and an entrepreneurial mind-set to social problems (Dees 1998; Mair and Marti 2006). The visible success of social enterprises supported and promoted by fellowship associations such as the Schwab Foundation for Social Entrepreneurship or Ashoka has also attracted interest from public authorities and foundations. Their financial commitment to support social enterprises has helped to develop a “social capital market” with a range of financial institutions covering different risk-return segments (Achleitner et al. 2011).

There is a common understanding that social enterprises provide public goods or create social value (e.g. Sommerrock 2010; Zahra et al. 2009). However, as empirical studies and most practical evidence show, social enterprises are mostly active at a local level with rather limited resources (Light 2008; Spiess-Knafl 2012). In light

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of their own social mission and in order to retain their legitimacy social enterprises need to scale up their concept to provide their services to a greater number of people.

This chapter will present the financing of social enterprises, discuss different scaling strategies and highlight the implications and difficulties of these approaches. Some interesting research questions which may be of interest for future research in this field will also be discussed. For example, it remains unclear what the best diversification strategy would be in terms of income sources for social enterprises. There are arguments pushing for more diversification since that promises greater stability and less volatility, while on the other hand a higher level of diversification also means that there is a greater risk for potential conflicts of interests between the different capital providers.

The implications of public funding also need consideration. Some researchers and practitioners think that social enterprises should act independently of public funding as it seems to contradict an entrepreneurial approach. However, public authorities are keen to support this phenomenon of social entrepreneurship which, according to definition, should not pursue this kind of funding. All of this leads to quite a paradoxical situation.

## **5.2 The Financing of Social Enterprises**

Social enterprises need to develop a financing strategy to cover their on-going operational expenses and to finance their scaling efforts to increase the dimension of their activities. On-going operational expenses are usually covered by internal financing (revenue streams) whereas scaling expenses are usually covered by external financing (financing instruments) provided by institutions in the social capital market (Achleitner et al. 2011).

External financing is provided in the form of equity capital, debt capital, mezzanine capital, hybrid capital or donations and is commonly used to cover long-term investments or temporary negative operating cash flows. These funds can be provided by investors which can be differentiated along their financial return requirements. Internal financing consists of revenue streams received by the social enterprise in return for the provision of its services and products. Depending on the financial capabilities of the target group this revenue stream is either paid by the target group itself or third parties such as companies willing to pay for qualification services or public authorities. These financing sources with the financing instruments and revenue streams are shown in the following figure (Fig. 5.1).

## **5.3 Capital Structure**

### **5.3.1 Financing Sources**

There are basically three groups of investors which provide capital for social enterprises: (1) investors without financial return expectations, (2) investors with



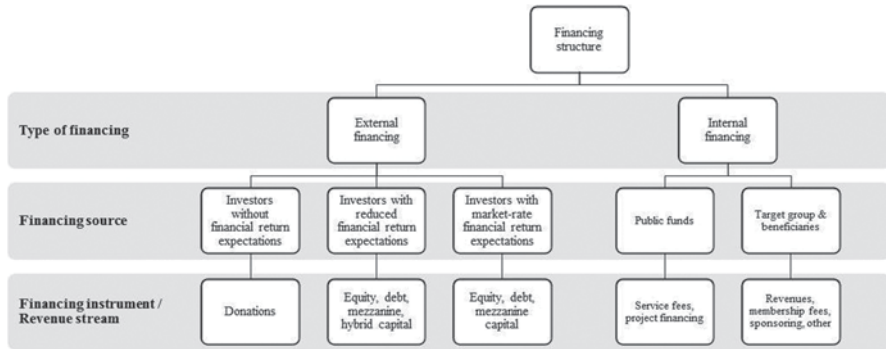


Fig. 5.1 Financing structure. (Achleitner et al. in press)

reduced financial return expectations and (3) investors with market-rate financial return expectations.

Investors without financial return expectations are donors or foundations which provide funding with the sole focus of supporting the provision of a social good. Given that self-interest is a major component in economic theory it is not obvious why individual giving reaches significant amounts each year (see e.g. Havens et al. 2006; Sommerfeld 2009). Andreoni (2001) offers three possible explanations for philanthropic behavior. A donation can help to produce a public good which the donor values. This is consistent with the observation that non-profit organizations often report the output which can be provided with a certain sum (Vesterlund 2006).

A private benefit can accrue in the form of free entrance or privileged access to exhibitions. Donations can also enhance the reputational status of the donor. A place in the supervisory board of an organization or the naming of a building can be examples for this form of private benefit. The third aspect according to Andreoni (1990) is the warm glow effect. That means that the act of giving alone is of a certain value to the donor (e.g. Crumpler and Grossman 2008; Harbaugh 1998 and for an alternative view see for example Belk and Coon 1993).

Investors belonging to the second group reduce their financial return expectations in order to support the provision of certain social services. This balancing of social and financial return is also known as “Blended Value Proposition” (Emerson 2003).

There is a belief among so called philanthrocapitalists that the use of financial instruments supports the entrepreneurial orientation of a social enterprise (Bishop and Green 2008). The origins of this investment approach go back to the 1990s when entrepreneurs who had gained fortunes over a short time span with investment management or information technologies were experimenting with new investing approaches (Letts et al. 1997). One of those investing approaches evolved into venture philanthropy funds which use venture capital techniques to support social enterprises (Heister 2010; Moody 2008). The perceived success of these funds has also helped to create a social capital market.

Thirdly, investors with market-rate financial return expectations provide capital to social enterprises that they consider will achieve a return which is comparable to an investment in the traditional for-profit sector. O'Donohue et al. (2010) call these impact investments in contrast to social investments which have a reduced financial return. Typical impact investments are made in community development programs in industrial countries or bottom of the pyramid approaches in emerging countries such as energy solutions, microfinance or health care services.

### 5.3.2 *Financing Instruments*

Social enterprises have access to all of the financing instruments of the for-profit sector such as equity, debt and mezzanine capital as well as those of the non-profit sector including debt capital and donations (Achleitner and Spiess-Knafl 2012).

Donations are usually provided by foundations and individuals and seem to be rather attractive for social enterprises. The donor does not receive any control or voting rights and the donations is not repayable. However, they are usually restricted for predefined projects, entail high fundraising costs and lower entrepreneurial flexibility. We classify donations as a financing instrument which is in contrast to the non-profit research area where researchers typically view donations as a revenue source (e.g. Besel et al. 2011; Fischer et al. 2011). However, this classification as a financing instrument is in line with accounting standards and the economic reality of social enterprises. Social enterprises usually do not build their business model on a donation model but often receive large sums in form of donations from venture philanthropy funds or foundations (for an overview of fundraising strategies see de Oliveira et al. (2011) or Meer and Rosen (2011)).

Debt capital can be used to finance long-term investments as well as working capital requirements. As the social enterprise needs to make regular interest payments and repay the complete amount at the end of the period, it needs to have predictable cash flows and a low-risk business model. This requirement to keep a low-risk business model seems to dampen the innovativeness and risk-appetite of social enterprises (Milligan and Schöning 2011). Debt capital gives the social enterprise high entrepreneurial flexibility in the use of the funds but also entails the loss of far-reaching rights in case of default.

Equity capital is also used to finance long-term investments and working capital-requirement as well as to cover short-term negative operating cash flows. Equity capital does not entail repayment but gives the capital provider control and voting rights as well as a share of the profits. There are different views on the distribution of profits by social enterprises. Yunus (2006) prefers a restriction of any dividends, while others see a limited profit distribution as worth pursuing as it also reflects the primacy of a social aim (e.g. Defourny and Nyssens 2008).

A shareholder structure with external investors could potentially have an impact on the corporate culture of the social enterprise. As of this point, the investor can hardly exit the investment as there is no secondary equity capital market. Social

stock exchanges which could be an interesting exit options for social investors have been established but have not gained enough size to have a functioning market (Achleitner et al. 2011).

Mezzanine capital is a combination of equity and debt capital with fixed interest rates and a repayment obligation as well as an additional performance-related component. It can be structured flexibly and gives the investor profit participation rights in case of financial success. Similar to debt capital it requires predictable cash flows and a low-risk business model.

There are also a number of tailored financing instruments for social enterprises in the form of hybrid capital which combine elements of equity or debt capital with donations. They are usually an inexpensive financing instrument with a great degree of structuring flexibility and no dilution of ownership. Examples of such financing instruments include recoverable grants, convertible grants, forgivable loans or revenue-share agreements. The repayment of a recoverable grant depends on the development of the social enterprise as it is only repayable in case of success, whereas a forgivable loan is forgiven if certain pre-agreed milestones are reached. The choice depends on the motives of the capital providers. Convertible grants are converted into equity if the company proves to be successful. Revenue share agreements are financing instruments which give the capital providers a certain share of the revenues of a social enterprise (Achleitner et al. 2011; Table 5.1).

There are two major differences between financing in the for-profit and the social-enterprise sectors. In the for-profit sector there is a clear correlation between the interest-rate of a loan and the default risk of the enterprise. For social enterprises this relationship does not apply as investors might be willing to reduce their financial return requirements for the social mission. Low-interest loans or zero-interest loans are therefore rather unrelated to the risk of the social enterprise. The same is true for the pecking order framework in which enterprises in general are supposed to prefer internal financing to debt and equity capital (Harris and Raviv 1991). For a number of reasons this framework does not apply to social enterprises. Although grants are hard to beat in financial terms as they have no repayment requirements, social enterprises could still prefer equity or debt capital due to the increased flexibility of these instruments. Moreover, potential investors have limited opportunities to profit from the entrepreneurial success as profit distribution is either prohibited or limited (cf. CIC Regulator 2013; Hoogendorn et al. 2010; Kerlin 2006).

The question also remains as to which financing instrument is most appropriate for which life cycle of the social enterprise. In a study of 110 venture philanthropy fund investments on a global basis it was found that only 55.5% of the investments were based on equity capital. 40.0% of the investments were based on a loan agreement or were a combination of debt and equity capital. The remaining 4.5% of all investments were based on hybrid capital such as guarantees or revenue-share agreements (Spiess-Knafl 2012).

**Table 5.1** Financing instruments for social enterprises. (Achleitner et al. 2011)

| Financing instrument     | Term sheet   | Implications for social enterprise  |
|--------------------------|--|---|
| <i>Grants</i>            | Duration: Short term<br>Annual payments: None<br>Repayment: None                 | Usually restricted use for predefined projects<br>High fundraising costs<br>Low entrepreneurial flexibility   |
| <i>Debt Capital</i>      | Duration: Long term<br>Annual payments: Interest payments<br>Repayment: Yes      | Low risk business model required<br>No dilution of ownership<br>Loss of far-reaching rights in case of default<br>High entrepreneurial flexibility            |
| <i>Equity Capital</i>    | Duration: Unlimited<br>Annual payments: Dividend payments<br>Repayment: No       | Dilution of ownership<br>Control and voting rights for investors<br>Profit participation for social investor<br>Potential impact on corporate culture         |
| <i>Mezzanine Capital</i> | Duration: Long term<br>Annual payments: Interest payments<br>Repayment: Yes      | Structure require predictable cash flows<br>Dilution of ownership if converted into equity<br>Mandatory repayment<br>Profit participation for social investor |
| <i>Hybrid Capital</i>    | Duration: Longterm<br>Annual payments: None<br>Repayment: Depends upon structure | Inexpensive financing instrument<br>No dilution of ownership<br>Risk sharing with the social investor<br>Great structuring flexibility                        |

## 5.4 Internal Financing

The internal financing structure consists of revenue streams. Revenue streams can be divided into those provided by public authorities and those provided by private sources. The classification involving the different revenues streams is shown in the figure below (Fig. 5.2).

### 5.4.1 Public Funding

Public funding is a major component of the income structure of social organizations (e.g. Adema and Ladaïque 2009; Salamon and Anheier 1997). Public funding can either be provided through fixed fees based on contracts or subsidies (Rushton and Brooks 2007).

Fixed fees are paid for the provision of services irrespective of the existing local demand on behalf of government. It is either paid per person (e.g. elderly care, overnight accommodation for homeless) or by delivering the service for a certain area

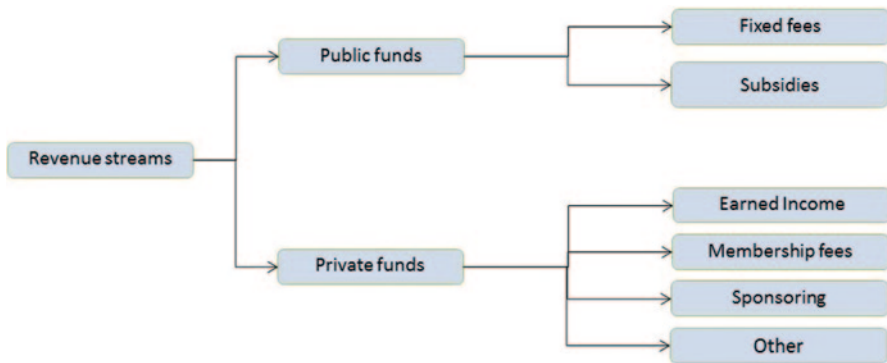


Fig. 5.2 Revenue streams. (Spiess-Knafl 2012)

such as rescue services or primary education (Achleitner et al. [in press](#)). It is thus possible to speak of quasi-markets in which social enterprises are active. Studies show that quasi-markets represent significant revenue sources for social enterprises (Social Enterprise UK 2011; Spiess-Knafl 2012).

Subsidies are mostly provided for certain projects which the public authorities want to promote and support. These subsidies often require significant reporting efforts and come with strings attached (Rushton and Brooks 2007). Fees and subsidies often work in a way that refunds only according to incurred expenses limiting the incentive to work efficiently (Bank of England 2003).

These aspects explain why social enterprises attempting to access public funds are sometimes considered not entrepreneurial enough (see Defourny and Nyssens (2010) for a discussion). Although there may be good reasons for this view it generates a paradoxical situation as public authorities are changing their funding mechanisms to give social enterprises access to this capital pool. Governments are supporting social enterprises by modifying their funding schemes for the requirements of social enterprises and setting up new initiatives such as social impact bonds or social innovation funds (Cohen 2011; Mendell and Nogales 2009). Additionally, empirical findings show that public funds are a highly scalable and stable income stream comparable only to income generated by the target group (Spiess-Knafl 2012).

### 5.4.2 Private Funding

Private funding can consist of earned income, membership fees, sponsoring and other income streams such as irregular prize money or regular income from an endowment.

Earned income is generated through services provided or products sold to the target group. Earned income has the benefit that there are no restrictions in the use

of those funds. Within the non-profit literature this revenue stream is often seen as subsidizing the core non-profit segment by generating income in often unrelated business schemes (see e.g. James 1986; Sinitsyn and Weisbrod 2008; Weisbrod 1998). There is a consensus in the “Social Enterprise School of Thought” that the earned income generation of social enterprises should be related to the problem the social enterprise wants to solve (Hoogendorn et al. 2010).

The need for revenue generation also implies that there must be some kind of pricing and/or allocation mechanism when it is realistically impossible to provide every potential client with the services or products. Social enterprises can use a range of different allocation mechanisms which are either price-based or non-price-based. Pricing may differ between different groups of customers or there may be eligibility criteria for the services (Steinberg and Weisbrod 1998). The aim of the social enterprises should be to offer the services without any restriction to everybody belonging to the target group. The various possibilities for generating revenues will depend on the target group and the social problem itself. For example, there may be very few income-generation opportunities for providing shelter to homeless children.

Another revenue stream is membership fees. Membership fees are an attractive revenue stream when the target group can be clearly defined and the social good provided directly reinforces the characteristics of the club members’ interests (Sandler and Tschirhart 1997). Examples are organizations which offer membership-only cultural events and productions or self-help groups. Other examples are organizations where the members actively support the work, such as interest groups, environmental preservation groups or research institutes (Steinberg 2007).

Sponsorships are contributions from companies which support the work but also want to generate positive publicity through their association with the social enterprise. In corporate partnerships the social enterprise provides its brand and reputation within a sponsoring agreement. However, there can also be the risk of reputational damage for the social enterprise should the corporate partner subsequently become embroiled in any controversy (James and Young 2007).

Other income streams can be prize money, income from endowment capital (Bowman et al. 2007) or penalty fees which have to be surrendered to a social organization. There are also income streams which are provided in-kind. These income streams include in-kind donations (Gray 2007) or voluntary work (Leete 2006; Preston 2007) which have a monetary value but are not provided in monetary form.

In a sample of 208 German social enterprises the characteristics and the income structure were analyzed (Spiess-Knafl et al. 2013). The distribution of the income structure is shown in the following table (Table 5.2).

Public funding in the form of fees and subsidies explains 36.2% of total income. The survey shows that public funding through fixed fees or subsidies are an important element of the funding structure and a very scalable revenue stream. This can be seen through the fact that the larger social enterprises have a larger share of public financing. The fact that larger organizations have a larger share of total funding coming from public funding will be discussed later in the section dealing with the scaling of social enterprises.

**Table 5.2** Income structure of German social enterprises. (Spiess-Knafl 2012)

| Income ('000 €) | Fees (public) (%) | Earned income (%) | Subsidies (public) (%) | Donations (%) | Foundations (%) | Sponsorship (%) | Membership fees (%) | Other (%) |
|-----------------|-------------------|-------------------|------------------------|---------------|-----------------|-----------------|---------------------|-----------|
| <50             | 9.0               | 14.3              | 6.8                    | 20.9          | 8.1             | 14.3            | 13.1                | 13.6      |
| 50–100          | 5.3               | 29.9              | 30.0                   | 5.3           | 14.1            | 3.8             | 3.8                 | 7.8       |
| 100–250         | 15.3              | 24.0              | 15.2                   | 11.7          | 12.8            | 1.3             | 2.4                 | 7.2       |
| 250–500         | 25.8              | 21.2              | 19.5                   | 10.9          | 4.1             | 6.2             | 0.6                 | 11.5      |
| 500–1,000       | 18.9              | 30.8              | 27.5                   | 6.4           | 5.1             | 2.8             | 2.7                 | 6.1       |
| 1,000–5,000     | 33.1              | 20.8              | 16.2                   | 2.0           | 4.2             | 5.7             | 0.3                 | 17.7      |
| >5,000          | 50.2              | 18.4              | 6.7                    | 3.7           | 0.7             | 0.1             | 3.3                 | 17.1      |
| Total           | 20.8              | 21.0              | 15.4                   | 10.3          | 7.1             | 8.0             | 5.0                 | 12.6      |

Earned income contributes 21.0% while the rest is split among donations, grants from foundations, sponsorship, membership fees and others. Nonetheless, social enterprises show a surprisingly low level of diversification which supports similar findings from other studies (Fischer et al. 2011; Foster and Fine 2007). It seems that social enterprises focus on the most promising income stream in order to reduce possible conflicts of interests between the different capital providers (Achleitner et al. *in press*).

This finding is in contrast to the observation that social enterprises are sometimes advised to access as many income streams as possible since increased diversification is supposed to reduce the overall volatility of the income streams. Carroll and Stater (2009) have shown that a higher degree of diversification leads to a lower degree of volatility.

Table 5.3, however, shows that social enterprises typically rely on one single primary income stream. The table shows the average amount of the primary income stream for each size category with the rather surprising finding that even small social enterprises rely on one single primary income stream. For example, social enterprises with an annual income between € 250,000 and 500,000 have on average one primary income stream (public fees) which accounts for 73.6% the total income.

## 5.5 Scaling

The evidence shows that social enterprises have access to a wide range of financing instruments but given that they cannot offer the same financial terms as for-profit companies significant amounts of capital are difficult to raise. This question is especially relevant when social enterprises want to scale up their concepts and need capital to fund the expansion.

However, there also exist cases of social enterprises which are not trying to scale up their activities. This could be the case where the social enterprise is local in nature or where the founding motives of the social entrepreneur are to solve a social problem in a local context only (Barendsen and Gardner 2004).

**Table 5.3** Average amount of primary income stream. (Spiess-Knafl 2012)

| Income ('000 €) | Fees (public) (%) | Earned income (%) | Subsidies (public) (%) | Donations (%) | Foundations (%) | Sponsorships (%) | Membership fees (%) | Other (%) |
|-----------------|-------------------|-------------------|------------------------|---------------|-----------------|------------------|---------------------|-----------|
| <50             | 65.7              | 71.7              | 49.0                   | 73.3          | 50.0            | 84.3             | 61.1                | 77.6      |
| 50–100          | 48.0              | 70.0              | 68.0                   | –             | 58.9            | –                | –                   | 99.0      |
| 100–250         | 70.0              | 74.1              | 71.0                   | 80.0          | 44.9            | 62.5             | 30.0                | 52.3      |
| 250–500         | 73.6              | 70.8              | 52.6                   | 60.0          | 25.0            | 90.0             | –                   | 66.7      |
| 500–1,000       | 61.3              | 77.7              | 68.7                   | 75.0          | 50.0            | –                | –                   | 60.0      |
| 1–5,000         | 79.4              | 75.4              | 59.1                   | 40.0          | 45.0            | 66.7             | –                   | 74.8      |
| >5,000          | 66.6              | 82.5              | 44.0                   | 50.0          | –               | –                | 50.0                | 64.0      |
| Total           | 71.1              | 73.8              | 60.4                   | 69.3          | 48.3            | 75.3             | 57.3                | 71.8      |

Within this chapter we will discuss the mechanisms and the objectives of scaling as well as the relevant financing strategies. The scaling mechanisms can be classified according to the degree of control of the business model as well as the speed of scaling. A high degree of control within the business model means that the social enterprise can control aspects of the business model such as marketing, sales or the supply chain (for an overview of the literature on business models see Zott et al. (2011)). This classification provides us with four types of scaling models which are shown in the table below (Table 5.4).

These scaling models describe the mechanisms social enterprises can use. Social enterprises can have different objectives for the scaling of the social enterprise which do not have to be mutually exclusive. These objectives are to reach economies of scale or economies of scope through providing services to additional target groups or offering the current target group additional products, thus utilizing and securing organizational capacity (Jansen 2013).

Social enterprises have two types of costs: variable and fixed costs. Variable costs accrue relative to the number of services provided and include material or personnel costs. Independent of the number of services provided, the social enterprise has to cover a certain amount of fixed costs. These fixed costs usually consist of rental expenses, management costs or fees for legal and tax-related advisory. Thus, there is an incentive to increase the number of services provided to reduce the relative amount of fixed costs per service provided.

Looking at the size of social enterprises, it can be assumed that many small social enterprises are single-product companies. They offer a certain kind of service to a defined target group. However, these social enterprises could use their access to the target group or their expertise in providing the service to expand its customer or product range and thus become a local multi-product social enterprise. They could either offer additional products or services to their target group or offer the same product to an additional target group or groups.

There is also the objective to secure a “critical mass”, to secure organizational capacity. Fixed fees paid by public authorities represent a scalable and predictable income stream but the administrative requirements necessitate that the recipient enterprise has a certain organizational size. The same is true for a social enterprise



**Table 5.4** Scaling models

|                           |      | Speed of scaling |              |
|---------------------------|------|------------------|--------------|
|                           |      | Low              | High         |
| Control of business model | Low  | Networkers       | Blueprinters |
|                           | High | Localizers       | Scalers      |

to be able to generate a real presence at conferences, fairs and other events. Once the “critical mass” is reached the financing can be switched to public funding. However, getting to this critical mass is more complicated. As shown above, there are a number of limitations to repay investors with public funding. The best way to reach a size which makes the social enterprise eligible for public funding is to seek out philanthropic capital without any repayment obligations.

The discussion of both dimensions—strategy and objective—below, will also examine which strategies are appropriate for which type of social enterprise.

## 5.6 Networkers

Networkers use an approach in which scaling is realized in cooperation with a network of partners. There are various forms for how this network can be structured (for an overview of the structure of networks see e.g. Estrada 2012; Newman 2010). A network strategy is an inexpensive form of scaling and increases access to resources through the use of network partners. However, it also reduces the control of the business model and is not the fastest way of scaling since interaction between the social enterprise and the network of partners has to be coordinated.

One network structure which has been discussed in relation to social enterprises is the social franchise (e.g. Heinecke and Mayer 2012). It is sometimes considered to be the most promising strategy for growth with a limited risk exposure for the social enterprise as the franchisor (Tracey and Jarvis 2007). But not every concept can be scaled through a social franchise system as this type of strategy necessitates a great number of standardized elements (Bradach 2003).

In this social franchise structure the social enterprise provides the concept as well as the relevant expertise to a franchisee which is acting independently although aligned with the mission of the social enterprise. Other forms of networks can be the coordination of international activities by the social enterprise through an umbrella approach or the coordination by the social entrepreneur of various partners in the for-profit sector to accomplish a social goal.

Examples of these types of networks are qualification programs where students act as mentors for certain pupils helping them to find an apprenticeship after school. This concept needs a strong brand for employers but also local social organizations to manage the volunteers and the coaching relationships.

Networking models generally have low capital requirements and can be financed with the operating cash flows generated through the services provided or products

sold. Equity or debt capital is rather unattractive as there are no assets and predictable cash flows.

## 5.7 Blueprinters

Blueprinters are social enterprises which develop an innovative blueprint solution for a social problem (Jansen et al. 2010). A blueprint solution can be a new pedagogic concept for children, an integration concept using sports or music or the employment of disabled persons using an innovative approach. The social enterprise would provide the solution to every other organization aiming to adopt this approach. This approach is also known as dissemination or open-source approach (Heinecke and Mayer 2012).

This means that a social enterprise can scale its concept more easily but also loses the control of the business model as there is no mechanism to secure the quality of the concept once it is provided to other organizations. There is also a range of innovative blueprints which are simply copied by other organizations without the social entrepreneur's actual input. Microfinance, educational programs or innovative employment concepts are easy to copy and hard to protect as there are no patents or copyrights for business models of social enterprises.

As the blueprint-type concept is easy to copy and there is no possibility to recover an investment made with debt or equity capital there must be another kind of more philanthropic capital made available. Since a blueprint solution for a given social problem can be developed with a relatively low amount of capital the financing of a blueprint solution can be provided by foundations or by individuals through donations. This seems to correlate with the fact that foundations prefer to finance innovative models.

## 5.8 Scalers

Scalers develop a business model which is easy to scale up and enables them to provide their products or services to an increasing range of customers. However, at the moment social capital markets offer rather limited amounts of capital for social enterprises and this in itself could limit the range for social enterprises. Not many investments in social enterprises appear to exceed the amount of USD 10 million and most are below the threshold of USD 1 million (Spiess-Knafl 2012). Compared to average investments in the venture capital arena these investments are rather small (e.g. for a comparison see Harris et al. 2012).

Given those restrictions in the fundraising process social enterprises have two options. They must either integrate digital elements in their business model which

enable them to scale the business model inexpensively, or else access public funding which is both a scalable and predictable revenue stream.

Information technology offers an opportunity to develop a business model which can be scaled inexpensively. The marginal costs of serving an additional customer are low and economies of scale are fully applicable in this case. There are no numbers available to estimate the spread of digital business models but it seems that digital elements are used widely by social enterprises. These elements can include an information platform or an online-tool to match demand and supply. In one example, a social enterprise gives teachers in developing countries an employment opportunity as they set up individual language courses via Skype.

Social enterprises often face the dilemma of wanting their services to be provided to everybody who is eligible for them and having to restrict that provision to an arbitrary selection of recipients. It is often not feasible simply with private funding and only public authorities can provide the funding needed to offer the services to the general public. Besides general funding through fixed fees or subsidies, there are various initiatives which strive to close this financing gap. They are mostly known as social-impact bonds, pay-for-success bonds or human-capital-performance bonds (e.g. Cohen 2011; Social Finance 2009). The main characteristic with these is that the payment is based on the results achieved by the social enterprise such as the number of job placements or the recidivism rate.

## 5.9 Localizers

Localizers are social enterprises which are based in a city or community and decide to remain in this local context. It can be an attractive strategy as contacts with public authorities, companies and community leaders are already well established and the existing administrative infrastructure can be used to offer additional services. This type of social enterprise rather relies on the economies-of-scope strategy which reduces the proportional fixed costs and allows the social enterprises to use existing know-how. Localizers have the opportunity to replicate existing concepts in their community and benefit from development efforts. In one example, a social enterprise based in a German city started to offer employment services for young individuals. Given that contacts with local authorities were well established they had regular opportunities to expand their services to other segments. Employment services can originally intend to open a restaurant and in the next step deliver meals to elderly people to ensure capacity utilization, thereby ensuring economies of scope.

If there is a business model with recurring and predictable income streams the social enterprise could use equity or debt capital to add further services to their platform. A social enterprise could also follow a hybrid strategy which means that they could subsidize one segment with the profits generated in another segment (Table 5.5).

**Table 5.5** Scaling strategies

| Scaling strategy    | Description  |
|---------------------|--|
| <i>Networkers</i>   | Scaling through network strategies (e.g. social franchise)<br>Inexpensive scaling strategy<br>Low control of business model  |
| <i>Blueprinters</i> | Scaling through provision of innovative concept<br>Low control of business model and quality<br>Open source approach   |
| <i>Scalers</i>      | Development of a scalable business model with digital elements for low marginal costs<br>Scaling through the use of public funding as a scalable income stream<br>High control of business model |
| <i>Localizers</i>   | Use of economies of scope<br>Copy of innovative concepts in local context<br>High control of business model  |

## 5.10 Conclusion

This book chapter discusses the different financing instruments of social enterprises and the scaling strategies they can use. A classification of scaling strategies is introduced using the degree of control of the business model and the speed of scaling.

A few research questions remain. It is not yet known what impact, if any, the financing structure has on the strategy of the social enterprise. For instance, there is some evidence that debt and mezzanine capital lowers the risk appetite of a social enterprise allowing the risk of a mission shift to remain.

Moreover, it is also unclear which financing strategy social enterprises should use during the different phases of their lifecycle. From a theoretical point of view there should be a higher degree of donation-based financing in the start-up phase and equity and debt capital financing during the later stages of the lifecycle. A life cycle financing strategy for social enterprises could then be based on donations and equity capital in the early phases and debt capital in the later stages. It also remains to research the question under which conditions social enterprises prefer equity or debt capital to donations.

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# Chapter 6

## Creating Public Value: An Examination of Technological Social Enterprise

**Thema Monroe-White**

**Abstract** This study proposes that social enterprises address needs that are unmet by markets and government, thereby generating essential public values. I propose that social enterprises fulfill essential public value failures via the search and exploitation of new opportunities—gaps left by markets and governments. I test this proposition through an exploratory qualitative analysis of the mission statements of more than 150 technological social enterprises. The data were acquired from 20 top-ranked online website portals, cataloguing close to 800 social enterprises. In addition to having a technological focus, the vast majority of the social enterprises in the sample also served a specific target population. I present findings by positioning these enterprises in a matrix: target population by public value criteria. Results indicate that most technological social enterprises in the sample address public value failures. This study has broader implications for opportunity-seeking social entrepreneurs, academics, and evaluators interested in social impact assessment.

**Keywords** Public value · Public value failure theory · Social enterprise · Social entrepreneurship · Technology

*The ends you serve that are selfish will take you no further than yourself; but the ends you serve that are for all, in common, will take you even into eternity. — Marcus Garvey*

### 6.1 Introduction

Social entrepreneurship research is still in its infancy and, as a result, social scientists from across disciplinary fields (i.e., anthropology to sociology) are able to contribute to advancing the scope and direction of social entrepreneurship research (Short, Moss and Lumpkin 2009). Despite its widespread appeal, much of the scholarly literature on social enterprise and/or social entrepreneurship has been limited to documentation of intriguing case studies, such as Grameen Bank and stories of individual social entrepreneurs like David Green, Vice President of Ashoka and a 2009 recipient of both the “Spirit of Helen Keller” award and the University of

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Michigan Humanitarian Service Award (Scientific American n.d.). Therefore, while the limited empirical evidence on social entrepreneurship and social enterprise is to be expected, as it would be of any pre-paradigmatic field (Nicholls 2010), after 20 years of research there remains much to be desired (Hoogendoorn et al. 2010).

In this paper I provide some preliminary empirical evidence for a theory of social enterprise by building on Bozeman's public value failure theory (Bozeman 2002, 2007, 2012). I apply this well-supported literature in the nonprofit and public management fields to social enterprise. By doing so, this work falls in line with other critical analysts like Dey (2006; Dey and Steyaert 2012) and Peredo (2006) championing a reorientation of the academic literature from one in support of the social *as* economic (i.e., consumers) to a focus on the social *as* public (i.e., citizens) (Hjorth and Bjerke 2006).

In light of the call by authors like Ruebottom (2011) to move beyond the triple bottom line as a measure of success, this paper uses empirical qualitative data in order to re-frame an existing theory from the field of public policy, public value failure theory, and apply it to the social enterprise context (Haugh 2012). This study uses both inductive and deductive approaches. I start by surveying the social enterprise and public value failure literature using public value failure theory criteria to explain the various manifestations of social enterprise. I then examine a sample of social enterprises for public statements in which they indicate a commitment to addressing societal needs by creating and/or ensuring public values.

The chapter begins with a review of the literature on the current state of the social enterprise field. I follow by defining, outlining, and linking key concepts in the public value failure theory to the social enterprise context. I then argue that social enterprises seek out opportunities to meet essential public value failures. I examine this proposition by reviewing the mission or other purposive statements of nearly 150 technology-centered social enterprises. Using the snowball method, I determine if the core organizational statements of the social enterprises in the sample express a commitment to addressing public value failures. It may not, however, be possible to generalize insights from this study to other forms of social enterprise because of the focus on technology-centered organizations. Limitations, implications, and future research perspectives for the social enterprise field are then discussed.

## 6.2 Literature Review

Authors have argued for increased conceptual and empirical work on the meaning of the "social" in social entrepreneurship, social enterprise, and social innovation (Nicholls and Murdock 2012). Interpretations vary by national and regional context (Kerlin 2009) and by disciplinary focus (Nicholls and Murdock 2012). However, in part due to a lack of consensus surrounding the meaning of the term (Dees 2001; Light 2008), many scholars have relegated the 'social' as well as the 'entrepreneurial' to self-evident truths, inherently good and better for society and/or the

environment, thereby converting the social entrepreneurship concept into a “fetish” (Andersson 2011; Petersen 1988). Thoughtful clarification of the term is important because, without a clear definition, one can easily lose sight of why social perspectives matter. Likewise, without a clear definition, the diverse and numerous ordained (i.e., Schwab Foundation Fellows, Ashoka Fellows) and self-titled social entrepreneurs ‘making the world a better place’ may instead echo the ‘reflexive’ interests of foundations, investors, and individual actors as opposed to the needs of the groups they aim to serve (Nicholls 2010). Nor can we determine if, when, or how entrepreneurs and enterprises actually generate social impact without being able to distinguish a social outcome from a non-social one. Similarly, understanding the term ‘social’ and its relationship to close cousins (i.e., public and civil), is constructive because usurpers (i.e., individuals or organizations claiming to create social impact without actually doing so) can easily co-opt the term by virtue of their intentions rather than as a consequence of their actions. Furthermore, social impact, if neither measurable nor differentiable from conventional entrepreneurship, can and will simply re-create more of the same wicked social and environmental problems (Rittel and Webber 1973) that we aim to address. In addition to practical concerns, given the pre-paradigmatic state of the field, sharper definitions of the social are necessary in order to move theory building forward (Haugh 2012; Nicholls 2010; Santos 2012).

Significant strides have been made in this regard (Austin et al. 2006; Dacin et al. 2010, 2011; Mair 2010; Pless 2012; Santos 2012; Zahra et al. 2009). Santos defines social entrepreneurship as the process of “addressing neglected problems with positive externalities” and value as “the increase in the utility of society’s members” (2012, p. 337). Unlike Eikenberry (2009), Santos abandons the normative quest to determine “what counts as social,” and instead delineates between social and commercial entrepreneurship in terms of ‘value creation’ and ‘value capture’.

Santos also argues that social entrepreneurship entails the pursuit of value creation (i.e., social welfare) while commercial entrepreneurship is motivated by value capture (i.e., individual/organizational profit generation). Admittedly, this line of reasoning places the field of social entrepreneurship squarely in “the mainstream of economic and management thinking” (ibid.). However, rather than avoid use of the term social and refrain from positing a normative theory of social enterprise as Santos recommends, I do both by explicitly acknowledging that the term ‘social’ is normative and by unpacking what values make up the ‘social’ landscape. Furthermore, I argue that as a new field, much of the promise inherent in the study of social entrepreneurship and social enterprise has not only to do with accepting non-economic values and non-economic impact as valid and useful but also with accepting non-economic models of reasoning, justification, and validation as well. Thus, by introducing public value failure theory into the social enterprise discourse, I hope to make the field explicitly more pluralistic and inclusive (Palmas 2012).

### 6.2.1 *Public Value Failure Theory*

The concept of a unified public has been a matter of significant debate by scholars from across the social sciences. In the field of public policy, it is well understood that in order for governments to reach constituents beyond the ‘national majority,’ private, semi-public, and local government actors are needed (Dahl 1995). What is understood is that publics are specific in the problems that they share, and therefore “cannot be general” (Grunig 1992; Grunig and Hunt 1984, p. 138; Theodoulou and Cahn 1995). Bozeman arrived at the following somewhat ‘cumbersome’ definition of value “a complex and broad-based assessment of an object or set of objects (where the objects may be concrete, psychological, socially constructed, or a combination of all three) characterized by both cognitive and emotive elements, arrived at after some deliberation, and because a value is part of the individual’s definition of self, it is not easily changed and has the potential to elicit action” (2007, p. 117). Policymaking is often as much about what is (i.e., evidence) as what should be (i.e., emotion) with emotion sometimes gaining the upper hand (Birkland 2001). Likewise, policy arguments (and academic research) are often ‘strengthened’ by numerical justifications (i.e., quantitative assessments) which can subsequently be used to support normative stances (Paris and Reynolds 1983).

### 6.2.2 *Public Values as Normative*

Despite the powerful rise and dominance of numbers in the policymaking process (Laswell 1988), not all worthwhile arguments can be quantifiably justified. Indeed, “the extension of economic models and reasoning to noneconomic contexts is not often empirically trustworthy. Moreover, its various strategies and criteria for establishing normative premises is both logically and morally suspect in some of its uses, despite its obvious appeal” (Paris and Reynolds 1983, p. 8). Bozeman champions the call for public officials to reframe much of their decision criteria in terms of public values, and to rely less heavily on economic cost-benefit analyses. Bozeman’s conceptualization of value is much broader than economic definitions of the term. In neo-classical economics, knowing what one wants and therefore values (i.e., one’s tastes or utility preferences) requires full rationality. Bounded rationality relaxes these assumptions, allowing for incomplete information and unclear preferences (Simon 1997); however, as a decision-making criterion, it is still grounded in economic individualism.

A public value perspective of social entrepreneurship also aligns with the conditions of (1) increased public awareness and (2) dissonant loyalty that makes up *crecscive entrepreneurship* as outlined by Dorado and Ventresca (2013). This again promotes conditions that “...define the presence of a motivation to advance a public or common instead of a private interest” (p. 78). Building on the work of A. O. Hirschman, these authors argue that increased public awareness adds incentive to social entrepreneurs seeking to legitimize their activities, making them worthy of

social approval. Secondly, they contend that dissonant loyalty acts as an internal driver connecting individual actors with a common collective as a result of institutional conditions. In every sense, the move away from individualist to collective or ‘publicness’ is at the heart of the social enterprise movement. This approach also lends support to Murphy and Coombes’s (2009) definition of social entrepreneurship: “the creation and undertaking of a venture intended to promote a specific social purpose or cause” whereby “social purpose or cause, implicate[s] an underlying range of *basic values* that are desirable and important in a civilized society” [emphasis added] (p. 326).

In this sense, public values are refreshingly normative. Society’s public values are defined as “those providing normative consensus about (a) the rights, benefits, and prerogatives to which citizens should (and should not) be entitled; (b) the obligations of citizens to society, the state, and one another; and (c) the principles on which governments and policies should be based” (Bozeman 2007, p. 13). Any application of public value-failure theory requires a clear understanding of market failure and government failure theory. Based on this analysis, I offer suggestions as to how we can begin thinking about what it means to be social through a public value lens.

### 6.2.3 *Market, Government, and Public Value Failures*

Public values are unique because they are not market-based. Market values are based on the principles of economics, of which the central construct of value is that of substitutability. According to Freeman (1994), economic value can only be understood in a market economy in which products (goods and services) are tradable (bought and sold) and substitutable (goods and services have no inherent value) via monetary exchange. This operationalized definition of economic value helps to clarify why values cannot be fully explained by economic theorizing. For example, not all activity takes place in markets (a mother suckling her child), individuals and societies often value the non-tradable (integrity), many of humankind’s most valuable resources are not replaceable (clean air and water), and monetary valuation is often impossible or at a minimum repugnant (the value of a human life). Argandona says it well: “Values are normative: they tell us how we should behave...Their meaning is objective—we want things that are good and valuable, but things are not good or valuable because we want them...our valuations are subjective—things are valuable for us; we feel the value of things [however]...[w]e cannot be indifferent about them, they demand a response from us—this is what sets them apart from mere tastes or preferences” (2003, p. 16).

While neoclassical economics cannot explain all types of values, as a field it still has significant influence over the value sphere, particularly with regard to the policymaking process. A brief description of market-failure theory will help illustrate this point. Neoclassical economics emerged entirely out of a mathematical model, designed to reconcile the fact-value dichotomy in the sciences (Rosenberg 1992).

Its aim is to provide an explanation of the allocation of resources among producers and consumers in a market-based economy (Dean and McMullen 2007). The most favorable distribution of resources is known as Pareto optimality, which represents the theoretical and moral arrival at a general equilibrium market state, where no one is benefitted without simultaneously harming someone else (Varian 2005). By extension, under perfect market conditions the private sector is considered the best at solving problems. It is important to note however, that Pareto optimality is an ideal state, not a reality.

Markets that diverge from this optimal state result in market failures. In other words, market failures occur where there is an absence of Pareto efficiency. In this respect, there are three types of market failures: (a) information asymmetry (moral hazard or the problem of adverse selection); (b) positive and negative externality (national defense and pollution); and (c) imperfect competition (monopoly). Under these conditions, 'prices lie' and market competition is flawed because a fair and free market is no longer possible (Bozeman 2002). Imperfect market conditions translate into opportunities for entrepreneurial action and profit generation. Thus, gains to trade are seized upon by entrepreneurs when market failures present a departure from Pareto efficiency (Dean and McMullen 2007). However, market failures also offer an opportunity for public intervention (i.e., government) to step in and correct those failures. A brief overview of government failure will help illustrate this point.

Correcting market failures is often referred to as the business of government. The government's role is to reduce and/or improve the market imperfections outlined above. Public policy is designed to increase access to information, eliminate barriers to entry of existing markets and help the economy function optimally. Mirroring traditional market failure approaches, non-market failures like government failures occur when the public intervention into the private sphere creates more inefficiency or socially undesirable outcomes than there would have been had the intervention never taken place (Weimer and Vining 1992; Wolf 1979). There are four types of government failure (social harms caused by government intervention): (a) internalities and private goals (budget growth, i.e., the 'more or new is better' argument); (b) redundant and rising costs (funding unnecessary activities due to the lack of competition); (c) derived externalities (negative unintended consequences of policies aimed at creating greater social good); and (d) distributional inequity (serving particular constituencies to the neglect of others due to increased issue saliency by lobbyists). The keen mind would notice the possibility of having a market failure followed by a government failure, where society is "twice harmed" by private and public activities. More notably, however, this limited interventionist view describes the role of government as 'residual' or secondary to the role of the market (Bozeman 2002, 2007). Thus, in this conceptualization, government intervention is only requested when market efficiency is threatened. Despite this characterization, what governments do that markets cannot is concern themselves with the distribution of market goods and services in society. The fact that government does concern itself with issues of equity and equality (the winners and losers in otherwise 'efficient' market transactions) often means that government interventions are considered

sources of reprieve for ‘unfair’ market outcomes. This apparent dichotomy frames Bozeman’s question/proposition when markets and governments are operating efficiently and effectively: “Is there nonetheless a failure to provide an essential public value?” (2002, p. 150). Like Bozeman, I answer yes, but in turn ask another question: Who is capable of providing essential public values, if not markets or governments? In order to answer this question, I begin by identifying public value failure criteria.

Public value failure theory accounts for the conceptual space between the market and government. It is ‘new’ to the extent that it acknowledges values unrecognized by the traditional market or government failures. A public failure takes place when neither the market nor government provides a good that meets core public values (Bozeman 2002). This definition falls in line with arguments put forth by the author representing several disciplines that private non-profit entities step in to fill gaps unmet by the market or government (Dees 2007; Weisbrod 2000); are solutions to market failures (Ben-Ner and Gui 2003); and are a result of new public management practices (Hood 2005; Lynn et al. 2000; O’Flynn 2007). Public value failure criteria delineate the circumstances under which the public interest is not being met. Bozeman accounts for nine public value failure criteria (2012). I outline these nine public value failures below and provide examples in Table 6.1:

Public values are the lifeblood of a society. Generally speaking, values are expected to vary by region and national context (Salamon et al. 2003), but whatever their form, public values are inherently non-economic. They shape the quality of the lived experience. One can imagine the agents of public value criteria, as those dedicated to serving a protective and defensive role for core or essential values, whether or not they are met by existing institutional frameworks (i.e., governments or markets). While overlaps and correlations may exist between failures (i.e., public value failure: “distribution of benefits” and government failure: “distributional inequity”), this should encourage the reader in knowing that values are not owned by a particular institution. Organizations of any form can theoretically step in and defend values upheld by governments, markets or publics. The argument posed here is that social enterprises, by virtue of the problems they seek to resolve, are the type of organization that often does step in for this very purpose.

#### **6.2.4 Social Enterprise**

Just as public value theory emerged out of government and market failure theory, social enterprise surfaced out of the non-profit and for-profit organizational forms. The term *social entrepreneurship* was first coined by the Ashoka Foundation’s Bill Drayton (Light 2006). Since then, the overlapping and competing definitions of social entrepreneurship and social enterprise have been the source of extensive dialogue and constructive debate (Defourny and Nyssens 2012; Light 2008). Without directly entering into this discussion, a recognizable and notable distinction between social and conventional enterprises has to do with organizational mission

**Table 6.1** Public values failure criteria. (Adapted from Bozeman 2012)

| Criterion   | Definition (examples)  |
|---|--|
| Mechanism for values articulation and aggregation | When political process and social cohesion are limited such that not the communication and processing of public values is ineffective (extreme and opposing views among legislators on civil rights issues)  |
| Legitimate monopolies                             | When private sector provision of goods would be better administered by government monopoly control (privatized clean water sources)  |
| Imperfect public information                      | Lack of transparency leading citizens to making decisions based on incomplete or inaccurate data   |
| Distribution of benefits                          | Benefit hoarding such that goods and services are not distributed equally (restricted access to quality healthcare, financial services or housing)   |
| Provider availability                             | Scarcity of providers when an essential good or service (access to electricity, water, basic quality sanitation) is needed   |
| Time horizon                                      | Short-time horizon, when short-term market success can lead to long term public failure (unsustainable environmental practices, GMO food production, nanotechnology products)  |
| Sustainability vs. conservation of resources      | Distinct, valued common resources should be recognized as such as opposed to being substitutable (biodiversity or when market based thinking on public value harms the public interest e.g. cost-benefit analysis framework designed to measure the value of human life) |
| Ensure subsistence and human dignity              | When nations cannot provide basic dignity and subsistence to its citizens, threatening the interests of individuals and the nation (hunger and malnutrition, political imprisonment, unchecked violations of women and children)   |
| Progressive opportunity                           | Policies that fail to address “structural inequalities” often based on historical differences with regard to access to resources for disadvantaged groups (over imprisonment of the descendants of enslaved Africans in the U.S.)  |

(Alter 2007; Dees 2001). This difference is best illustrated by quoting two Nobel Laureates. In his book *Capitalism and Freedom* (1962, p. 133), Milton Friedman contends: “There is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits.” Forty years later, Muhammad Yunus proposes an alternative view of business in his 2006 Nobel speech (Yunus 2006): “By defining ‘entrepreneur’ in a broader way, we can change the character of capitalism radically, and solve many of the unresolved social and economic problems within the scope of the free market. Let us suppose an entrepreneur, instead of having a single source of motivation (such as, maximizing profit), now has two sources of motivation, which are mutually exclusive,

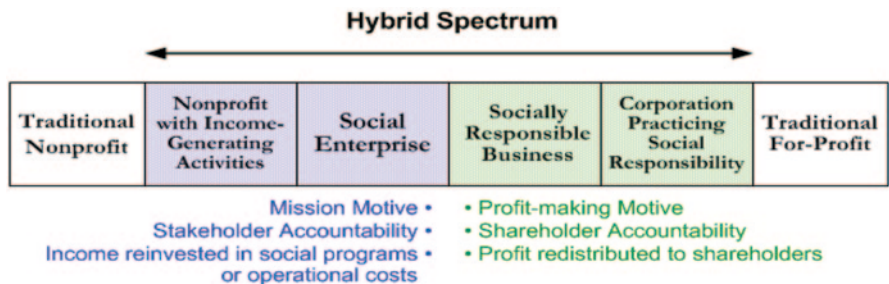


Fig. 6.1 Hybrid enterprise spectrum

but equally compelling—(a) maximization of profit and (b) doing good to people and the world.” Dr. Yunus’s characterization of social entrepreneurs as having a dual-yet-conflicting purpose captures the simultaneous, yet competing social (i.e., mission-oriented) and economic (i.e., profit-oriented) institutional forces that compel us to view social enterprises an ideal type of multidimensional or hybrid organization from.

One of the best ways to operationalize this hybridity is to briefly discuss another dichotomy: for-profit vs. non-profit legal status. Social enterprises are not tied to legal status. Some may incorporate as a non-profit legal entity in order to focus on social needs; others adopt a for-profit legal structure in order to behave competitively in the market. Therefore, while the definition of social enterprise is still highly contested, in the U.S. it is certainly not defined wholly by legal status (Kerlin 2009). In fact, effective social enterprises do not need to be legal entities at all (the informal economy). Nevertheless, within the legal framework of for and non-profit it may be useful to conceptualize social enterprises along a combined legal form-mission spectrum. I find that Alter (2007) provides us with the following useful typology (Fig. 6.1):

In this model, all enterprises fall into one of six categories. On the left of the model are nonprofits, which may or may not engage in commercial activity capable of generating economic value (earned income activities) to fund social programs but whose primary motives are driven by a mission focus. The Girl Scouts, Inc. is an example of a non-profit with income-generating activity (selling cookies). On the right of the model are for-profit enterprises that employ profit-seeking behavior to generate economic value with or without coupling those values with social ones. As a result, classifying enterprises requires defining them according to their objectives (mission or profit motive) and reinvestment practices (programs or shareholders). Better World Books, LLC is an example of a socially responsible business. This company is a for-profit entity that sells books online and donates books to schools and non-profit literacy programs worldwide. They also recycle books that they cannot sell in order to keep them from filling up landfills (meeting triple bottom line standards).

Alter’s spectrum serves as a guide for understanding the nuances of social enterprise activity and does not serve as an absolute reflection of reality. In essence,



the variety of social enterprise types demonstrates that organizations can operate within the market (trading good and services), while simultaneously addressing social needs. I contend that this blending partly usurps the role of government (whose role is to ensure the public good) and expands on conventional or traditional market seeking firms (satisfying the private good) by meeting public value needs thereby creating greater overall ‘social good’ in the process. As a result, social enterprises are at least conceptually linked to public values. Social enterprises are fully capable of using the market to address the unmet public value needs of society. This notion is not far-fetched, as even according to Bozeman, “[a] focus on public values does not necessarily require a rejection of the market failure model...but it does require a willingness and ability to move beyond [it]” (2002, p. 10). I contend that social enterprises move beyond markets and address fundamental societal values of equity and equality. Public values would be considered what Argandona calls “ultimate values,” those values that are often modeled as goals or objectives but that are less subject to change.

### **6.2.5 Opportunity-seeking Behavior**

Arguably, the opportunity dimension of entrepreneurship is the ‘most distinct’ between social and commercial enterprise “owing to fundamental differences in missions and response to market failure” (Austin et al. 2006, p. 6). The claim made in this paper is that social entrepreneurs create public value by seeking out opportunities unattended to by existing institutional structures (Ozgen and Baron 2007; Santos 2012). According to Murphy and Coombes, all entrepreneurship begins with opportunity, and opportunities are “unique to entrepreneurship research” (2009, p. 327). However, unlike traditional entrepreneurship opportunities that derive from ‘longstanding inefficiencies’ (ibid.), social entrepreneurship opportunities derive from longstanding *inequalities* (i.e., reducing financial illiteracy, quality health care for underserved groups, educational opportunities for rural communities, etc.). Unpacking the social aspect will assist entrepreneurs with identifying windows of opportunity when monitoring their environment (Kickul and Lyons 2012).

### **6.2.6 Summary**

Market failures provide opportunities for entrepreneurial action (Drucker 1985), however, as with economic markets, non-market failures, create opportunities for social entrepreneurship. Several authors have identified the “failure” theme in social entrepreneurship (Austin et al. 2006), social enterprise (Dart 2004), and social innovation (Nicholls and Murdock 2012). Most contend to some extent, that public sector and civil society failures create opportunities for social intervention. This chapter extends work along this theme by identifying opportunity creating failures and values created by social interventions using public value failure theory.

### 6.3 Method

At the request of authors like Dacin et al. (2011) I depart from earlier works that focus on the individual level characteristics of heroic social entrepreneurs (Bornstein 2004) but instead focus on their “social value creation mission” (Dacin 2011, p. 1205). These authors suggest beginning with the mission of the social entrepreneurship venture, as it focuses attention on the outcome efforts of the entrepreneur and offers the most promising direction for future research (Dacin et al. 2011). Bozeman proposes beginning with the mission statements of public-serving organizations in order to identify public values (2007). This research looks at the online, publicly available mission statements or the primary organizational objectives or goals of social enterprises with a technological focus. Data are gathered from an earlier study that investigate how technology is used in the social enterprise context (Cozzens & Monroe-White, unpublished). This database was constructed in 2010 and drawn from a snowball sample of 20 top-ranked online website portals (See Table 6.2). These websites catalogued nearly 800 social enterprises from across the globe. Rather than define social enterprise and search for cases in which the definitional criteria were met (i.e., top-down approach), the definition of social enterprise used in this chapter emerged from the data.

The unit of analysis in this study was the organization. A snowball sampling method was used to gather the names and mission statements of 200 social enterprises that fit the technological focus criterion (i.e., where the use, development and/or redistribution of technologies were a focal part of their mission). Technology focus was determined by developing a thematic conceptual matrix of these statements (Miles and Huberman 1994). Technology-focused entrepreneurs in which innovation is highly valued have demonstrated significant, proactive opportunity-seeking behavior (Kickul and Gundry 2000). Likewise, the social innovation literature acknowledges the importance of unpacking the role of technology in social enterprise. Of the three types of social innovation proposed by Nicholls and Murdock (i.e., incremental, institutional and disruptive), institutional innovation necessarily involves the “repositioning new technology or intellectual capital to social rather than purely economic ends” (2012, p. 4). In the analysis of the data, however, a second theme emerged. After combing the 20 website portals and identifying firms with a technology focus, these enterprises were then sorted and grouped based on two sets of common criteria: technology focus (i.e., ICT, electrification, mobile technology, biotechnology, etc.) and target population. The only externally imposed restriction was that all enterprises should identify a target population. Target populations were then grouped together by theme (i.e., women, children, the elderly, rural schools that serve local children, disabled, poor, underemployed, developing country populations, etc.). The vast majority of these enterprises explicitly identified a vulnerable or marginalized<sup>1</sup> group.

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<sup>1</sup> Marginalization is defined as social exclusion and connotes irrelevance by society’s institutions and particularly by the market (Brady 2003).

**Table 6.2** Data collection sources

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|     |   |
|-----|---|
| 1.  | Acumen Fund   |
| 2.  | Ashoka  |
| 3.  | Ashoka-Lemelson Fellows                             |
| 4.  | AshokaTECH  |
| 5.  | B Corp  |
| 6.  | Change.org  |
| 7.  | Draper Richards Foundation                          |
| 8.  | Echoing Green                                       |
| 9.  | Fastcompany   |
| 10. | INSEAD  |
| 11. | Omidyar Network                                     |
| 12. | PopTech   |
| 13. | RISE Columbia                                       |
| 14. | Root Cause  |
| 15. | Schwab Foundation                                   |
| 16. | Skoll   |
| 17. | Social Edge   |
| 18. | The George Foundation’s Women’s Empowerment Program |
| 19. | UN World Summit Youth Awards                        |
| 20. | UnLtd   |

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Organizations excluded from this analysis were environmental enterprises that clearly did not target a specified population. After removing the environmental enterprises from the sample, the remaining 152 enterprises expressed a commitment to two things: serving a particular group and explicitly utilizing, developing, and/or redistributing technologies. With respect to the target populations observed, this snowball sampling technique lent support to the proposition made by Santos (2012): “[s]ocial entrepreneurs are more likely to operate in areas with localized positive externalities that benefit a powerless segment of the population” and the EMES definition of social enterprise offered by Defourny and Nyssens (2012): “[o]ne of the principal aims of social enterprises is to serve the community or a specific group of people” (p. 78) among others. I examined 524 entries on these sites and identified 152 that met both the technological and marginalized group criteria.

Lastly, the social enterprises in this study are all examples of successful organizations, having been supported and recognized as such by established, powerful third party entities (i.e., foundations, fellowship organizations and network builders (Nicholls 2010) (see Table 6.2). Thus, it is important to keep in mind that this sample is limited with regard to its generalizability. The selection criteria of these 20 web portal agencies demonstrate how successful social enterprises are assessed as such. Some data sources focused primarily on individual level characteristics of the entrepreneur as opposed to the accomplishments of the social enterprise. Others were not clear or provided no indication of how their enterprises were selected. Nevertheless, some familiar themes emerged from a review of the readily available

eligibility and selection criteria. Social and/or environmental impact, social change, and innovation were topics shared by most agencies but not all. Others required that their social enterprises target a specific segment of the population, i.e., base-of-the-pyramid consumers. Overall, criteria served as guiding posts for applicants in some instances and as strict eligibility criteria in others. The combination of social entrepreneurs and enterprises created a rich and diverse array of organizations tackling a number of social and environmental problems in new ways.

The benefits of classifying social enterprises by specialized group are that it allowed for the development of a matrix that categorized social enterprises along two dimensions: specialized group and public value focus. The public values criteria are based on Bozeman's public value criteria including "progressive opportunity," which was added to the eight established in his previous work (Bozeman 2002) (see Table 6.1). The specified groups identified could be classified along four dimensions: economic, structural, physical, and developing countries. Again, these classifications emerged from the analysis of the 152 enterprises with a technological focus which served a specialized population. Other enterprises that did not explicitly serve a special group but were recognized as social enterprises by these leading third party agencies primarily consisted of environmental organizations also known as eco-enterprises (Schaper 2005). The implications of removing this group from the list of social enterprises are reviewed in the discussion.

A broad definition of a special marginalized or vulnerable group is used in this study. Economic groups were identified based on income (i.e., the poor, low-income, under-employed or unemployed); structural groups included traditional social organizations like non-profits, health clinics, and schools; physical groups included women, children, the elderly, the disabled or underrepresented racial and/or ethnic groups; lastly, the developing classification included any group based in a developing area including rural populations, villages or and most non-Western countries. This classification scheme does not allow for the development of mutually independent categories, instead using this categorization method, enterprises which targeted multiple specialized groups simultaneously were easily identified. Likewise, this dataset also captured organizations addressing multiple public values as the same time. As such, the public values and groups served by this sample will vary from the total number of social enterprises analyzed (N=152). Social enterprises were categorized as meeting a public value need if the mission, purpose or goal statement indicated as much. The list of public values used in this analysis came from Bozeman's work. Public values were identified via thematic mapping of the public mission statements of the social enterprises in the sample and supported by additional publicly available information found elsewhere on the websites of the organizations in question. A sub-sample of these social enterprises and their public statements is provided in Table 6.3 below.

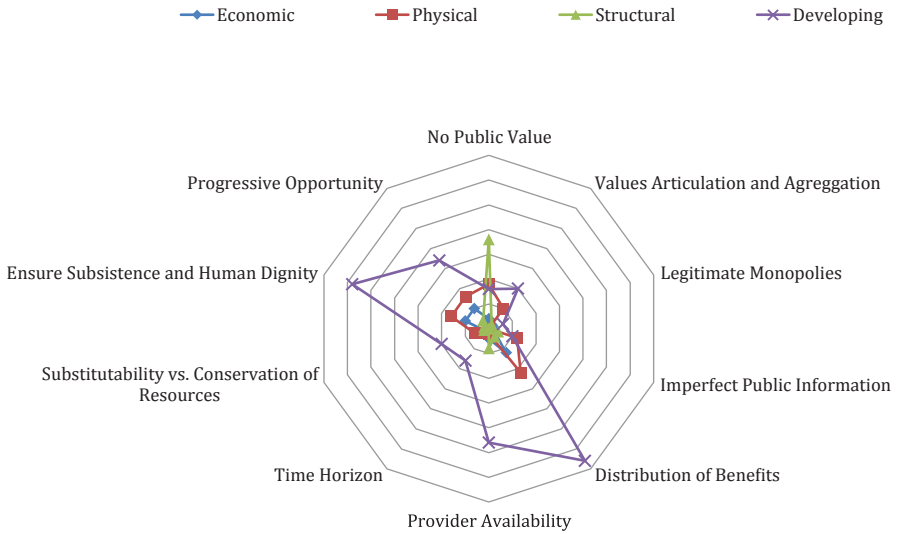


Fig. 6.2 Distribution of public values by marginalized group

### 6.4 Findings

Results lend support for the idea that social enterprises have as a goal, addressing public value failures and/or ensuring essential public values. Table 6.3 and Fig. 6.2 help illustrate this relationship. Fourteen enterprises (9%) served more than one specialized group (for example, economic and physical).

Of the 152 technology-centered social enterprises examined in this study, the author identified 37 (24%) enterprises that did not express a commitment to any of Bozeman’s nine public value criteria in their missions. The remaining 115 enterprises (76%) expressed a commitment to one or more public value criteria. Overall, most social enterprises in this study addressed the public values of distribution of benefits (34%), ensuring subsistence and human dignity (28%), progressive opportunity (21%), and provider availability (20%). This general pattern among the top three values (distribution, subsistence and dignity, and progressive opportunity) was closely followed by social enterprises serving economically and physically marginalized groups as well as those serving developing countries. Most social enterprises serving structurally marginalized groups and organizations on the other hand did not address any public value need at all (67%), followed by 23% of social enterprises serving the physically marginalized, economically marginalized (13%), and 10% of those serving developing countries. Most social enterprises in the sample served developing countries and they were also the organizations firms most likely to meet at least one public value need. While it is useful to point out which values were the most popular, it is also worthwhile to draw attention to empty sets within this sample of technology centered enterprises.

**Table 6.3** Examples of technology based social enterprises and their social purpose statements ( $n=22$ )

|  |   |
|--|---|
| 100 Million Stoves   | ... a simple wireless stove use monitoring system (SUMS) that can be attached to the millions of new low-emission stoves being used in developing regions   |
| AnthroTronix, Inc.   | ... developed technologies to motivate children with disabilities in therapy and education...improving their physical or speech/language abilities  |
| Aurolab  | ...supplies high quality ophthalmic consumables at affordable prices to developing countries  |
| Barefoot college   | ...turns rural school dropouts into “barefoot” doctors, engineers, architects, teachers and IT specialties, bringing the benefits of improved technologies to hundreds of thousands across India  |
| CDI Center for Digital Inclusion (CDI)/Committee for Democracy in Information Technology | ...our mission is to transform lives and strengthen low-income communities by empowering people with information and communication technology   |
| CellBazaar   | ... enables entrepreneurs and small businesses to provide products and services to millions of people in Bangladesh through a mobile phone-based electronic marketplace   |
| NairoBits  | ... set up to create a media channel for the youth, enabling them to express themselves through the internet. Besides boosting the youth’s self-confidence through creative learning, NairoBits also aims to raise the living standard of the disadvantaged youth by providing them with IT skills that give them a better chance on the job market   |
| DMT Mobile Toilets   | ... first manufacturer of mobile toilets in West Africa. DMT manufactures, installs and maintains public toilets in Nigeria through a franchise system  |
| Generations On Line  | Dedicated to internet literacy and access for the paper generation. Generations on Line (GoL) has simplified the Internet for seniors. GoL has created, tested and developed a software program that provides on-screen, step-by step instruction to help people over 65 use the Internet   |
| Human Rights Tech  | We leverage information technology to assist and encourage grassroots anti-poverty initiatives. We do this by training organizations to use the Internet to build capacity, create networks of support and broadcast the voices of poor people. We create web-based collaborative tools, establish community-based networking centers, and develop innovative models of the grassroots use of the Internet. The organization serves poor people and their communities, people of both genders and all races, in rural and urban areas, across the United States |
| Husk Power Systems (HPS)   | ... a for-profit company that’s created a proprietary technology to cost-effectively convert rice husks into electricity. The organization utilizes this technology in the production and operation of 35-100 kW mini power plants that deliver pay-for-use electricity to un-electrified villages in India’s “Rice Belt.”  |

**Table 6.3** (continued)

|                              |   |
|------------------------------|---|
| Iko Toilet                   | Designing technology-enabled sanitation “kiosks” that halt environmental degradation and promote health and social cohesion in Kenyan slum areas  |
| Kiva                         | Kiva’s goal is to reduce global poverty by creating a platform where internet users can lend to and connect with a specific developing world entrepreneur online  |
| Knowbility                   | ...supporting the independence of people with disabilities through barrier-free technology applications   |
| Mideast Youth                | Connect youth from the Middle East and North Africa online to promote human rights, religious freedom, tolerance, and free speech   |
| New Media Advocacy Project   | Empower defenders of human rights and social justice by integrating video and internet social networking into their advocacy strategy, enabling them to win their legal cases and organize communities  |
| ParqueSoft                   | ParqueSoft supports the creation and development of software enterprises in 12 major Colombian cities located along the Valle del Cauca corridor. To date, this network of technology parks includes 200 enterprises, 800 entrepreneurs and more than 400 professionals that provide them with administrative and business development services   |
| Samasource                   | A free phone number (4636) was established to meet urgent needs of Haitian people through SMS messaging   |
| Sana (previously MocaMobile) | ...developed an innovative open source platform that allows mobile phones to capture and send data for an electronic medical record and links community health workers with physicians for real-time decision support   |
| Ushahidi                     | ...a free, open source, Web/mobile-based platform capable of crowd-sourcing, sharing and mapping information in near real time. The project was born as a way to track the atrocities and human rights violations that erupted after the 2008 Kenyan presidential election. Ushahidi has since been used to help monitor elections, respond to humanitarian crises, track swine flu outbreaks, enable citizen journalism and monitor crucial pharmaceutical supply levels |
| WITNESS                      | ...trains and supports people around the world to use video and online technologies to transform personal stories of human rights violations into powerful tools for justice, public engagement, and policy change  |
| Women Make Art               | ...a project which offers digital technology, film, photography and video-related activities for women with physical or mental health problems, or who are disabled or unemployed   |

## 6.5 Conclusion and Discussion

In the foreword of Janelle Kerlin's book *Social Enterprise: A Global Comparison*, Jacques Defourny states that "the most common view of a social purpose or mission is to relieve social problems such as unemployment, poverty, underdevelopment, or handicaps of all kinds, among other factors, which may cause marginalization or exclusion of certain individuals, groups, or large communities" (Kerlin 2009, p. xiii). The findings of this study support this view and suggest further that social enterprises express a commitment to create and/or maintain public values. The most common public value met by the social enterprises in this sample was distribution of benefits. The distribution of public commodities and progressive opportunity criterion both have to do with social inclusion, equity and equality (Cozzens 2007; Cozzens and Kaplinsky 2009). As such, the social enterprises in this study demonstrate a clear commitment to preserving distributional equity and equality.

### 6.5.1 *Structurally Marginalized*

Most structural social enterprises did not explicitly express a commitment to any public value. One explanation may be that these organizations already have a public value motive embedded in them (i.e., education) as a non-profit organization. Therefore, while their mission statements do not reflect a precise public value, their service to the public is embedded in their legal structure.

### 6.5.2 *Economically Marginalized*

In the economically marginalized group the majority of enterprises addressed distributive, subsistence and dignity or progressive opportunity concerns. This can be explained in part by the characteristics of the marginalized group being targeted. Poor, under- or unemployed and low-income populations are likely to benefit most from healthcare access, housing, and financial services typically afforded to wealthier segments of society. Meanwhile, ensuring subsistence and human dignity addresses the hunger and malnutrition needs of this segment of the population. Lastly, the overlap between economically marginalized groups and the progressive opportunity criterion indicate that much of the equity issues in the world today have to do with an inherent structural imbalance that is based on long-standing power differences between groups, whether ethnic, racial or otherwise. These social enterprises then also recognize that those in power tend to remain in power, economically and otherwise. Their intervention would help to alleviate the pressure placed on groups whose opportunity for upward mobility has been thwarted based on these historical differences.



### **6.5.3 *Physically Marginalized***

Social enterprises serving a physically marginalized group expressed commitment to select public values relatively equally. Distribution of benefits was the most common public value criterion expressed by this set of firms, followed by the absence of any public value, enduring subsistence and human dignity and finally progressive opportunity. Social enterprises serving a physically marginalized group often focused on gender, race, ethnicity, or language barriers. Increasing access to services and goods (distribution of benefits) while also creating opportunities for inclusion (progressive opportunity) would naturally be common objectives for these particular kinds of social enterprise. At the same time, a larger portion of these firms did not explicitly address any particular public value commitment. This is also not surprising. For firms that expressly target a marginalized group, that effort in and of itself can be viewed as a sufficient objective. Firms serving physically marginalized groups may also operate in developing countries where the variety of services provided are not narrow enough to warrant specific classification along the lines of public value criteria. In many cases, broad objectives better reflect the variety of skills sought.

### **6.5.4 *Developing Countries***

Social enterprises are often started as complements or substitutes for international development organizations. Others are founded by entrepreneurs who are citizens of the countries they aim to serve. Most of the enterprises in this sample are organizations like these. Whether they were founded within the country they are hoping to serve or started abroad they all served groups developing areas. By far, most of these organizations addressed distribution of benefits, ensuring subsistence and human dignity and provider availability

Ensuring subsistence and human dignity is probably what observers most commonly think of when thinking of development aid (i.e., providing basic for basic human needs including but not limited to water access, food, housing, electricity, etc.). This public value criterion also includes ensuring human dignity, a much more amorphous concept that is up to individual level interpretation. Whether human dignity is achieved through the preservation of culturally relevant practices or empowering women with the power to decide the fate of their unborn child is up to the entrepreneur. Thus, public values can be conflicting and controversial.

### **6.5.5 *No Public Value***

I have briefly discussed the reasons why certain social enterprise groups may not have expressed an interest in creating public value in their mission statements.

However, what was not discussed are the potential reasons why on the whole organizations do not commit themselves to these particular public values. Bozeman admits that public values are not fixed, that they are ambiguous (i.e., have multiple meanings) and are context specific (i.e., vary based on their local context) (Bozeman 2007; and Norton 2005). That is to say, while some of the social enterprises catalogued in this study did not indicate a commitment to a public value, they may be committed to some other public value not yet reflected in Bozeman's nine criteria. Just as the most recent public value criterion, progressive opportunity, was added a decade after Bozeman's initial article outlining the public value failure theory (2002, 2012), so too can social enterprise shed light on new gaps (i.e., uncovering unrecognized public failures) and solve as of yet unpopular or wicked problems (Nicholls and Murdock 2012; Rittel and Webber 1973), thereby creating public value.

### ***6.5.6 Opportunity Recognition***

What is equally interesting are the social enterprises for which there are very few or no actors in that space. This can be partially explained by the fact that our selection criteria for social enterprise was one that targeted a marginalized group, a decision that subsequently excluded those social enterprises focusing primarily on environmental issues. As efforts to conserve resources are typically handled by the latter form of environmental or eco-preneurship based organization, the instances in which this public value criterion was addressed was understandably lower in this sample. On the other hand, a chart like the one in Table 6.4 may prove useful for social enterprises seeking out opportunities to operate. In other words, the public value mapping process and public value criteria can assist with opportunity recognition among social enterprises (a growing area of research in the field) (Lehner and Kaniskas 2012). For example, where there are very few actors (e.g., social enterprises serving an economically marginalized group while meeting the public value criterion of values articulation and aggregation), a social entrepreneur with expertise in both of these fields would be filling a necessary gap. On the other hand, where there are no actors present, a social enterprise, for example, serving a physically marginalized group (gender, race, ethnicity, disability, etc.) and addressing the public value criterion of legitimate monopolies may imply the absence of a public value failure, such that the services of a social enterprise organization might not be needed. A public value mapping process can also aid certifying agencies in the selection of criteria on which to rate social enterprises. The B-Corp certificate, for example, has a complex pre-screening process for its social enterprises to pass before being granted the B-Corp seal of approval. This process is appropriate for larger organizations, but for smaller newly established ones a less rigorous (but no less important) set of criteria based on the realized articulation of public values may help guide their path.

**Table 6.4** Crosstabulation of public values criteria and marginalized groups served

| Marginalized group | No public value | Values articulation and aggregation | Legitimate monopolies | Imperfect public information | Distribution of benefits | Provider availability | Time horizon | Substitutability vs. conservation of resources | Ensure subsistence and human dignity | Progressive opportunity |
|--------------------|-----------------|-------------------------------------|-----------------------|------------------------------|--------------------------|-----------------------|--------------|--|--------------------------------------|-------------------------|
| Economic (n=16)    | 2               | 1                                   | 1                     | 1                            | 6                        | 2                     | 0            | 1  | 5                                    | 5                       |
| Physical (n=40)    | 9               | 5                                   | 0                     | 6                            | 11                       | 1                     | 1            | 3  | 8                                    | 8                       |
| Structural (n=27)  | 18              | 1                                   | 0                     | 2                            | 2                        | 4                     | 0            | 1  | 1                                    | 2                       |
| Developing (n=83)  | 8               | 10                                  | 3                     | 5                            | 33                       | 23                    | 8            | 10   | 29                                   | 17                      |
| Totals             | 37              | 17                                  | 4                     | 14                           | 52                       | 30                    | 9            | 15   | 43                                   | 32                      |

### **6.5.7 Limitations**

There are several limitations worth mentioning in this study. First, data collected for this study are not representative of the social enterprise landscape. Technology-oriented social enterprises are a rare case of social enterprise; as such, the findings in this study may reflect a unique subset of the broader social enterprise spectrum. However, by focusing on technologically centered social enterprises, this study offered the researcher with a feasible source of exploratory data for future investigations of more representative samples of social enterprise.

One of the difficulties with using public mission statements of organizations is that they are an incomplete source of information. Thus, the expression of public value does not necessarily reflect the actions or outcomes of these firms. Relying on the mission statements alone could serve to inflate or deflate the incidence of public values addressed in the sample. However, from a more in depth investigation of the firms in the sample, I am inclined to say that the results deflate the role of public value in the social enterprise mission. In many instances, the firms in which “no public value” was identified, was due largely to the narrowness of the definition offered in the public value criterion. For instance, not all goods are scarce or vital, and in many respects public commodities and services are not the only products (goods or services) that should be equally distributed. In fact, for many social enterprises, access to “unnecessary” goods or services (modern technology, banking services, and other goods) was their primary service. In this way, these social enterprises, while they were excluded from the nine public value classifications, served a combination of needs: those of private citizens (affordable television) as well as public needs (access to clean water).

On the other hand, certain public values that were met by social enterprises negated claims of “failures” in the criteria themselves. For example, the legitimate monopolies criterion states that the private provision of goods and services deemed suitable for government monopoly is a “violation of a legitimate government monopoly” and thus should be considered as a public value failure. However, a number of social enterprises in this study actually intervened to provide access to a good or service (i.e., clear water, housing) that were not being provided by the government. In this case, the private provision of a good was technically a violation, but it also served as a useful substitution of what should have been a legitimate government monopoly.

### **6.5.8 Implications and Future Research**

The aim of this research is to provide a starting point for researchers interested in understanding the different ways in which we can begin to unpack the term ‘social’ in social enterprise. Public values are “the foundation of a society’s social contract, a set of natural rights” (Bozeman 2002, p. 149) and, by redefining the way that problems are framed (i.e., away from an enterprising/economic value perspective

towards a societal/public values perspective), social enterprises remind us of the limitless ways in which these longstanding social issues can be resolved. Not only does this preliminary research provide support for the use of public values by policymakers interested in assessing the impact of social enterprises, it also serves as a guide for social entrepreneurs looking for ways to make a big impact. This research also offers future researchers with fertile ground to conduct more conceptual as well as empirical work on evaluations of the ‘social’ in organizations.

A commitment to public value is a commitment to a social ideal, much like the ideal of a free market (Bozeman 2007). Public values are often complex, competing, and even contradictory. Nonetheless, public value failures occur when markets and governments fail to operate effectively thus creating opportunities for value creation. This research supports the idea that the social enterprise innovation emerged as a unique organizational form to meet essential needs of the public. This formulation reinforces the conceptualizations of the social articulated by the other chapters in this volume.

Globally, social entrepreneurship is a rare phenomenon (Hoogendoorn et al. 2010). Few are able to contend with the multiple and competing institutional forces of social impact and profitable returns, not to mention the various and dynamic sets of public values that are created (or destroyed) in this process. Future research should investigate whether social enterprises or their founders do in fact explicitly seek out public value failures as an opportunity-seeking mechanism. Likewise, it would be useful to investigate whether or not organizations that seek out opportunities to address public value failures are more successful than their non-public value seeking counterparts. While it is the case that the social enterprises in our sample are well recognized, their recognition is not based on monetary success or even standardized social impact assessment criteria.

Data used in this study include social enterprises from across the globe. However, this study does not take into consideration differences in public values in different country contexts. Public values and public value failures are not expected to be uniform across all contexts (Bozeman 2002); and neither are social enterprises (Kerlin 2009). Therefore, future research should investigate the role of country specific public values as a source of opportunity for social enterprise. The approach taken in this study was a rationalist one (i.e., what organizations say they do); future research should take a naturalist stance (i.e., what organizations actually do) and empirically examine the impact of social enterprise at the local, national, and international scale.

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# Chapter 7

## A Replicable Evaluation Method of Social Entrepreneurship Centers and Programs

Noushi Rahman and Rebecca Tekula

**Abstract** Prominent social entrepreneurship centers and programs in North America, Europe, and Asia are examined in terms of their position in the institutional structure, initial and additional funding, teaching initiatives, research achievements, and outreach activities. We computed performance by using a transparent coding scheme. Low correlations with institutional endowment and social entrepreneurship center/program performance offer evidence of discriminant validity of our ranking approach. Performance scores were used to rank-order social entrepreneurship centers/programs. Such an approach to examine social entrepreneurship center/program performance goes beyond the perception-based ranking instruments that popular magazines employ to evaluate subject-specific rankings. We examined data from 28 centers/programs and, in addition to an unweighted approach to ranking, we computed regression-weighted ranking of these centers/programs. The ranking instrument has strong discriminant validity and moderate inter-item reliability. With quickly growing numbers of centers/programs and associated faculty, additional attention and evaluation may be needed for related activities including role modeling, student mentoring by practitioners, and resultant social ventures. Implications for social entrepreneurship centers/programs, social entrepreneurs, social entrepreneurship scholars, and funders are discussed.

**Keywords** Social entrepreneurship · Rankings · University programs

A growing number of universities have started to support the social enterprise movement and the use of business practices and measures in the nonprofit sector. The *Social Entrepreneurship Education Resource Handbook* provides a compilation of social entrepreneurship initiatives at various levels across universities and institutions across the world. Some of these universities have established centers/programs that are dedicated to study social entrepreneurship. These university centers/programs of

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social entrepreneurship comprise only a small percentage of the much larger number of universities and institutions (Brock and AshokaU 2011) that have any involvement in social entrepreneurship (i.e., universities without dedicated centers/programs, but with other smaller scale initiatives are included in the longer list).

Given that social entrepreneurship and social enterprise, as a matter of both practice and research, are still in their adolescence, there exists no formal initiative to evaluate extant social entrepreneurship centers/programs. Understanding the effectiveness of various social entrepreneurship centers/programs is important for social entrepreneurs and social enterprises seeking advice and support, potential funders seeking to optimize the effect of their philanthropy, and universities supporting the operations of these centers/programs. Our instrument can be adopted to validly and reliably evaluate entrepreneurship centers and also various university programs, some of which may have become puppets of the often-arbitrary ratings and rankings offered by many agencies. For social entrepreneurship centers, this formalized evaluation will not only make clear what matters and how much so, but also enable universities to reach out to funders with a more compelling appeal. Another implication of our findings is that centers that are not doing well in their ranks can identify where they are weak and address those issues more constructively.

Published rankings are commonly used to measure educational program effectiveness. However, while perception-based rankings of the quickly growing number of social entrepreneurship programs may soon be forthcoming in popular magazines (e.g., *Bloomberg Businessweek*, *Forbes*, and *US News and World Report*), the aim of this study is to develop a multidimensional transparent metric to evaluate university-run social entrepreneurship centers/programs. We investigate social entrepreneurship and social enterprise centers/programs throughout the United States and abroad. Our findings will help students, faculty, staff administrators, directors and other stakeholders understand how to increase the effectiveness of social entrepreneurship centers/programs.

We evaluate 28 social entrepreneurship centers/programs and build a performance-based ranking method. We test for the internal consistency reliability of our evaluation criteria. The content validity of this method is ensured by the discussion of our criteria with several social entrepreneurship center directors and through social entrepreneurship conference discussion sessions. The eventual outcome is a formalized evaluation of existing social entrepreneurship centers/programs.

## 7.1 Contextual Background

The true emergence of social entrepreneurship education took place only in the very early twenty-first century. Brock (2006), in her *Social Entrepreneurship Teaching Resources Handbook*, listed 11 universities with dedicated centers/programs of social entrepreneurship. Brock and AshokaU (2008), in a subsequent revision of this volume, listed 20 universities or institutes with dedicated centers/programs of social entrepreneurship. In the most recent version of the *Handbook* (2011), the list

of dedicated centers/programs of social entrepreneurship expanded to include 54 such institutions. Indeed, if the current growth trajectory in social entrepreneurship programs continues, an established ranking system becomes even more important. However, this list includes programs that appear to be a single certificate or degree, as opposed to an operating center or a fully functional academic program, which our study intends to analyze. For the purposes of developing a valid and reliable ranking method of social entrepreneurship centers/programs, in late 2009 we collected data on 28 centers/programs that we deemed substantive by either having (a) a dedicated center, or (b) a complete undergraduate or graduate program (i.e., a major, not a minor or informal suite of courses).

The 28 social entrepreneurship centers/programs examined herein were founded with aggregate initial funding of over \$ 53 million, and received additional funding of nearly \$ 8 million during 2008–2009. The increasing popularity of social entrepreneurship and social enterprise at universities is also evidenced by the growth in the number of staff and faculty positions. These centers/programs sponsored over 140 courses in 2008–2009, with over 250 associated faculty members (Brock and AshokaU 2008). Brock and AshokaU (2011) reported that there were over 500 associated faculty members in the social entrepreneurship area.

Brock and Steiner (2009) offer an examination of definitions of social entrepreneurship and analyze the core elements of social entrepreneurship education. Brock and AshokaU (2008, 2011) have aggregated lists of courses, faculty and resources for teachers and practitioners of social entrepreneurship and social enterprise. In the most recent version of the *Handbook*, Brock and AshokaU (2011) have suggested that institutional excellence in social entrepreneurship can be evaluated in six categories: (1) teaching and curriculum, (2) research, (3) applied learning and apprenticeship, (4) resources, (5) role models, and (6) community and culture. The validity and reliability of these categories as appropriate evaluation criteria were not reported, but are presented as based on the experiences with Ashoka Fellows and other practitioners. While these reports have made valuable contributions to a field that is in its nascent phase, more empirically grounded research is needed to *evaluate* and *measure* the relative performance of the quickly growing number of funded and staffed centers/programs dedicated to researching and promoting social entrepreneurship at universities globally.

Extant research on program rankings has focused on *entrepreneurship* education, programs and centers, but little research to date has focused on the evaluation of *social entrepreneurship* centers and programs. According to Vesper and Gartner (1997, p. 403), “The top seven criteria suggested for ranking entrepreneurship programs were courses offered, faculty publications, impact on community, alumni exploits, innovations, alumni start-ups, and outreach to scholars.” However, in their study of 146 entrepreneurship centers, Finkle et al. (2006, p. 184) found that “top-ranked centers have three times as many endowed chairs as nonranked centers. Top-ranked centers also offer more comprehensive graduate programs.” The implication seems to be that more resource-endowed centers will be more productive. Thus, we consider the initial and additional funding as proxies for center/program strength. In addition to funding size, structural distance from the institutional power

core is an often-neglected dimension of program strength. Thus, we account for this aspect by calculating the structural distance of social entrepreneurship centers/programs from the power core.

Given the lack of research on social entrepreneurship programs, and the enormous growth of social entrepreneurship and social enterprise education throughout the world, we surveyed the social entrepreneurship and social enterprise centers/programs in the United States and abroad. To date, this is the first attempt to rank and analyze these centers/programs in the literature.

## 7.2 Developing the Ranking Instrument

Our instrument is designed to rank only centers/programs fully or partially dedicated to social entrepreneurship. In our first step to devise a ranking system, with an eye towards past categorizations (e.g., Brock and AshokaU 2011), we qualitatively assessed the various activities that 28 social entrepreneurship centers/programs engaged in and noted the resources that are needed to succeed in such activities. Table 7.1 presents the 28 evaluated centers/programs, in alphabetical order.

The four categories we established are (1) Outreach, (2) Teaching, (3) Research and (4) Strength. The measures included within these four categories cover all of the six elements presented by Brock and AshokaU (2011), and we include additional information on institutional level and funding, both of which are important factors in sustaining and embedding a program or center. Social entrepreneurship centers/programs aim to help social entrepreneurs through various facilitating roles such as incubator services, sponsoring business pitch/plan competitions, and hosting conferences and symposia. We include these elements under the Outreach category. Besides such outreach activities, social entrepreneurship centers/programs may also offer formal courses (i.e., Teaching category) and sponsor scholarly research published or presented in various social entrepreneurship venues (i.e., Research category). To succeed in such activities, social entrepreneurship centers/programs must be supported by considerable initial and ongoing funding. Also, in order to execute its strategies, the center/program must have considerable organizational power. The relative influence of the center/program is closely linked to its proximity to the power core (i.e., a program that is a part of a center, which in turn is a part of school that is part of the university, is much farther away from the power core than a center which reports directly to the university). We include these elements under the Strength category. Table 7.2 offers details on the nine-item instrument.

The strength category covers three items: level of affiliation, amount of initial funding, and amount of ongoing funding in the past 2 years. While funding announcements are positive and are usually publicly disclosed, we found that some institutions were reluctant to share this information. However, since updating publicly available data is not only an obligation, but also a privilege for social entrepreneurship centers/programs considered in this study, we included non-respondent social entrepreneurship centers/programs and ranked them along with social

**Table 7.1** Alphabetical list of the evaluated centers/programs

| Center/Program  | University                                | Country   |
|---|---|-----------|
| Canadian Centre for Social Entrepreneurship                     | University of Alberta                     | Canada    |
| Center for Nonprofit Management                                 | Northwestern University                   | USA       |
| Center for Social Entrepreneurship                              | Miami University of Ohio                  | USA       |
| Center for Social Entrepreneurship and Service-Learning         | Belmont University                        | USA       |
| Center for Social Innovation                                    | Stanford University                       | USA       |
| Center for Social Innovation                                    | Adelphi University                        | USA       |
| Center for Social Value Creation                                | University of Maryland-College Park       | USA       |
| Center for Sustainable Enterprise                               | University of North Carolina, Chapel Hill | USA       |
| Center for the Advancement of Social Entrepreneurship           | Duke University                           | USA       |
| David O'Brien Center for Social Enterprise                      | Concordia University                      | Canada    |
| Fowler Center for Sustainable Value                             | Case Western Reserve University           | USA       |
| Global Center for Social Entrepreneurship                       | University of the Pacific                 | USA       |
| Helene and Grant Wilson Center for Social Entrepreneurship      | Pace University                           | USA       |
| INSEAD Social Entrepreneurship Program                          | INSEAD                                    | France    |
| Johnson Center for Philanthropy                                 | Grand Valley State University             | USA       |
| Lewis Institute for Social Entrepreneurship                     | Babson College                            | USA       |
| Mandel Leadership Foundation Center for Social Entrepreneurship | Ben-Gurion University                     | USA       |
| Midwest Center for Nonprofit Leadership                         | University of Missouri, Kansas City       | USA       |
| Nonprofit Center  | La Salle University                       | USA       |
| NUS Center for Social Entrepreneurship and Philanthropy         | National University of Singapore          | Singapore |
| Program on Social Enterprise                                    | Yale University                           | USA       |
| RGK Center for Philanthropy and Community Service               | University of Texas, Austin               | USA       |
| Schulich's Sustainable Enterprise Academy                       | York University                           | Canada    |
| Skoll Centre for Social Entrepreneurship                        | Oxford University                         | UK        |
| Social Enterprise Initiative                                    | Harvard University                        | USA       |
| Social Enterprise Institute                                     | Northeastern University                   | USA       |
| Social Enterprise Program                                       | Columbia University                       | USA       |
| Stewart Satter Program  | New York University                       | USA       |

entrepreneurship centers/programs that confirmed and/or updated their information. Among the strength items, data on affiliation level was determined by analyzing the organizational hierarchy of each center/program within its university. If the social entrepreneurship center/program was supervised at the university level, then a raw score of "2" was given; if the center/program was supervised at the school level, then a raw score of "1" was given; if the center/program was supervised at a level below the school level, then a score of "0" was given. Initial funding data is retrievable by searching (a) webpage of the center/program, (b) press releases, and (c) Lexis-Nexis (keyword: *center/program name* and/or *institution name*). Additional

**Table 7.2** Social entrepreneurship center/program ranking instrument

| Items                        | Categories | Coding mechanism   | Source   |
|------------------------------|------------|--|--|
| Affiliation level            | Strength   | University level = 2; School/Unit level = 1; Below School/Unit level = 0                     | Institutional website  |
| Initial funding              | Strength   | Total initial funding in US \$   | Center/Program webpage; institutional press release; Lexis-Nexis                       |
| Additional funding           | Strength   | Total additional funding in two recent calendar years  | Center/Program webpage; institutional press release; Lexis-Nexis                       |
| SE courses                   | Teaching   | Count of SE courses (generic foundation courses are not counted) (multiple raters preferred) | Center/Program webpage   |
| SE faculty/fellows           | Teaching   | Count of SE faculty or fellows (faculty can be engaged in teaching or research)              | Center/Program webpage   |
| SE books/articles            | Research   | Count SE books + Count of SE articles  | Google Books; Business Source Premier  |
| SE conference papers         | Research   | Count of SE conference academic papers   | 3 academic conferences: Satter (NYU), CASE (Duke), and SERC (Oxford) [ISIRC from 2010] |
| SE conferences/symposia      | Outreach   | Count of SE conferences + count of SE symposia (academic or non-academic)                    | Center/Program webpage   |
| SE incubators/business plans | Outreach   | Count of SE incubators + count of SE business plan competitions                              | Center/Program webpage   |

funding data for the last 2 years was also gathered using the same method. During the month-long phone and email survey phase of this study, first-hand updates from centers/programs were useful in populating the funding columns.

The Teaching category includes two items: number of social entrepreneurship courses and number of social entrepreneurship associated faculty. Of the many courses that each center/program offers, not all are on the topic of social entrepreneurship. We subjectively evaluated all such courses to determine the list of social entrepreneurship courses per center/program. Data on courses and affiliated faculty were retrieved from the website of each center/program.

The Research category covers two items: number of social entrepreneurship papers published in peer-reviewed journals and book chapters, and number of social entrepreneurship papers presented. For published papers, we used *Business Source Premier* as our source database and searched for all papers with any of the following keywords: *social entrepreneurship* and *social enterprise*. Data on these are based on a simple count of publications or presentations by scholars in the journals, books, and pre-specified conferences. We specified the domain of social entrepreneurship paper presentations to include the following academic conferences: Satter (NYU), CASE (Duke) and SERC

**Table 7.3** Regression-based relative weights

| Ranking items              | Beta         | Significance | t-Statistic | Relative weight (%) |
|----------------------------|--------------|--------------|-------------|---------------------|
| Affiliation level          | 0.218        | 0            | 11.293      | 12.46               |
| Initial funding            | 0.261        | 0            | 10.287      | 11.35               |
| Additional funding         | 0.184        | 0            | 9.516       | 10.50               |
| SE courses                 | 0.23         | 0            | 9.835       | 10.85               |
| SE faculty/fellows         | 0.235        | 0            | 9.901       | 10.92               |
| SE books/articles          | 0.229        | 0            | 6.847       | 7.56                |
| SE conference papers       | 0.177        | 0            | 5.491       | 6.06                |
| SE conferences/symposia    | 0.356        | 0            | 13.694      | 15.11               |
| SE incubator/business plan | 0.312        | 0            | 13.757      | 15.18               |
| Constant                   | 0.129(0.017) | 0.853        | -0.188      |                     |
|                            |              |              | Total       | 100                 |

(Oxford). Multiple authors were counted only once for each associated center/program (i.e., two authors from one center/program were counted as one publication).

The Outreach category includes two items: number of social entrepreneurship conferences or social entrepreneurship symposia hosted in the past year and number of business plan/pitch competitions in the past year. With various social entrepreneurship centers/programs focusing on subtly different activities, it is critical to keep the outreach items broad in nature. Data on outreach activities were retrieved from the website of each program. The March 2008 version of Brock and *Ashoka's Social Entrepreneurship Teaching Resources Handbook* was used to crosscheck the information.

Once the secondary data was collected, each social entrepreneurship center/program was contacted for verification. During this month-long phase, 17 of the 28 centers/programs responded; 16 either confirmed or updated their information, and one claimed the secondary data was mostly incorrect yet did not offer any evidence-based updated information. We audited the updated data provided to us by the 16 centers/programs to ensure accuracy before entering into our dataset. For the remaining 12 social entrepreneurship centers/programs, we used unconfirmed data gathered by the methods detailed above.

Considering the infancy of social entrepreneurship education, it is not surprising that there were only 28 social entrepreneurship centers/programs dedicated to social entrepreneurship education (i.e., this list was compiled in 2010). Of these, 22 are located in the United States, and 6 were abroad (5 in Europe and 1 in Asia). Ranks were determined in two ways: (1) assigning equal weights to the nine items and (2) determining regression-based weights for the items. For the latter method, we regressed our nine ranking criteria against our computed rank. The t-statistics for the nine items were scaled to percentage points (see Table 7.3 for regression-based weights), which were multiplied to the respective items to compute the regression-weighted scores of each item.

Tables 7.4 and 7.5 report on the pairwise correlations among rank and instrument items. While within each category the inter-item correlations are moderate to high, between categories the inter-item correlations are relatively lower.

Table 7.4 Pairwise Pearson correlations of weighted rank and all items

|                                 | Mean  | Standard deviation | 1                   | 2                 | 3                 | 4                 | 5                 | 6                 | 7                  | 8                 | 9                  | 10 |
|---------------------------------|-------|--------------------|---------------------|-------------------|-------------------|-------------------|-------------------|-------------------|--------------------|-------------------|--------------------|----|
| 1 Unweighted rank               | 0.533 | 0.283              |                     |                   |                   |                   |                   |                   |                    |                   |                    |    |
| 2 Affiliation level             | 0.643 | 0.356              | -0.169<br>(0.390)   |                   |                   |                   |                   |                   |                    |                   |                    |    |
| 3 Initial funding               | 0.175 | 0.302              | -0.536**<br>(0.003) | 0.364<br>(0.057)  |                   |                   |                   |                   |                    |                   |                    |    |
| 4 Additional funding            | 0.084 | 0.202              | -0.281<br>(0.147)   | -0.135<br>(0.494) | 0.353<br>(0.065)  |                   |                   |                   |                    |                   |                    |    |
| 5 SE courses                    | 0.3   | 0.261              | -0.354<br>(0.065)   | -0.203<br>(0.301) | -0.244<br>(0.211) | -0.193<br>(0.325) |                   |                   |                    |                   |                    |    |
| 6 SE faculty/fellows            | 0.192 | 0.249              | -0.481**<br>(0.010) | 0.389*<br>(0.041) | 0.349<br>(0.069)  | -0.085<br>(0.669) | 0.292<br>(0.132)  |                   |                    |                   |                    |    |
| 7 SE books/articles             | 0.098 | 0.239              | -0.418*<br>(0.027)  | -0.171<br>(0.385) | 0.095<br>(0.631)  | 0.236<br>(0.226)  | -0.101<br>(0.611) | 0.194<br>(0.322)  |                    |                   |                    |    |
| 8 SE conference papers          | 0.085 | 0.207              | -0.403*<br>(0.033)  | -0.013<br>(0.947) | 0.038<br>(0.848)  | 0.181<br>(0.357)  | -0.09<br>(0.651)  | -0.044<br>(0.824) | 0.783**<br>(0.000) |                   |                    |    |
| 9 SE conferences/symposia       | 0.285 | 0.357              | -0.727**<br>(0.000) | -0.139<br>(0.481) | 0.355<br>(0.063)  | 0.173<br>(0.380)  | 0.316<br>(0.101)  | 0.034<br>(0.863)  | 0.023<br>(0.908)   | 0.102<br>(0.607)  |                    |    |
| 10 SE incubators/business plans | 0.286 | 0.371              | -0.478*<br>(0.010)  | -0.25<br>(0.199)  | -0.046<br>(0.818) | -0.089<br>(0.654) | 0.403*<br>(0.033) | 0.09<br>(0.647)   | -0.067<br>(0.734)  | -0.146<br>(0.459) | 0.549**<br>(0.002) |    |

\*p&lt;05

\*\*p&lt;.01

\*\*\*p&lt;.001



**Table 7.5** Pairwise Pearson correlations of weighted rank and all items

|                                 | Mean   | Standard deviation | 1                   | 2                 | 3                 | 4                 | 5                 | 6                 | 7                  | 8                 | 9                  |
|---------------------------------|--------|--------------------|---------------------|-------------------|-------------------|-------------------|-------------------|-------------------|--------------------|-------------------|--------------------|
| 1 Weighted rank                 | 49.391 | 26.317             |                     |                   |                   |                   |                   |                   |                    |                   |                    |
| 2 Affiliation level             | 0.073  | 0.03               | -0.087<br>(0.658)   |                   |                   |                   |                   |                   |                    |                   |                    |
| 3 Initial funding               | 0.02   | 0.034              | -0.486**<br>(0.009) | 0.167<br>(0.395)  |                   |                   |                   |                   |                    |                   |                    |
| 4 Additional funding            | 0.009  | 0.021              | -0.275<br>(0.156)   | -0.104<br>(0.599) | 0.357<br>(0.062)  |                   |                   |                   |                    |                   |                    |
| 5 SE courses                    | 0.032  | 0.028              | -0.395*<br>(0.038)  | -0.199<br>(0.310) | -0.244<br>(0.211) | -0.195<br>(0.320) |                   |                   |                    |                   |                    |
| 6 SE faculty/fellows            | 0.021  | 0.027              | -0.438*<br>(0.020)  | 0.033<br>(0.867)  | 0.352<br>(0.066)  | -0.083<br>(0.674) | 0.29<br>(0.135)   |                   |                    |                   |                    |
| 7 SE books/articles             | 0.007  | 0.018              | -0.275<br>(0.157)   | -0.16<br>(0.416)  | 0.096<br>(0.627)  | 0.235<br>(0.230)  | -0.103<br>(0.603) | 0.192<br>(0.328)  |                    |                   |                    |
| 8 SE conference papers          | 0.005  | 0.013              | -0.234<br>(0.231)   | 0.076<br>(0.702)  | 0.038<br>(0.847)  | 0.178<br>(0.365)  | -0.092<br>(0.640) | -0.046<br>(0.817) | 0.784**<br>(0.000) |                   |                    |
| 9 SE conferences/symposia       | 0.043  | 0.054              | -0.798**<br>(0.000) | -0.021<br>(0.916) | 0.354<br>(0.064)  | 0.176<br>(0.369)  | 0.314<br>(0.104)  | 0.035<br>(0.858)  | 0.021<br>(0.917)   | 0.098<br>(0.618)  |                    |
| 10 SE incubators/business plans | 0.043  | 0.056              | -0.631**<br>(0.000) | -0.195<br>(0.320) | -0.047<br>(0.810) | -0.086<br>(0.663) | 0.403*<br>(0.034) | 0.09<br>(0.650)   | -0.067<br>(0.734)  | -0.146<br>(0.457) | 0.550**<br>(0.002) |

\*p<.05

\*\*p<.01

\*\*\*p<.001

**Table 7.6** Discriminant validity

|                                    | Unweighted score | Unweighted rank | Weighted score | Weighted rank |
|------------------------------------|------------------|-----------------|----------------|---------------|
| Institutional endowment            | 0.02             | 0.02            | 0.05           | -0.1          |
| Institutional student<br>body size | -0.18            | 0.24            | -0.17          | 0.2           |

We rank ordered the social entrepreneurship centers/programs as determined by (a) equally weighted ranking criteria and (b) regression-determined weights of the ranking criteria. The unweighted scores and the weighted scores have a correlation of 0.83; the unweighted ranks and the weighted ranks have a correlation of 0.82. We believe that the weighted approach offers a more accurate picture of the social entrepreneurship center/program ranking. We feel it would be against the spirit of this research to present the actual rank order of the social entrepreneurship centers/programs, as it will shift focus from the development of our ranking instrument to the ranking outcome.

### 7.3 Validity and Reliability

Previous rankings of entrepreneurship centers have reported a high correlation with institutional endowment (Finkle et al. 2006). When a ranking instrument measuring academic center/program strength and performance yields ranks that highly correlate with institutional endowment or university student body size, that instrument has weak discriminant validity. Of existing ranking approaches, even the most sophisticated (e.g., *Financial Times* full-time MBA rankings) do not test for their validity or reliability. We addressed these gaps by testing for the discriminant validity and internal consistency reliability of the instrument. For discriminant validity, we examined whether a weak correlation existed between performance score/rank of social entrepreneurship centers/programs and institutional endowment/student body size. The correlations between unweighted scores/ranks and institutional endowment/student body size range from 0.02 to 0.24. The correlations between weighted scores/ranks and institutional endowment/student body size range from 0.05 to -0.17. The low correlations evident in Table 7.6 suggest that our instrument has sufficient discriminant validity.

To test for internal consistency reliability, we computed Cronbach's alpha for the three Strength items, two Teaching items, two Research items, and two Outreach items in our social entrepreneurship center/program ranking instrument. Cronbach's alpha of the three Strength items (i.e., affiliation level, initial funding, and additional funding) is 0.42; Cronbach's alpha of the two Teaching items (i.e., social entrepreneurship related courses and social entrepreneurship faculty/fellows) is 0.45; Cronbach's alpha of the two Research items (i.e., social entrepreneurship books/articles and social entrepreneurship conference papers) is 0.87; and Cronbach's alpha of the two Outreach items (i.e., social entrepreneurship conferences/

symposia and social entrepreneurship incubator/business plan competition) is 0.71. These statistics suggest that internal consistency reliability is adequate for the research and outreach items. However, the strength and teaching items have inadequate reliability in our instrument's current version. While revising the strength and teaching items to improve their respective Cronbach's alpha score is a possible avenue forward, the logical connection of the strength items and the teaching items suggest no conceptual reason to discard these items right away. Rather, we believe that a more realistic approach would be to simply acquire data on additional social entrepreneurship centers/programs (as they are established) and re-compute the internal consistency reliability of the strength and teaching items.

## 7.4 Discussion and Conclusion

Until now there existed no formal initiative to evaluate extant social entrepreneurship centers and programs. Herein we examined centers and programs in terms of their position in the institutional structure, initial and additional funding, teaching initiatives, research achievements and outreach activities. With this data, we computed the performance of social entrepreneurship centers and programs by using a transparent coding scheme. Our approach to examining these centers/programs goes beyond the perception-based ranking instruments that popular magazines employ to evaluate subject-specific rankings. In our analysis, low correlations with institutional endowment and social entrepreneurship center/program performance offer evidence of discriminant validity of our ranking approach. In addition to an unweighted approach to ranking, we also computed regression-weighted ranking of these centers/programs.

Previously, compilation efforts like the Social Entrepreneurship Education Resource Handbook (Brock and AshokaU 2011) offered an overview of the state of social entrepreneurship. The *Handbook* provides various lists of global universities with centers, initiatives, masters, minors and certificates in social entrepreneurship, and goes so far as to present "six elements of excellence" (p. 11), which are based on the experience of and with Ashoka Fellows and practitioners. All six of these elements are considered in our evaluation method. However one particular element which demands more exploration is what we would term *mentoring* and which Brock and AshokaU call *role models*. This type of resource or service proves difficult to measure quantitatively. While centers/programs may invite speakers and nurture relationships with social entrepreneurs, it is difficult to weigh the meaningful impact and connection that these individuals are making, in particular with the students involved in the centers. It is not rare to see a speaking engagement at a university where the speaker is relatively isolated from student contact, or a practitioner relationship that is solely with organizational leadership in lieu of students. There is only anecdotal information available on institutionalized mentoring programs within these centers; therefore, this may be an area for future exploration and may merit student survey.

The performance and achievement of a social entrepreneurship center/program can be captured by a number of criteria: citation count (i.e., in *Google* and *Google Scholar*, *Lexis-Nexis*, etc.), funds generated over and beyond initial seed money, publications (i.e., in books, journal articles, proceedings, and conferences), number of courses introduced, number of social entrepreneurs brought in as residents/in-house, number of seminars/conferences per year, etc. Our social entrepreneurship ranking system has nine items, which are grouped into four categories. Additional items may be added to refine or grow these categories to include activities such as mentoring, role models, and resultant social ventures. Also, as social entrepreneurship centers/programs evolve over the years and their operational scope increases, a new category of items may be added to properly rank social entrepreneurship centers/programs.

Social entrepreneurship's status as a distinct subject area has recently come under scrutiny (Dacin et al. 2010; Dacin et al. 2011). Based on a detailed review of the literature on social entrepreneurship, Dacin et al. (2010) argue that "while it is not a distinct type of entrepreneurship, researchers stand to benefit most from further research on social entrepreneurship as a context in which established types of entrepreneurs operate." While it is unlikely that social entrepreneurship centers/programs would operate in a sufficiently different manner than traditional entrepreneurship centers/programs, the teaching, research, and practice of social entrepreneurship may not necessarily coincide with the teaching, research, and practice of traditional entrepreneurship within academia. Whether entrepreneurship center/program rankings will strongly correlate with social entrepreneurship center/program rankings is an interesting empirical question that can be addressed in future research utilizing the ranking method presented here.

Social entrepreneurship centers/programs are a relatively new phenomenon in colleges and universities. Our transparent instrument underscores the dimensions along which social entrepreneurship centers/programs can work and make their mark. In addition to the performance dimensions, we include in our ranking a resource dimension, which is important because initial and ongoing external funding is critical to achieve various outreach, teaching, and service activities. Future research might examine the relative efficiency of various social entrepreneurship centers/programs by computing the return on investment of the centers/programs which may include a measure of the number and success of resultant social ventures.

Understanding the effectiveness of various social entrepreneurship centers will advance social entrepreneurship practice and scholarship. In developing an instrument to evaluate social entrepreneurship centers/programs, we fully disclosed our criteria, data sources, and coding scheme, to ensure complete transparency. Transparency of the instrument should not only assuage concerns for self-serving bias, but also allow others to readily utilize this instrument to expand on our data coverage into the future as more social entrepreneurship centers/programs are founded.

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**Part III**  
**Social Entrepreneurship**  
**and Global Change**

# Chapter 8

## Innovation Ecosystems in Brazil: Promoting Social Entrepreneurship and Sustainability

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**Abstract** We highlight cases of organizations that promote social entrepreneurship and sustainability in Brazil through initiatives that support the ecosystem of innovation. An innovation ecosystem comprises not only the core innovator, but also stakeholders including suppliers, customers, and organizations that develop the infrastructure or provide complementary services in different industries or communities. From the perspective of an innovation ecosystem, it is important to consider not only how an individual or organization solves innovation challenges, but also how this individual or organization interacts with stakeholders and organizational partners to stimulate innovation. The chapter focuses on two cases that showcase two sets of concerns: innovation and sustainability in the value chain; and social entrepreneurship and microfinance. These cases suggest that organizations supporting social innovation ecosystems can foster the startup and growth of social enterprises. These cases may serve as a guide for how other organizations can develop their own approaches to enrich their local innovation ecosystems. This chapter offers a novel approach to the understanding of social entrepreneurship in the context of an emerging economy by addressing the connection between innovation ecosystems and social entrepreneurship.

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**Keywords** Innovation ecosystem · Social entrepreneurship · Sustainability · Brazil

## 8.1 Introduction

In this chapter, we offer a novel approach to the understanding of social entrepreneurship in the context of an emerging economy by addressing the connection between innovation ecosystems and social entrepreneurship. To date, the literature on innovation ecosystems has generally focused on for-profit organizations (Autio and Thomas 2013). This study begins to bridge this gap in the literature by addressing innovation ecosystems in the context of social entrepreneurship.

The burgeoning field of social entrepreneurship has witnessed the development of new organizational forms involved in the practice of social entrepreneurship. This chapter presents two cases of organizations that promote social entrepreneurship and sustainability in Brazil through initiatives that support the ecosystem of innovation. From the perspective of an innovative ecosystem, it is important to consider not only how an individual or organization solves innovation challenges, but also how this individual or organization interacts with stakeholders and organizational partners to stimulate innovation.

Our methodological approach is the case study method (Yin 2005). This chapter presents two cases. Our first case addresses innovation and sustainability in the value chain. The data for this case came from the organization in the case (*Fundacao Getulio Vargas*), collected by three of the co-authors who were directly involved in the design and implementation of the project in the case. Our second case addresses social entrepreneurship and microfinance. The data for this case came from a detailed review of published sources. These cases may serve as a guide for how other organizations can develop their own approaches to enrich their local innovation ecosystems.

This chapter has the following structure: First, we review the literature on innovation ecosystems and social entrepreneurship. Second, we present our two cases: “Innovation and Sustainability in the Value Chain,” and “Social Entrepreneurship and Microfinance.” Third, we describe our conclusions, highlighting the ways in which the organizations in these two cases have promoted social entrepreneurship.

## 8.2 Innovation Ecosystems

The term “ecosystem” has been used in practice by social entrepreneurs, business practitioners, and organizations (e.g., Lampinen 2011) such as Endeavor, a nonprofit that focuses on catalyzing high-impact entrepreneurship. Scholars in the fields of innovation and strategy have dedicated increasing attention to the concept of ecosystem (Adner 2006). Complementary streams of studies based on different theoretical approaches have contributed to the understanding of innovation ecosystems (Autio and Thomas 2013).

An *innovation ecosystem* can be understood as a network of interconnected organizations organized around a focal organization, which incorporates producers



and users who create value through innovation (Autio and Thomas 2013, p. 3). Some companies have developed collaborative engagements involving economic transactions and institutional arrangements between suppliers and users (Normann and Ramirez 1993; Stabell and Fjeldstad 1998). In an increasingly interconnected world, some firms are able to create value that no single organization could do alone by coordinating innovation ecosystems. The innovation ecosystem perspective highlights that it is important to examine not only the core innovator individually, but also its interaction with suppliers, customers, and organizations providing complementary services to stimulate innovation (Adner and Kapoor 2010; Iansiti and Levien 2004).

Interdependence and collaboration among organizations are typical features of ecosystems. Adner (2006, p. 98) states that ecosystems entail “collaborative arrangements” through which firms combine their individual offerings. Wincent et al. (2010, p. 599) state that “strategic networks” focus on the achievement of “shared goals through collective efforts.” Gawer and Cusumano (2008, p. 28) emphasize that a focal firm or “platform leader” may work with companies supplying complementary products and services, and thereby form an ecosystem of innovation that is mutually beneficial to the organizations involved.

The literature on innovation ecosystems has evolved from a body of research on related concepts including business ecosystem, value network, and strategic network (Autio and Thomas 2013). Moreover, scholars have used the perspective of ecosystem in the field of entrepreneurship. For instance, Zacharakis et al. (2003) have described an ecosystem as the infrastructure of knowledge, technical skills, and financial support that facilitates entrepreneurship in a region.

An ecosystem may have a particular emphasis on value creation and innovation. Moore (1993, p. 76) states that a “business ecosystem” entails the notion that “companies coevolve capabilities around a new innovation...and eventually incorporate the next round of innovations.” Christensen and Rosenbloom (1995, p. 234) suggest the term “value network” to describe the context within which firms identify and develop solutions to create value. Autio and Thomas (2013, p. 3) suggest that the underlying purpose of an ecosystem is to create value through innovation (Autio and Thomas 2013).

However, the literature on ecosystems has typically focused on for-profit organizations. For instance, Jarillo’s (1988, p. 32) concept of “strategic networks” describes “purposeful arrangements among distinct but related for-profit organizations.” There is a scarcity of studies in the literature on ecosystems that address the context of nonprofit organizations and social enterprises. In this study, we begin to bridge this gap in the literature by addressing the connection between innovation ecosystems and social entrepreneurship.

### 8.3 Social Entrepreneurship and Sustainability

The burgeoning field of social entrepreneurship has witnessed the development of new organizational forms involved in the practice of social entrepreneurship. Correspondingly, the literature on social entrepreneurship has incorporated diverse definitions of social entrepreneurship and related concepts.

In his classic work on the meaning of social entrepreneurship, Dees (2001/1998, p. 4) defines social entrepreneurs as those who “play the role of change agents ... by adopting a mission to create and sustain social value (not just private value) ...” Building on the notion of social value, Mair and Marti (2006, p. 37) maintain that social entrepreneurship is “intended primarily to explore and exploit opportunities to create social value” and “involves the offering of services and products but can also refer to the creation of new organizations.” Accordingly, there are different organizational forms involved in practicing social entrepreneurship.

Various forms of hybrid organizations from the private and nonprofit sectors have sought to blend a market-based approach with a social mission. According to Bielefeld (2009, p. 72), social enterprises would include “nonprofits with some earned income; nonprofits or for-profits with equal concerns for social and financial ends ...; and for-profits with some emphasis on social responsibility.” Similarly, hybrid organizations “can exist on either side of the for-profit/nonprofit divide; blurring this boundary by adopting social and environmental missions like nonprofits, but generating income to accomplish their mission like for-profits” (Haigh and Hoffman 2012, p. 126). Therefore, social entrepreneurship includes nonprofit organizations that develop a branch with financially self-sustained operations independent from donations, as well as for-profit organizations that are equally concerned with financial and social ends.

Formally, these types of organizations include new legal forms of operation. A recent legal form in the United States is the low profit limited liability company (L3C). Created in 2008, L3C is a form of taxable business entity that allows investors, including for-profit businesses, foundations, governments, public charities, and individuals interested in social outcomes, to make donations to this type of social enterprise (Bayona and Milani 2011, p. 66). L3Cs must have a clear balance between profit and social goals by significantly pursuing one or more charitable or educational purposes. Another new legal form in the United States is the benefit corporation. This type of organization is a blend of a traditional for-profit corporation with a mission to benefit the public, and requires directors to consider not only the stockholders’ interests but also the societal ramifications of their decisions (Minna and Corbin 2010).

These different organizational forms indicate that there are multiple ways to perform social entrepreneurship. In the next section, we describe cases of organizations that promote social entrepreneurship and sustainability in Brazil through initiatives that support the ecosystem of innovation.

## **8.4 Social Entrepreneurship and Innovation Ecosystem Cases**

### ***8.4.1 Case 1: Innovation and Sustainability in the Value Chain***

This case discusses an initiative of the Center for Sustainability Studies, an organization that is part of *Fundacao Getulio Vargas*, accredited by the Association to

Advance Collegiate Schools of Business, and located in Sao Paulo, Brazil. The Center stimulates social entrepreneurship via the Innovation and Sustainability in the Value Chain Project, which highlights the influence that sustainability-oriented small and medium enterprises can have on large companies' value chain. The Project organizes workshops to bring together individuals from companies of different sizes and industries to discuss best practices of innovation and sustainability in the value chain. These workshops present successful cases of collaboration between large companies and sustainability-oriented small and medium enterprises. By generating and disseminating knowledge as well as bringing small suppliers closer to large companies, this Project has been strengthening the ecosystem of innovation in Brazil.

**The center for sustainability studies** *Fundacao Getulio Vargas* (FGV 2012) is an academic foundation created in 1944. The Sao Paulo Business Administration School of *Fundacao Getulio Vargas* (FGV-EAESP 2012) was founded at a later stage, in 1954, through a joint effort between the Brazilian government and companies, as well as the collaboration of Michigan State University. Since then, the School has been working towards meeting the demands of the academic and business communities by creating new disciplines, while seeking for suitable ways to plan ahead for future academic and managerial demands.

It was within this context that in 2003 the Center for Sustainability Studies (GVces 2012) was created. It represented the school's initiative to offer an open arena for study, learning, insights, innovation, and knowledge production. The Center has based its activities on the development of public and private management strategies, policies and tools that promote sustainability within the local, national and international scenarios. Its programs are based on four major pillars: capacity building; research and knowledge; organization and partnerships; and communication and mobilization.

These pillars permeate all of the programs and initiatives that compose the Center for Sustainability Studies. Currently, the Center has seven programs. Each program works on different issues and includes distinct projects. This case focuses specifically on one of these projects: the Innovation and Sustainability in the Value Chain Project. The goal of this project is to promote innovation in business models, strategies, relationships, process, products, services, and corporate practices, aligned with sustainable development.

**The innovation and sustainability in the value chain project** The Project launched its first initiatives in December 2011, in partnership with Citi Brazil and sponsored by Citi Foundation, and focuses on promoting innovation for sustainability through small and medium enterprises that are part of large companies' value chains.

The relevance of the focus on small and medium sized enterprises is due to the significant impact that such firms have on the Brazilian economy. Small and medium sized enterprises represent about 99% of the entrepreneurial businesses in Brazil, their transactions account for about 20% of Brazil's annual GDP, and they generate about 70% of the formal jobs in the country (IBGE 2012). However, small businesses in Brazil usually have less access to technical knowledge related to innovation and sustainability than large firms. Even when they have access to such knowledge, in many cases they lack access to financial resources to make their

products or business practices viable (Branco et al. 2012). Yet, given the nature of the small business sector, there is a high potential contribution of SMEs to the implementation of innovative and sustainable strategies within their respective value chains and as suppliers in the value chains of larger companies.

In the case of innovative small and medium enterprises (SMEs) that have social and technological innovations addressing sustainability, there are some barriers to success as suppliers in the value chain of large companies. Most of these barriers derive from large companies' procurement policies and relationships with suppliers, guided by three main principles: price, quality, and time. Many of the large companies that operate in Brazil do not manage their own supply chain in a responsible way. Even in companies that do have some social and environmental procurement criteria, these criteria are usually set by a top-down approach, and do not engage with suppliers to co-create guidelines that could establish win-win relationships with innovative small and medium enterprises. Therefore, not only do the innovative small and medium enterprises have to assume all the risks and costs of developing innovations, but they must also be competitive enough to supply to large companies oriented by these three values.

Given these challenges faced by sustainability-oriented small and medium enterprises, the main objectives of the Project are to:

- Foster the success of small and medium enterprises by supporting their integration as sustainability-oriented suppliers in large companies' value chains;
- Mobilize large firms to elaborate innovative sustainable strategies for their value chain;
- Recognize and promote innovative co-solutions and partnerships between large companies and SMEs in a manner that fosters the success of sustainability-oriented SMEs;
- Create a space for an exchange of experiences and formation of networks between SME suppliers and large companies.

In order to put these objectives in practice, the Project has organized many initiatives involving large corporations and SMEs, including:

1. Workshops: spaces where SMEs and large corporations can exchange information and dialogue about successful practices and discuss policies related to management of suppliers. Additionally, representatives who are present in these workshops receive valuable technical knowledge about how to initiate a strategic risk analysis linked to the management of their production chain. Also, the workshops favor communication and collaboration among SMEs and between SMEs and large corporations.
2. Publication: the results of the Project in 2012, as well as a detailed description of exemplary cases of innovation and sustainability of SMEs selected by the Project, were described in a publication launched at an annual Forum with a round table composed by invited experts and an exhibition fair presenting the SMEs' innovations. The publication demonstrates not only the possibilities of win-win situations that can emerge from partnerships and exchanges between large firms and their smaller suppliers, but also sheds light on the challenges faced by the SMEs as they implement their innovative ideas.

3. Website and online platform: the main tool of communication with all the Project's stakeholders. The Project aims to disseminate all the SME cases selected through the years and to serve as a virtual forum where different actors can gain knowledge and express their opinions regarding the theme.

Throughout this year, the Project has engaged 25 large companies and has identified and selected nine SME suppliers with innovative practices. Within the nine selected cases, TerpenOil (2012) is an example of a success story. This young technology company has developed sustainable solutions for environmental challenges involved in the production, use, and reuse of natural cleaning products. TerpenOil's products are made of "terpene," a substance found in abundance in the essential oils derived from plants that are responsible for antiseptic properties within natural ecosystems. It fulfills three main functions: solvency, neutralization of odors, and elimination of bacteria. The products offered by TerpenOil combine these three functions, using orange peels as the main source of terpene. The choice of this input was due to the abundance of the fruit in Brazil, once the largest world exporter of the fruit (Branco et al. 2012, p. 67). The orange peels go through a physical process that generates specific blends with solvent and microbiological properties that are capable of neutralizing odors. TerpenOil's competitive advantage is the natural and scentless properties of terpene in a traditional industry filled with artificial and heavy chemicals (Branco et al. 2012).

From the perspective of an innovation ecosystem, one notable example of the formation of win-win relationships is the collaboration between TerpenOil and Whirlpool in Brazil. The use of TerpenOil's products in Whirlpool makes it possible to replace alkaline and toxic liquids in the cleaning and elimination of oil (grease) in Whirlpool's electronic goods. Besides being harmful to human health, the use of conventional compounds demanded a high consumption of water and energy. TerpenOil's products feature natural detergent, and do not require the use of hot water in the process. This has resulted in a 20% reduction in the use of electric energy and a 76% decrease of the use of water for the rinse process while increasing Whirlpool's productivity by 99.3%. The firm also experienced a cutback of five hours in its production process due to the fact that it was no longer necessary to cool down manufacturing machines before repairing them. An extra advantage is seen in the disposal of the by-products after cleaning of tools; due to its natural and non-toxic properties the remains of the process can be discharged directly in sewage networks.

In this way, the relationship between TerpenOil and Whirlpool enriches its innovation ecosystem by collaborating for sustainability-oriented innovation. In turn, the Innovation and Sustainability in the Value Chain Project strengthens its local innovation ecosystem by disseminating information about successful partnerships and fostering networks between SME suppliers and large organizations for the purpose of stimulating sustainability-oriented innovation. By promoting the success of sustainability-oriented SMEs or social enterprises, the Innovation and Sustainability in the Value Chain Project has helped foster social entrepreneurship in the region.

**Lessons from the innovation and sustainability in the value chain project** To assess behavior change among participants in the 2012 cycle, participant surveys were applied at the end of each activity and also at the end of the cycle. These surveys

and participants' statements suggest that the Project has positively influenced the use of sustainability-oriented tools and policies in large companies, while benefiting their relationship with sustainability-oriented SME suppliers.

The results obtained during the first cycle of activities were extremely satisfactory, but there were also challenges involved in the implementation of the project. One of them relates to raising the awareness of large corporations about the importance of sustainability in their respective value chains. One of the solutions found in order to guarantee the adherence of such firms to the initiative came from an already existing network of 36 firms that participate in another project managed by GVces named "Business for Climate Platform," which aims at disseminating and promoting a low carbon economy in Brazil. These firms were invited to participate in the first cycle of the Innovation and Sustainability in the Value Chain Project. In this way, the project has helped foster a network of organizations.

Another challenge was associated with the engagement of professionals from the purchasing department of the large participating corporations in the themes treated during the Innovation and Sustainability in the Value Chain Project workshops. As this specific cycle of the project relates to both the sustainability and the procurement of supplies, the Project team requested that the participating firms send two representatives to the workshops, one from the sustainability and another one from the purchasing department of the respective firm. The activities promoted in the cycle have slowly convinced these managers to engage in discussions and provoked their curiosity, resulting in much more interest from participants in dialoguing among themselves through the course of the cycle. Another positive result was the establishment of a closer dialogue between managers from the two areas, promoting interaction and exchange of strategies and different practices among firms themselves.

The Innovation and Sustainability in the Value Chain Project also discovered a few positive surprises throughout the cycle. One such surprise was the interest of two external investors who approached the Project's team envisioning this initiative as an opportunity to bring large and small enterprises one step closer to each other. Additionally, the exchange of experiences between large and small enterprises (as well as between small firms) in such a short period of time was impressive. The workshops worked well as open spaces where important dialogues about their challenges and successes related to sustainability took place.

Finally, a few lessons can be suggested for institutions that intend to create workshops such as the ones promoted by the Center for Sustainability Studies. It is fundamental to involve the entire large institution when the intention is to influence their procurement and management of suppliers. When it comes to small and medium enterprises, the project identified a few important lessons that may be used as a basis for offering innovative and sustainable solutions that address the issues faced by large corporations and their supply chain (Branco et al. 2012). These include:

- Conformity to the current environmental legislation;
- Transparency, long-term thinking, and adequate structuring in the management teams of small and medium enterprises;
- Production capacity that can serve large corporations in a large scale, and that is capable of quickly responding to new demands;

- Mapping large firms that face challenges that the small and medium enterprises are capable of addressing via the provision of innovative sustainability-oriented products and services.

Based on this first year's results, there is evidence that the Innovation and Sustainability in the Value Chain Project can contribute to establishing and strengthening the ecosystem of innovation for sustainability in Brazil by generating and disseminating knowledge, and bringing small and medium suppliers closer to large companies.

#### **8.4.2 Case 2: Social Entrepreneurship and Microfinance**

This case study describes and analyzes the formation and development of a socially innovation ecosystem in the *Conjunto Palmeiras* neighborhood, a low-income community in the city of *Fortaleza*, Brazil, which resulted in the creation of Palmas Bank (*Banco Palmas*). Palmas Bank has strengthened its local innovation ecosystem by developing a financial infrastructure that facilitates entrepreneurship in its community. The bank's financial services have enabled marginalized populations to access microcredit to develop formal and informal businesses. Moreover, the bank has interacted with customers and governmental organizations to issue a social currency that circulates only inside the community with the goal of ensuring that the wealth generated by residents remains inside the community. Palmas Bank has also developed a methodology that helps the creation of new community banks in Brazil. In this way, Palmas Bank has boosted its local innovation ecosystem, and also guided social entrepreneurship initiatives in other innovation ecosystems in Brazil.

Palmas Bank, created and managed by its local Association of Residents, was formed initially as a microfinance organization operating an integrated system of microloans, which are "minor loans, unsecured, to individuals or groups in order to start or expand business" (Khavul 2010, p. 57). The goal was to organize and encourage its 30,000 inhabitants to produce and consume in their own neighborhood. Palmas Bank has emerged based on a grassroots organization and was the first community bank of Brazil. Over the years, Palmas Bank has become a reference and main coordinator of the Brazilian community bank model, adopted as a public policy initiative by the Brazilian government.

The *Conjunto Palmeiras* neighborhood was created by the city in 1973, with the goal of reducing the spread of shantytowns (*favelas*) in the city of *Fortaleza* through the compulsory removal of 1,500 families living in the coastal zone, an area of interest for expansion and revenue creation based on urban and tourist activities. Relocated to a large open area covered by mud and lacking any urban infrastructure and basic services and provided with only some building materials donated by the government, people organized themselves into groups helping one another build their own homes on the demarcated land. This represented a first learning experience about community organization which evolved into the formation, in 1981, of the Association of Residents of *Conjunto Palmeiras* (ASMOCONP 1998), which started to organize community projects, and became the central network node of social innovation (Costa 2010).

The history of *Conjunto Palmeiras* became intertwined with the life of seminarian Joaquim Melo Neto, who became a well-known social entrepreneur and spokesman of this neighborhood. At that time he participated actively in ecclesiastic movements of the Catholic Church, strongly influenced by the Theology of Liberation. In early 1980s, Joaquim was appointed to undertake community work within the project “Priests in the *Favela*,” in a landfill near *Conjunto Palmeiras*, where many residents used to work (Melo 2011). Soon after, Joaquim moved to *Conjunto Palmeiras* and began to engage in community activities helping organize task forces to provide water and electricity to the neighborhood (IDES 2011). In this way, Joaquim, the founder of Palmas Bank established a relationship with the community by developing community work and encouraging the foundation of the local Association of Residents, even before the foundation of the community bank. Such a long-term relationship with the community, which was built from the bottom-up, has strengthened the capability of Palmas Bank to understand the needs of the community, develop a bond with community members, and thereby contribute to its local innovation ecosystem.

The existence of community organization, embodied in the Association of Residents of *Conjunto Palmeiras*, made possible in 1991 the seminar “Inhabiting an Uninhabitable Place,” in which residents discussed alternative actions to complete the urbanization of the neighborhood. This organization allowed, institutionally, a dialogue between the community and the government, enabling social programs to be developed in an organized manner on site. In 1992, through the *Prorenda* Program, an Integrated Community Development Plan was prepared with the support of governmental specialists focusing on the promotion of an integrated human development in the community. In 1995, the *Prosanear* Program enabled the construction of sanitary infrastructure in the neighborhood (Palmas Institute 2011).

In 1997, the community implemented a second “Inhabiting an Uninhabitable Place” seminar, focusing on the search for alternatives for income generation and job creation in the neighborhood. The guiding question was: “Why are we poor?” To answer this question, the community, with the support of consultants from the Social Service of Industry (*Servico Social da Industria* or SESI) and the Brazilian Service of Support for Micro and Small Enterprises (*Servico Brasileiro de Apoio as Micro e Pequenas Empresas* or SEBRAE), conducted a survey of residents in order to identify how much, where, and in what residents used to spend their money. The result of the survey, which examined a considerable proportion of the 25,000 residents of the community at that time, showed that residents bought around R\$ 1.2 million (US\$ 590,812) per month in various products, but only 20% was spent in the community. This “map of local production and consumption” showed that the income of the community was seldom circulating in the community, and therefore not sufficiently encouraging a cycle of local production and consumption. It was only possible to dialogue with the Social Service of Industry and the Brazilian Service of Support for Micro and Small Enterprises because the Association of Residents of *Conjunto Palmeiras* had been established and active in organizing the community.

Thus, the challenge was to find alternatives that would stimulate local consumption and for this purpose it was necessary to ensure local production. In 1998



Palmas Bank was created for this purpose with the support of the non-governmental organization Center for Studies, Organization, and Reference of Human Settlements (*CEARAH Periferia*), which provided seed capital. According to Joaquim Melo (IDES 2011):

We obtained a loan of R\$ 2,000 (US\$ 984). At that time, people would not talk much about microcredit, or solidarity economy, so we opened the bank only with that money. On the first night we made five loans and there was no money left in the bank. I like to joke that the bank broke on the day it opened. But people paid back and national and international partners have emerged.

At the beginning of its operation, Palmas Bank functioned in a small room on the premises of the Association of Residents and its activities were operationalized by only two people. According to Joaquim Melo (*Revista Consciencia Ampla* 2011, p. 4):

Our idea was to stimulate not only production, but also consumption by creating a currency to circulate only in the neighborhood, so that people would consume mostly there. The idea of Palmas Bank was completely endogenous.

Other nonprofit organizations, such as Oxfam, also provided resources to Palmas Bank, which over time has sought financial assistance from other programs of international cooperation, such as the United Nations Development Program, and to a lesser extent from local public sources. The few funds raised through interest were used to help pay the expenses of the bank.

**Building a methodology for the creation of community banks** The fact that there was community organization in the *Conjunto Palmeiras* neighborhood enabled the development of networks that have supported the creation of Palmas Bank. Once formed, the bank fulfilled the role of seeking alternatives for local production and consumption, and meeting the social demands of the community.

Palmas Bank has developed its own methodology, inspired by the practices of the Grameen Bank. In addition to educational and other initiatives, Palmas Bank's methodology has enabled the provision of a range of products and services, namely, the provision of microcredit for producers and consumers; creation of incentives for local consumption, in the form of credit card and social currency, called *palmas*, accepted by merchants in the neighborhood and backed by Brazilian *reais* (1 *palma* equals 1 Brazilian *real*); and the development of new forms of commercialization in solidarity fairs and shops (Melo Neto Segundo and Magalhaes 2009).

The supply of such products and services is made through an innovative methodology based on community involvement in the formulation, dissemination, implementation, and monitoring of actions. This management process is ongoing and involves constant personal (face to face) contact of the people working at Palmas Bank with the community.

Taking the example of the provision of microcredit, Palmas Bank developed the following methodology. The credit application can be made by a (formal or informal) entrepreneur directly at the headquarters of Palmas Bank, or the demand for credit can be identified by a bank employee by visiting people and businesses in the community. These visits have several purposes: identify customers for credit,

update the master information for residents, and promote the products and services offered by the bank. The granting of the loan is made based on trust. Nonetheless, an employee of the bank would talk to people in the community to make sure that the entrepreneur is actually involved in a productive activity, thereby reducing the risk of the loan. Imagine the case of an entrepreneur who produces popsicles. An employee of the bank seeks to identify evidence that the potential borrower effectively produces popsicles, such as the existence of a refrigerated cart used to sell the product or invoices evidencing the purchase of fruit extracts used in the production of popsicles. Once the loan is granted, the bank verifies the activities of the borrower in order to monitor the effective use of resources and also to identify the need for some kind of training that is useful for the development of the entrepreneur or the venture. The bank also monitors loan payments so that, as soon as a default situation arises, a bank employee goes to the house of the borrower and offers a proposal for the payment of debt.

**Disseminating the methodology: The transformation of Palmas Bank into Palmas Institute** In 2003, the Brazilian government created the National Office of Solidarity Economy (*SENAES*), which has the goal of developing community banks that offer social currency and microcredit, aiming at local development (Singer 2009). That same year, Palmas Bank sought to systematize its approach in order to disseminate its methodology in other communities. To exercise its new role as disseminator of a methodology for the creation of community banks, it was necessary to become an organization with its own legal status and adopt a designation known in Brazil as a “civil society organization of public interest.” In this way, Palmas Bank became a part of Palmas Institute, which, besides keeping all banking activities in *Conjunto Palmeiras*, has started to disseminate its methodology in other communities across the country. The National Office of Solidarity Economy adopted the methodology developed by the Palmas Institute as a reference for community banks in Brazil. In 2006, Palmas Institute created the Brazilian Network of Community Banks.

Palmas Institute is one of the institutions accredited by the National Office of Solidarity Economy to disseminate the methodology for the creation of new community banks. The Palmas Institute developed the Community Bank Kit, describing step by step how to create a community bank, including yearly estimates for the cost of implementation and operation of a bank.

The acceptance of the *palmas* social currency (P\$) is increasing. In May 2012, there were 260 businesses in *Conjunto Palmeiras* accredited to accept the *palmas* social currency. The loan portfolio totaled 2,010,019.95 Brazilian reais (US\$ 988,501.99) lent to 3,521 people, with an average of R\$ 921.72 (US\$ 453.29) per person, and an average monthly payment of R\$ 5.41 (US\$ 2.66) and average monthly interest rate of 2.77% (Palmas Institute 2012). In 2012, there were 67 community banks active in Brazil. By building and disseminating a methodology to create new community banks in low-income communities, Palmas Bank has not only developed its local innovation ecosystem, but also

stimulated the development of social entrepreneurship and other innovation ecosystems in the country.

## 8.5 Conclusion

This chapter has focused on cases of organizations that promote social entrepreneurship and sustainability in Brazil by supporting the ecosystem of innovation. An innovation ecosystem comprises not only the core innovator, but also its suppliers, customers, and organizations that develop the infrastructure or provide complementary services in different industries or communities. The innovation ecosystem perspective suggests that it is not enough to consider how an individual or organization solves innovation challenges, but one must also consider how this individual or organization interacts with stakeholders such as suppliers, customers, and organizational partners to stimulate innovation.

Our first case addresses innovation and sustainability in the value chain. This case discusses the Innovation and Sustainability in the Value Chain Project, an initiative of the Center for Sustainability Studies at *Fundacao Getulio Vargas* business school in Sao Paulo, Brazil. This Project has uncovered the influence that sustainability-oriented small and medium enterprises can have on large companies' value chain. The Project has organized workshops that bring together individuals from companies of different sizes and industrial sectors, to discuss best practices of innovation and sustainability in the value chain. These workshops have disseminated examples of successful collaboration between large companies and small/medium enterprises.

The Innovation and Sustainability in the Value Chain Project enriches the ecosystem of innovation in Brazil in the following ways. First, this Project generates knowledge about successful cases of sustainability-oriented small and medium enterprises that are often part of the value chain of large companies as suppliers and have collaborated with these large companies to produce an innovation. For this purpose, the Project selects cases and develops a publication that is available online. Second, the Project disseminates knowledge about sustainability-oriented collaboration with suppliers in the value chain by organizing workshops with large companies and small/medium enterprises. During these workshops, companies exchange experiences and identify new opportunities to pursue collaborative partnerships. Third, this Project serves as a networking center for different actors of large firms' supply chain while organizing stakeholders around the theme of innovation and sustainability.

Our second case focuses on social entrepreneurship and microfinance. This case describes the formation and development of a social innovation ecosystem in *Conjunto Palmeiras*, a low-income community in the state of *Ceara* in Brazil, which resulted in the creation of Palmas Bank (*Banco Palmas*). This bank was the first community bank in Brazil, created by its local Association of Residents as a microfinance solidarity organization providing small loans to individuals developing formal or informal businesses. Palmas Bank developed a methodology for the creation of the new community banks. To disseminate its methodology in other

communities, Palmas Bank became a part of Palmas Institute, keeping all banking activities in *Conjunto Palmeiras*, while disseminating its methodology across the country. Brazil's National Office of Solidarity Economy adopted Palmas Bank's methodology as a reference for community banks in Brazil. In this way, Palmas Bank became the main coordinator of the Brazilian community bank model.

Palmas Bank's initiatives strengthen the local innovation ecosystem in the following ways. First, it has developed a financial infrastructure in low-income communities that facilitates entrepreneurship at the bottom of the pyramid by enabling marginalized populations to access microcredit to develop formal and informal businesses. Second, the bank has interacted with customers and governmental organizations to maintain a social currency named *palmas* authorized by Brazil's Central Bank, which circulates only inside the community. A main goal of the social currency is to increase the proportion of wealth generated by residents that stays in the community. Third, Palmas Bank has developed a methodology that helps support the creation of new community banks in Brazil. Building on Palmas Bank's successful relationships with different governmental agencies, the bank's methodology was adopted as a public policy microfinance initiative by the Brazilian government. In this way, Palmas Bank has not only developed its local innovation ecosystem, but also inspired and guided social entrepreneurship initiatives in other innovation ecosystems in the country.

Taken together, these cases illustrate the work of organizations performing or promoting social entrepreneurship in different ways while enriching their local innovation ecosystems. For instance, Palmas Bank has been at the same time a social enterprise (Dacin et al. 2010) and a promoter of social entrepreneurship by providing microfinance as a means to enable the creation of social value through productive entrepreneurship (Acs et al. 2013). Recent research on social entrepreneurship has highlighted how social entrepreneurship engages multiple stakeholders (Lumpkin et al. 2013) and creates social value (Di Domenico et al. 2010), and how social entrepreneurs can serve as agents of change (Maak and Stoetter 2012).

We contribute to the literature on social entrepreneurship by emphasizing that the perspective of an innovation ecosystem can be valuable to better understand the effects of initiatives that promote sustainability and social entrepreneurship in their local communities. For instance, many of the 2000 high-impact social entrepreneurs supported by the nonprofit organization Ashoka have influenced national legislation within 5 years of launching their social enterprises (Santos 2012). Indeed, the success and activism of the nonprofit organization Center for Digital Inclusion, created by Brazilian social entrepreneur Rodrigo Baggio with hundreds of computer schools in poor communities across Latin American countries, has influenced the Brazilian government to launch a national program of digital inclusion. These social entrepreneurs are strengthening their local innovation ecosystems not only by innovating individually, but also by interacting with stakeholders, including suppliers, customers, and organizational partners, to stimulate innovation. The cases in this chapter suggest that organizations supporting social innovation ecosystems can foster the startup and

growth of social enterprises. Future research is needed to explore the connections between innovation ecosystems and social entrepreneurship in different countries and institutional settings. We hope that the cases in this chapter serve as a guide for how other organizations can develop their own approaches to enrich their local innovation ecosystems.

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# Chapter 9

## Social Entrepreneurship in the Arab World: Lessons from Lebanon

Dima Jamali and Liya Kreidie

**Abstract** While much more breadth in the conceptualization of social entrepreneurship exists in the literature originating from the developed world today, the growth in interest and practice of social enterprise in Lebanon and the Middle East is on the rise. This is mainly due to the opportunities presented by social enterprises for solving the salient social, political and environmental problems that are stifling economic development in this part of the world. Businesses in Lebanon and the region are increasingly integrating sustainable platforms for social and environmental impact into their corporate strategies, in an effort to meet the rising demands for Corporate Social Responsibility (CSR) and social entrepreneurship to address glaring socio-economic ills in their environment.

While the social enterprise model is rapidly gaining traction in the region, a framework for establishing a common understanding of these enterprises and how they can succeed has yet to be solidified. If levels of success in social enterprises are not achieved, then their role as change agents in the sphere of economic development risks being compromised. Hence this chapter is largely practical in nature, using established literature on social enterprises to identify the factors that lead to success in the social enterprise landscape, particularly in terms of creating social impact, sustainability and scale. We analyze the social enterprise context in Lebanon and consequently paint a picture of the strengths and shortcomings faced in the local context. These findings are three fold, inherent to the businesses themselves, to the systemic forces within the fabric of Lebanese society and to the nature of the market. Consequently, we formulate recommendations intended to bridge the gaps that today stifle the potential success of social enterprises in Lebanon and compromise potential benefits to society. We draw implications from there that are relevant to the social enterprise discourse in the wider Middle East region.

**Keywords** Social entrepreneurship · Arab · Lebanon

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## 9.1 Introduction

Social entrepreneurship (SE) today has proven to be a viable business model that is gaining momentum on an international scale. Much of the literature on social enterprises however has been largely influenced by the developed nations, while practice of social entrepreneurship has been international in scale and scope. This presents a gap and therefore a need for increased academic knowledge on the understanding and implementation of SE in developing economies, where SE can play a major role in paving the way to modernization.

In this book chapter, we strive to make the case for social enterprise as one solution to the stifling economic development in the region. We examine five cases of budding social entrepreneurship ventures from the Lebanese context, and illustrate through the cases, the opportunities and challenges for social entrepreneurship in the Arab region. We begin by compiling a model that consolidates the success factors for social enterprises, based on available literature on the topic. From there, we assess how these Lebanese social enterprise models fare in relation to the presented framework. The findings highlight the strengths and shortcomings of the social enterprise sector in Lebanon and bring to the fore the role of institutional factors in shaping the potential development of social entrepreneurship. The chapter concludes with guiding remarks that pave the way for solutions that will drive the future success of social entrepreneurship in the region.

## 9.2 Literature Review

In the context of this chapter, social enterprises (SEs) are defined as ventures that have the advancement of a social and/or environmental objective as an end, justified by the requisite financial means to survive and thrive (Dees 1998a; Dees 1998b; Bornstein 1998; Alter 2007). The differentiating features of social enterprises are thus based on prioritizing social mission over profit or wealth objectives, and focusing on a model of value creation through social impact (Dees 1998b). The words social enterprise, social venture and social business are used interchangeably throughout the text.

### 9.2.1 *Why the Arab World*

A large majority of the Arab World is characterized by rampant unemployment, poverty, weak educational systems, underdeveloped healthcare systems, corruption, environmental degradation, and political unrest, among other pressing concerns; all of which play a critical role in stifling social and economic development. According to the Failed State Index in 2011, Lebanon ranks 5th in the MENA and 43rd on a list of 177 states, just ahead of Syria and Egypt, on an indicator where the lower the rank of the country, the worse off it is in terms of corruption and economic decline.



Additionally, as part of the Measurement of Arab Public Opinion Survey conducted in 12 Arab countries in 2011, it was found that “83 % of respondents say that corruption is widespread in their countries and only 19% of respondents believe that their countries’ legal systems treat all citizens equitably” (The Arab Center for Research and Policy Studies 2011).

Coupled with these concerns is diminished trust in the government to impact change, due to the inability of the public sector to cater to the needs of its constituencies. In Lebanon for example, there are over 4,000-registered international and local NGO’s (United Nations, Economic and Social Commission 2001), which comes out to 1 NGO per every 10 people in the country. Despite the startling numbers, these NGO’s often dissolve or become inactive, with little impact on society; each working towards similar end-goals, but in silos, with little private partnership, and with minimal funding, most of which is distributed along sectarian lines (Chahine et al. 2009, p. 25–27). Today, as a consequence of the Arab Spring and the political turmoil permeating the region, these concerns are multiplied, with several countries at an even greater risk of less support from their public sectors.

The Middle East as a whole, inclusive of the GCC countries, made up of the UAE, Saudi Arabia, Qatar, among others, as well as the Levant region and North Africa, suffers also from what has today been coined “the youth bulge.” Youth unemployment in the Arab countries as of 2012 stands at 25 %, while 2/3rds of the region is under the age of 30, and this number continues to grow (The Arab Center for Research and Policy Studies 2012). “Young people in the Middle East now say that being paid a fair wage and owning their own home are their two highest priorities—displacing their previous number-one priority, living in a democratic country” (The Arab Center for Research and Policy Studies 2012). Lack of access to financial security represents one of the largest and most looming issues in the entire region, specifically after the rise of the Arab Spring. On the other hand small to medium sized enterprises, including entrepreneurial ventures are a main source of job creation (Nasr and Pearce 2012). Here, the role of SE’s becomes crucial.

Given the bleak outlook of the role of the public sector to create the necessary improvements for the region and its people, the significance of the private sector is magnified. Social enterprises specifically are a double-edged answer, addressing the call for job creation on the micro-level and for social development, on that of the macro level.

## ***9.2.2 Success Factors of Social Entrepreneurship in Focus***

Lessons and prescriptions relating to the success of social entrepreneurship have gradually been compiled in the literature from a predominantly developed world perspective (Urban 2008, p. 14). Sharir and Lerner (2006) contributed to this dialogue in their own social entrepreneurship success factor framework based on a study of 33 Israeli-based SEs, inclusive of both private business, and revenue generating entities within NGO’s, all of which covered various social issues. The sample of enterprises came from the diverse ethnic subsets that make up Israeli society,

**Fig. 9.1** Three elements of social enterprise success



including Israeli Arabs (Sharir and Lerner 2006, p. 8). Accordingly, success of social enterprises was defined in relation to the following criteria (Fig. 9.1):

1. The degree to which the social venture achieves its declared goals;
2. The ability of the venture to ensure program/service continuity and sustainability by acquiring the resources necessary to maintain current operations;
3. the measure of resources available for the venture's growth and development (Sharir and Lerner 2006, p. 8).

In 2010, Gumaste (2010) further developed the Sharir and Lerner framework by adding a developing world perspective. Based on his study of the contemporary literature of social entrepreneurship, Gumaste added depth to and integrated additional success factors based on the same definition of social enterprise success presented by Sharir and Lerner (Table 9.1). This new model encompassed success factors for social enterprises that span different countries such as Kenya, Bangladesh, Guatemala, and Mexico among others. The basic components of the Gumaste framework are summarized below.

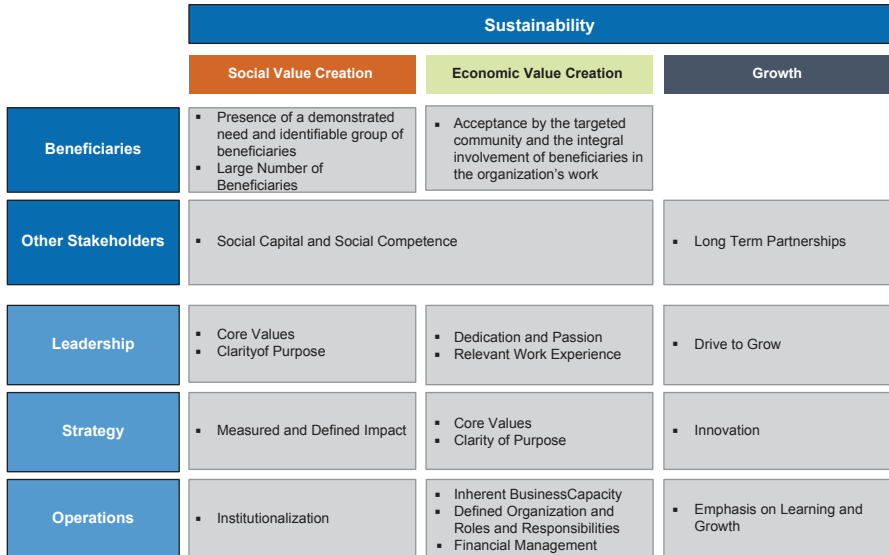
These frameworks highlight predictors for success of social entrepreneurship; however they remain somewhat oversimplified given the lack of emphasis on the for-profit private social enterprise underscored in this book chapter. Additional research therefore on for-profit social enterprises and commercial enterprise success uncovered other factors of success that should also be considered (Collins and Porras 1996; Dees and Anderson 2003; Borschee 1998; Bagnoli and Megali 2011; Elkington and Hartigan 2008). The framework (Fig. 9.2) compiled by the authors in the next portion of the chapter summarizes these elements in combination with the findings of Gumaste.

While the authors conducted research on success factors, it became clear that case studies of social enterprises from the developing world have become more prevalent, however the developing nations in the Middle East remain largely untapped. While the context of the available research is not directly applicable to the Middle East region, the research conducted in Lebanon based on the framework detailed below represents one-step towards contributing to this gap in context-specific information on for-profit social enterprises in the Arab World.

**The Social Enterprise Framework** The largest contribution of the new framework is the structural component that provided the overall assessment with a lens upon which each of the internal elements can be better understood. These structural

**Table 9.1** Proposed factors explaining success in social ventures. (Adapted from Gumaste 2010, p. 74)

| Social impact   | Implementation/survival   | Growth, expansion and development  |
|---|---|--|
| 1) Presence of a demonstrated need and identifiable group of beneficiaries (Sharir and Lerner 2006) | 1) Acceptance by the community and involvement of the beneficiaries (Alvord et al. 2004)  | 1) Emphasis on learning and improvement (Alvord et al. 2004)               |
| 2) Measured and defined impact (Alvord et al. 2004)   | 2) Social capital (Baron and Markman 2000; Alvord et al. 2004)  | 2) Long-term cooperation with other organizations (Sharir and Lerner 2006) |
| 3) Large number of beneficiaries (Alvord et al. 2004)   | 3) Appropriate level of embeddedness (Mair and Marti 2005)<br>4) Sound financials and reliable source of funding (Alvord et al. 2004)<br>5) Dedication of the leadership team (Sharir and Lerner 2006)<br>6) Relevant work experience (Sharir and Lerner 2006)<br>7) Org. structure with well-defined responsibilities (Sharir and Lerner 2006) | 3) Drive to expand and grow (Alvord et al. 2004)                           |



**Fig. 9.2** Social enterprise framework: total value creation. (Compiled by Authors)

components are classified according to beneficiaries, stakeholders, leadership, strategy and operations. This is done in order to help contextualize the success factors along the strategic priorities of a firm, while highlighting the various stakeholders upon which the firm is both dependent upon (Freeman 1984) and must engage with for optimum social and economic results (Porter and Kramer 2011). This structure paves the way for total value creation and growth for each social enterprise along the triple bottom lines they seek to achieve.

Incorporated into the Social Enterprise framework alongside the pillars of social and economic impact, is the imperative objective of growth, which measures the firm's capacity to expand (or replicate) so as to continue to amplify its impact. Additional factors that have become embedded within the framework are core values, clarity of purpose, innovation, institutionalization of social ends within the value chain, and inherent business and financial capacities. Comprehensive research of the various elements of both social and commercial enterprise success contributed to these enhancements.

Companies that enjoy enduring success have core values and a core purpose that remain fixed (Collins and Porras 1996). "Core values are the essential and enduring tenets of an organization. A small set of timeless guiding principles, core values require no external justification; they have intrinsic value and importance to those inside the organization" (Collins and Porras 1996). Clarity of purpose follows a similar logic. As discussed by Borschee 1998, often times, mission-driven organizations try to do too much for too many people, and the level of impact gets diluted because the resources get spread too thin (Borschee 1998, p. 3). A clear and defined purpose in a social enterprise will ensure that the business remains focused on outcomes without veering off track and inefficiently utilizing its resources.

The institutionalization of purpose and core values leads to greater social value creation as a result of ensuring that all the operations in the value chain of the business remain aligned to the fundamental values and mission of the firm itself. The greater the integration of the social purpose into the value chain the greater the social returns (Dees and Anderson 2003, p. 2)

Additionally, a social enterprise must function in a similar manner to a for-profit enterprise when it comes to its operations and finances, if it desires economic sustainability (Dees and Anderson 2003). "Unlike other nonprofit voluntary organizations or foundations, social enterprises are enterprises, and therefore their social goals are to be pursued only by respecting economic and financial efficiency" (Bagnoli and Megali 2011, p. 151).

Last but not least, the ability to innovate, has been emphasized in case studies and empirical literature, as critical to social enterprise success (Elkington and Hartigan 2008). Companies must be able to offer practical solutions to problems while continuing to optimize processes in order to facilitate the proliferation of the social mission.

Overall, the Social enterprise framework is mutually reinforcing, such that social value creation fuels economic value creation and vice versa (Porter and Kramer 2011; Friedman 1970). Using this comprehensive framework, five Lebanese social enterprises have been evaluated and analyzed in order to better gauge the opportunities and constraints for social entrepreneurship in Lebanon and the Arab World.

### 9.3 Methodology

In order to achieve the objectives of the research, the authors chose a case study approach. As defined by Yin, the case study research method “is an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used” (Yin 1984, p. 23). Given the novelty of the concept of social entrepreneurship, specifically for the Arab context, and the consequent limited number of known social enterprises in Lebanon, case study proved to be the most fitting option for this exploratory study. Based on this, five social enterprises were chosen for analysis and evaluation.

The five social enterprises identified for this study are among the most prominent in the country, receiving acclaim for their social venture initiatives and being recognized as role models for aspiring social entrepreneurs in Lebanon and the region. The sample is thus homogeneous in that each is a social enterprise in Lebanon in accordance with the definition that has been provided, whereby each prioritizes their mission and motive, but strives to generate revenue stability and creation in pursuit of sustainability as a firm. It is heterogeneous in terms of the different industries each firm represents, including agriculture, services, real estate, and commerce, those of which make up the largest portion of the GDP in the country. The motives behind the businesses also touch on the majority of the burdens inhibiting the economic development of the country: unemployment, poverty, gender discrimination and women disempowerment, the absence of facilities for the underprivileged (disabled), environmental deterioration (Council for Development and Reconstruction, Community Development Unit 2005), and an underdeveloped industrial and rural sector (Corm 2007). Therefore, even though the sample is small in nature, it is an accurate representation for what is needed to meet the objectives of this project.

The authors conducted semi-structured interviews with the founders of a sample of five of the most prominent for-profit social enterprises in Lebanon (see Table 9.2 for details of each SE). The social entrepreneurs were initially contacted by e-mail to set up the interview time and date. Contact information was either publically available or made accessible through the database of the American University of Beirut in Lebanon. Each interview consisted of a series of 15 questions relating to the elements of success outlined in Fig. 9.2, each of which has been detailed in the success framework described above. More specifically, the questionnaire used was adapted using the questionnaire from the Gumaste 2010 work. Using this as the basis, the authors developed additional indicators and questions in order to assess all the factors in the final Social Enterprise Framework.

Five interviews were conducted at the offices of each of the social enterprises, and 2 brief follow-up conversations were conducted by phone. The questionnaire was used as a guide for the discussion. Interviews averaged one hour in length and followed a semi-structured discussion format guided by the questionnaire. Seven hours of interviews were recorded, with the approval of the interviewee. 25 total pages of information were consequently transcribed. Data collected was then evalu-

**Table 9.2** Profile of the social enterprise case studies

|                  | Cedar environmental   | 2B design  | Souk al Tayeb/Tawlet  | Beyond reform and development (BRD)   | Sara's bags   |
|------------------|---|--|---|---|---|
| Founded          | 1992  | 2006   | 2004  | 2009  | 2000  |
| Employees        | 36 full time employees  | 4 in house and 7 outsourced  | Unsure  | 12 full time employees/partners   | 14 full time employees; 150 prisoners   |
| Social issue     | Environmental issues related to waste management and rehabilitation of industrial land  | Unemployment of the disabled and impoverished and restoring traditional heritage                 | Unemployment, environment and rural development   | Political reform  | Unemployment, women empowerment, social inclusion, Lebanese heritage  |
| Service offering | Waste treatment, recycling plants, support for organic farming, and industrial land rehabilitation  | Design and production of furniture made from restored artifacts                                  | Developing organically and locally made food and capacity building for farmers                        | Management consulting services and advocacy                                   | Manufacturing in fashion (accessories, bags, shoes, clothing, etc.)   |
| Beneficiaries    | Government, municipalities and communities  | Disabled and the poor  | Small, local farmers and unemployed females from rural areas  | Public sector entities<br>Society at large                                    | Female prisoners and ex-convicts and their families   |
| History          | Based on the passion and past experience of the founder, in industrial engineering of waste management and mega-landfill and recycling plants | Began as a commercial business out of a passion for rapid extinction of traditional architecture | Began as an NGO focused on reviving small famers and developed into restaurant and packaged food line | Offshoot of a commercial management consulting firm working across the region | A research project by the founder brought light social issues; the founder tied past experience in fashion with ability to improve lives of prisoners |

**Table 9.2** (continued)

|              | Cedar environmental  | 2B design                          | Souk al Tayeb/Tawlet  | Beyond reform and development (BRD) | Sara’s bags  |
|--------------|--|------------------------------------|---|-------------------------------------|--|
| Future plans | Expand use of waste management technology and innovative ways of upcycling (i.e., waste art, furniture out of recycled waste, eco-parks) | Replicate the model beyond Lebanon | Expand into various markets in Lebanon and the region (i.e, Qatar, UAE) | Expand in the MENA region           | Expand into international market and develop new product lines |

ated using content analysis and categorized by question, by theme and by company based on each the components of the Social Enterprise Framework synthesized in Fig. 9.2. Using deductive reasoning, the authors analyzed the information to find the common patterns, differences, and other nuances of information made available through the framework, in order to come to insightful findings about the potential of the social enterprise sector in Lebanon. In the process of doing this, the authors were able to categorize the findings in a SWOT-style analysis, whereby a deeper understanding of the advantages and disadvantages of the social enterprise sector in Lebanon stands today.

### 9.4 Findings

The determination to strike the balance between social and economic value creation was highly evident in each of the interviews that were conducted. The social enterprises interviewed agreed that social value creation was the purpose that drove their respective venture, though financial value creation was a necessity to maintain the sustainability of the business in the long term. In the case of one social entrepreneur, the founder mentioned, *“the social enterprise must make sure that the social, purpose-driven, business model generates income so that in can sustain the social impact. In the end, the social model has to thrive on its own.”* The founder and CEO of another social enterprise shared the same feeling, stating that she began the business purely as a social vocation, and despite her success, *“intends to remain loyal to the women who got [her] this far and true to [her] ideals.”* This was a general response expressed among all five social enterprises interviewed, which exemplifies their role as social entrepreneurs with respect to the definition used in this chapter.

However, striking this balance of the double bottom line, while noble in theory, proved to be difficult in practice for each of these entrepreneurs. The findings have been presented in the forms of strengths and weaknesses, assessed in terms of the



**Fig. 9.3** Strength and weaknesses summarized

Social Enterprise Framework. These findings have been summarized in Fig. 9.3 below and presented in detail thereafter.

**Strengths** “Any valuable venture should ‘lead to the creation of a new area of activity’ and ‘answer needs not addressed by the existing services’ (Sharir and Lerner 2006, p. 8). ‘For social entrepreneurs... recognized social needs, market failure and repeated unsuccessful attempts by the government to address socio-environmental problems are reasons enough to pursue the social goal’ (Austin et al. 2006, p. 7), circumstances largely present in the developing country contexts particular to this study”. Furthermore, the social entrepreneurs interviewed were very much in tune with humanity and the needs of their stakeholders—their *soft skills* were well developed. They have seized opportunities to manage adversity in Lebanon and are tackling issues that are highly pressing to Lebanese society, including environmental deterioration and waste management (e.g. Cedar Environmental, Souk al Tayeb), the disempowerment of women (e.g. Sarah’s Bag, Souk al Tayeb), the disabled (e.g. 2b Design), civil society governance and political reform (e.g. Beyond Reform and Development). Unemployment is covered by all the social enterprises, either directly towards employing the impoverished, such as Sarah’s Bag, 2b Design and Souk al Tayeb, or indirectly via creating general job opportunities for the Lebanese such as Beyond Reform and Development and Cedar Environmental. Thus, each of the enterprises has identified a pressing need that affects a large number of potential beneficiaries that neither the government nor the third sector have been able to alleviate.

The strengths of the social enterprises interviewed relative to the success factors also lie in their unrelenting passion and determination. Dedication and passion for the business and its purpose drive the necessary commitment and courage needed by the entrepreneur to endure the risks and challenges faced by the social entrepreneur (Borschee 1998, p. 7). Through the interviews, it became clear that the founders of the SEs firmly believe in, and live by, their mission, vision, and business values. “*There was no financial motive for me. It was at the beginning for me, the total falling in love with the concept of going against the trend of the mega landfill and to bring this on a communal level. I fell in love with the biochemistry of it that you can turn garbage into something that can be useful, in three days. I go everyday*



*excited and anxious to try something new. I am part of this land, I am part of this area, and this is where I feel I make the most impact and I want to do that,*” said one founder. In the opinion of another, *“Social and environmental responsibility is not an option, it must be embedded in everything we do, in every step of the value chain, and that is how we run our business...”* The founder of yet another social enterprise repeats, *“this way, to me is logical, it is rational, it makes sense socially, financially, in any way... I cannot understand how it can be done any other way.”* The social enterprise founders unanimously agreed that the fulfillment they are receiving from their work is much more rewarding than financial returns alone. Additionally, one SE owner said *“when you are happy, the money will come, and this is the type of business and the work that I am dedicated to and it is what drives my passion... Financially, of course there are sacrifices, but the tradeoff is worth it, and more.”*

This passion is what drives the institutionalization of the core values and the social purpose into the value chain of each of the SEs. The more the firm is able to integrate the social purpose into every aspect of the value chain the greater the social returns (Dees and Anderson 2003, p. 2). The capacity of the social enterprise to act on its core values creates a ripple of benefit outward into the society, which expands the impact much further than ad-hoc initiatives focused on one group of stakeholders. Additionally, social enterprises are likely to face resistance and distrust from the society at large, because of their hybrid nature (Borschee 1998, p. 7, Dees and Anderson 2003, p. 20). While the levels of institutionalization differed between the interviewed social enterprises, the need to integrate sustainable business practices into the entire value chain was a common practice of all. The owner of one of the enterprises mentioned several interesting points during the conversation that reflected this commitment. He said *“In everything we do, we must be making a positive contribution, in every single aspect of the value chain. We must always choose the least harmful option possible in everything that we do as a business.”* Another founder said, *“We do everything with the absolute least pollution possible. We use sustainable raw materials when we produce anything. In the case of eco-boards, we will soon stop using electricity, and we will generate our own form of power via biomass, which is created out of green waste.”* His mission to ensure zero waste and not engage in “shady deals” is engrained in the minds of all of his stakeholders. *“I make sure everyone is well aware of the values we represent. I hammer the message day in day out to employees/customers/partners of our firm.”*

Vagueness in the driving purpose of the social enterprise, its reason for its existence, can be detrimental. Often times, mission-driven organizations try to do too much for too many people, and the level of impact gets diluted because the resources get spread too thin (Borschee 1998). While all the firms had explicit missions and clarity of purpose, half exhibited explicit core values communicated to all personnel. In this regard, the core values were predominantly driven by the social mission, with no mention of financial sustainability within the value structure. (See Appendix 1 for table of core values.) This also ties into the passion and determination for the social mission of each of these social businesses, while allowing the significance of the economic ends lag behind.

**Weaknesses** This brings us to the areas of improvement that surfaced during the interviews—the *hard skills*. A social enterprise must function in a similar manner to a for-profit enterprise when it comes to its operations, if it desires economic sustainability (Dees and Anderson 2003, p. 1). This is the notion that the management of the SE must possess all the required skills to successfully run a commercially viable business. No doubt, each of the founders exhibited a tacit understanding that the SE had to function like a business and balance their profit motive if they wanted to be successful, despite the relentless passion they manifest for their mission motive. One founder stated that it was “*a stick-to-business-basics*” sense of developing sellable products that lifted us from the losses incurred during the war and the changing of the business model. Another stated, “*I have to pay salaries and the bills, I have to generate income*” though the ability to put this into practice proved difficult. Many interviews suggested that these organizations lacked internal capabilities to manage finance and human resources and realize efficiencies. In an attempt to alleviate the lack of business and financial skills, three out of the five social enterprises have hired management consultants or corporate minds to join the team in order to develop this part of the business. The others expressed a pressing need for this. Souk al Tayeb hired a management consultant of 10 years who was looking for the opportunity to mix her professional expertise with her passion for socio-environmental causes. 2B Design founder eventually brought on her commercially minded husband to take over the role of operations and financial management. This was also the case with Sarah’s Bag, who during the interview expressed the need for a business mind. “I have been looking for someone for three years to help me with my financials and business development...I can be the creative mind. I just need someone to take over the other side,” she said. Founders suggested that limited management training and experience hindered their ability to effectively operate and build the required systems and tools to support their growth. The lack of delineation in roles and responsibilities of the employees of these micro, small and medium sized enterprises also contributed to their fledgling business capacity.

The ability to develop a network of relationships is a hallmark of visionary social entrepreneurs, which is tied to the level of credibility of the leadership team (Trivedi and Stokols 2011, p. 13). The social enterprises did demonstrate an ability to leverage NGOs and other activist groups in the country but in most cases became highly dependent on just one or two organizations. High reliance on few actors places these organizations in a position of vulnerability that may significantly impact sustainability in cases when partner organizations become obsolete. Additionally, the partial scope characterizing the social capital relationships limits the span of social impact potential by focusing on one portion of society.

The sample of social enterprises covered also reveals that measurement of social impact is not yet a priority in Lebanese social enterprises. While they are becoming increasingly convinced of its significance, they remain unaware of how to measure their impact. “While measuring social impact will always be a challenge, a social purpose venture should do its best to develop meaningful and credible measures” (Dees and Anderson 2003, p. 16), so as to set objectives upon which their social mission can be achieved. This lack of measurement is one reason that the potential social

impact of these enterprises remains minimal and unrealized. Souk al Tayeb presented the use of some key performance indicators that measure the impact on their producers, one of their main beneficiary groups. The founder stated *“We directly measure the impact on our producers, based on their sales, the growth of their sales and as of the total percentage of what we are generating from income from their sales.”* However, measurement indicators of impact on other direct stakeholders, such as the environment and community at large, have not yet been established. Success stories and anecdotes from the employed prisoners play a role in providing a qualitative understanding of the impact of Sarah’s Bag, however no quantifiable process has been put in place to keep track of the progress. The founder of Cedar Environmental is also in the same category, in that no systematic quantitative measurement tool has been put in place to highlight the improvement they have contributed to the economy on a regular basis, despite their institutionalized zero-waste policy.

Integration and acceptance of the beneficiaries is imperative to garnering greater support from the community and expanding the social value creation. To gain community approval, mobilizing the existing resources and skills of the people in need becomes imperative (Alvord et al. 2004, p. 4). Each of the social enterprises interviewed provide end products that are either specialized, such as in the case of compost and wood material, at Cedar Environmental, or luxury, such as high-end bags and accessories in the case of Sarah’s Bag, or expensive niche organic food options in the case of Souk al Tayeb/Tawlet. Thus, the integration of the beneficiaries is low, past the production phase, whereby the products are created by the poor and disadvantaged for the wealthy and advantaged. In this case, positive impacts are experienced by the beneficiaries, but not to the fullest potential.

### **9.4.1 Additional Observations**

There were several additional observations that were made during the interviews, predominantly in terms of challenges that SE’s face on a daily basis in Lebanon. These challenges are mainly systemic and market based. From an internal systemic perspective, there is a triple threat in being a social enterprise. *“We have to create a good product, at a competitive price, while being responsible in every action we take. The journey is much more complex, but the outcome is a collective benefit,”* said the co-founder of one of the social enterprises. The other founders shared the same general contention. The struggle to realize impact and financial returns, in order to sustain the impact, requires greater investments and efforts from the part of the social enterprise, those of which should be reinforced and subsidized by the government. Western societies have found solutions by providing incentives to businesses that aid in the development of the public good, so long as they meet the specific criteria of a social enterprise (Department of Business Innovation and Skill 2011). The Lebanese government today however has not taken strides in this regard, as suggested by the interviewees. The interviews also affirmed that social enterprises today register with the government as commercial businesses. In this sense, they deal with the same

costs and challenges that such enterprises are subject to, while not receiving the benefits of the not-for-profit enterprises, which are also performing for the social good. The lack of recognition by governments about the importance of social enterprises can also be linked to the unclear definition of social enterprises. Today, social entrepreneurs identify with and benchmark their success against their commercial counterparts, while their purpose and drive resembles that of non-profit entities. This internal ambiguity stifles the development of social enterprises.

An additional systemic constraint to the success of social enterprises in Lebanon is corruption. In the interviews, it was suggested that the fundamentally corrupt process of doing business in the country limits the capacity of the firms to fully institutionalize responsible business practices. The firms further indicated that they have made the decision not to take part in such fraudulent behavior, which has in turn hindered the progress and development of the business. This deep-seated constraint, which stems from governmental agencies and political leaders drives individuals and businesses to lose faith and interest in benefiting a society and economy that is doing nothing in return to benefit them.

Lebanon is also plagued with political instability that stifles economic growth and business development, specifically in times of war and civil unrest. Conversations about the nature of these occurrences, and the negative impacts they had on their businesses were commonplace in the discussions with the entrepreneurs. For example, the 2006 July war left many of the social enterprises suffering up until the end of last year in 2011, with expectations of financial break even in 2012. Revenues of another also dropped dramatically during the 2006 Israeli invasion. They suffered in terms of "*access to the employees, transportation, deliveries, and just the general slowdown of business.*" Such circumstances make it difficult for any business to survive and thrive. The social entrepreneurs interviewed however showed remarkable ability to live through the misfortune that struck their business during the times of political strife. Their resilience allowed them to persevere. Despite the financial, psychological and logistical difficulties faced in circumstances, such as the 2006 July war, 2008 internal strife, and the current regional turmoil, these businesses were able to bounce back. Today, they press on, despite the high likelihood that conflict will strike again.

## 9.5 Discussion & Recommendations

In assessing each of these cases, it becomes clear that social entrepreneurs in Lebanon are simply doing what they love to do. They express their jobs as a natural development of their passions and their instinctive responsibility to their communities. They are deeply passionate and driven. They have however struggled with the financial know-how necessary to run commercially viable businesses. Aspiring social entrepreneurs should take note of this lesson and consequently audit and optimize their business in terms of the hard skills needed to maintain economic sus-

tainability, if they aim to achieve their social ends. While their social mission will drive the innovation of their business, it must adhere to the various basic elements of revenue generation to sustain. Ultimately, as the Social Enterprise Framework has shown, passion and determination are absolutely necessary in a social entrepreneur's success and an SE, but they are not sufficient.

The blame however cannot be placed solely on the enterprises themselves. While the ground for social entrepreneurship in Lebanon is fertile, the journey is a difficult one, given the plethora of pressing social ills and the infrastructural challenges faced, as discussed above. This adversity presents a potential opportunity for SEs to start solving some of the problems that stifle their ability to grow given their context. This can be possible in the case of need-based social enterprises, whereby the social good is the driving force for the business practice, but which requires a clear understanding from founders, government and society at large about their role and support to succeed in balancing social and economic returns. This is in contrast to starting the social enterprise based solely on the competency and passion of the entrepreneur, which is what the majority of the cases studied in this project exemplify. Thus, a social activist approach to social entrepreneurship becomes a feasible option.

Social activists and social entrepreneurs share similar characteristics. Martin and Osberg highlight this stating "A second class of social venture is social activism. In this case, the motivator of the activity is the same—an unfortunate and stable equilibrium. And several aspects of the actor's characteristics are the same—inspiration, creativity, courage, and fortitude" (Martin and Osberg 2007, p. 37). They are "transformational leaders who motivate people to achieve transcendent or end values such as liberty, social justice, and equality (the ends over means)" (Trivedi and Stokols 2011, p. 11). The difference between social activists and social entrepreneurs is that of their action orientation (Martin and Osberg 2007, p. 38). Activists enact change indirectly and entrepreneurs do so directly. According to this definition, the social activist attempts to create change through indirect action, by influencing others—governments, NGOs, consumers, workers, etc.—to take action (Martin and Osberg 2007, p. 38), whereas the social entrepreneur will make the change himself.

Hence, a successful social entrepreneur should combine action with activism, enacting indirect and direct change simultaneously. They must address the social mission head on, while supporting the institution of an enabling environment that is needed to sustain the solution. Strands of such behavior shine through the social ventures explored in this chapter. Advocacy for policy change, the cross-sector partnerships built and the educational forums and conferences for social awareness conducted are a few of the measures taken to establish the environment necessary of these entrepreneurs to thrive. Thus, social entrepreneurs who have a solid understanding of the issues that affect their communities, and those that have both the fire and clout to influence the system from the inside out, in pursuit of transformation, represent a plausible approach to solving hard-pressed development challenges. The Arab World, plagued by such development challenges, is in need of intrinsic systemic change, providing a platform and an opportunity for activist entrepreneurs to revolutionize the status quo from the bottom up.

Also, the majority of the social enterprises demonstrated resilience, in the face of political instability. In countries characterized by war, conflict and strife, resilience, a subset of dedication and passion, is necessary for the creation of social value, wherein the option of leaving the country and starting elsewhere becomes a much easier and lucrative option. It can be argued that passion is inherently linked to resilience, though there has been no significant casual relationship found in the literature. “No single concept is necessary or sufficient to enhance resilience for any one person” (Kaplan 1999). In the conversations with the interviewed founders, pure observation brought on the notion that nationalism to the country was one significant driver of resilience in the case of the Lebanese. Resilience thus becomes yet another component that has allowed these social entrepreneurs to sustain themselves in the midst of fierce barriers to development and growth in Lebanon.

From a market perspective, Lebanon is a small country that does not always provide a lucrative market place for social enterprises to generate enough revenues to grow and succeed. Each of the social entrepreneurs interviewed are either looking into expanding their business or have already done so, in order to survive. No doubt, scale may need to happen outside, but this does not mean that impact has to decrease within Lebanon. Social entrepreneurs must find ways to continue to manufacture in the country, keeping the production local, but also access global markets. Opportunities outside of market development and in diversification of product lines is also feasible for such businesses to consider when trying to maintain local impact while balancing greater revenue generation. This also contributes to improving Lebanese GDP, which today is highly reliant on service-based business.

## 9.6 Conclusion

Overall, social enterprises in Lebanon are bursting with passion, resilience, and drive, all of which are necessary factors for success. They have established successful soft skills. The basic concepts of the business are sound; as they have met many of the criteria presented in the success factor framework synthesized in Fig. 9.2 and have thus withstood the challenges that mark the journey of a start-up business. These businesses also seek to address some of the most pressing social challenges facing the country today. Nonetheless, these social enterprises can still surely improve their hard skills—strategy, operations, growth and scale. Nevertheless, they are facing difficulties that are very much woven into the social fabric of the country.

Lessons on managing these institutional threats can be learned from the Lebanese setting. To begin with, SEs should find ways to allow the marginalized to play a more active role in both the production and consumption of the service offerings of the social enterprises. Community-based models of social enterprise were not prevalent among the social enterprises interviewed in Lebanon, and present a plausible opportunity for social entrepreneurs aspiring to create sustainable change. Additionally, international market potential should be considered for greater scale, considering the size of the Lebanese market, though this must be audited against the

social purpose so as to ensure that social value creation is not compromised. Last, but not least, activism and resilience have proven to be additional factors of success that social entrepreneurs in similar socio-economic and political contexts must consider in their pursuit of value creation.

Discussions with these social enterprises have also shed light on the lack of awareness and interest stemming from both the public sector and the populous at large, as well as the inherent corruption, political instability, and short-term decision making structure that characterize Lebanon all contribute to what Michael Porter (2008) would refer to as an “unattractive industry” in a “relatively bad position.” While this deters commercially minded entrepreneurs in Lebanon from considering social enterprise, it simultaneously calls for highly passionate, resilient, and commercially minded social activists driven by the benefits of long-term investments to step forward as the social entrepreneurs who will be the difference that is needed in this part of the world. Though few in number, the successes of the case studies presented in this chapter are real-life quality examples of this plausible transformation.

Social enterprise is not the one and only quintessential approach for economic development and societal progress. However, it does pose a sound solution for the social and environmental challenges faced in the region. In order to have large-scale sustainable impact, social entrepreneurs need to be successful and exist within enabling environments that allow them to thrive. Today in Lebanon, there is a growing ecosystem of support in the form of incubators, accelerators, and networks that foster entrepreneurial growth and small businesses development. Universities in Lebanon have also begun mainstreaming sustainability and social entrepreneurship into the curriculum and encouraging relevant research which has also increased the awareness and development of the topic. This growing platform is a place that social enterprises can and should heed for in pursuit of further collaboration and growth.

Lebanon is also replete with non-profit organizations that are working towards the improvement of the various sectors of economic development, but they are in need of guidance and resources. Partnerships between aspiring entrepreneurs and NGO's, not only in terms of mobilizing the necessary capital and resources, but also in ultimately collaborating and working towards alleviating the same challenges, should be leveraged. Integration should cross sectors for maximized social impact and financial success.

Nevertheless, this chapter underscores the notion that often times, the countries that need social enterprise the most, are those wherein the conditions for success are the most difficult. This study helps to paint a picture of that which will allow social enterprises to thrive in the Arab World, a region that is characterized by intrinsic hardship. These enterprises will in turn become role models for aspiring purpose-driven entrepreneurs, whereby a virtuous circle of “good” competition is sparked and sustained. Ultimately, existing and emerging social enterprises must internalize the success factor insights, while understanding the institutional factors that they will face in the developing country context. With this, they can work towards striking the balance between purpose and profit and drive the sustainable and replicable change needed to move the Arab Region forward.

## Appendix 1

| Souk al Tayeb   | 2B Design  | Cedar Environmental   |
|---|--|---|
| <ul style="list-style-type: none"> <li>• Beauty</li> <li>• Preservation of tradition and cultural heritage</li> <li>• Compassion</li> <li>• Reconciliation/social integration</li> <li>• Respect for the environment</li> </ul> | <ul style="list-style-type: none"> <li>• Bridging ends between food producers and consumers by increasing presence in new markets and regions</li> <li>• Promoting social and economic recognition for small food producers</li> <li>• Contributing to the preservation of tradition through culinary events and the promotion of traditional recipes</li> <li>• Building citizenship among diverse communities through the promotion of respect and interaction</li> <li>• Impacting the environment through the introduction of new campaigns and new environmentally friendly practices</li> <li>• Developing a platform for diverse communities to gather to share a common vision and set of values.</li> </ul> | <ul style="list-style-type: none"> <li>• 0% environmentally safe and affordable treatment of Municipal Solid Waste. - No burning or landfilling. Strive for 95% or higher Recycling Rates. - 100% Committed to organic agriculture. - Support and train farmers in their switch from traditional agriculture to organic and provide them with all necessary certifications - Help farmers sell their organic produce on the local and international markets.</li> </ul> |

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# Chapter 10

## Evolutionary Dynamics of Organizational Legitimacy of a Social Enterprise in a Developing Economy

Sougata Ray and Anjan Ghosh

**Abstract** Several scholars have emphasized the critical relevance of organizational legitimacy in the context of social entrepreneurship and social enterprise. However, the extant literature has given scant attention to understand the temporal and evolutionary dynamics of legitimization process in a social enterprise at different stages of its life cycle. In this article, using interpretive methods, we present our observations and conceptualization of the approaches, mechanisms, and processes adopted by the Child In Need Institute (CINI)—a 38 year old established Indian social enterprise to gain and nurture legitimacy from its stakeholders. We explain how CINI has adopted different mechanisms and legitimization processes at various stages of the life cycle. It is evident that the micro-level interactive legitimization processes adopted by different organizational actors at various points in time have led to the evolution of the mission and the strategic direction of CINI over the years.

**Keywords** Social entrepreneurship · Social enterprise · Legitimacy · Embeddedness · Sustainability · Human development

### 10.1 Introduction

After working as a field worker for a few years, I convinced Dr. Chaudhuri, the founder of CINI to provide me a scholarship to work in a remote village. I believed that any rural community did not require external resources for their own development. Luckily Dr. Chaudhuri agreed. I went to a remote fishermen village in Medinipur<sup>1</sup> district and started talking to the villagers. I tried to make them understand that the Government had many development policies; it was just that the benefits were not reaching the mass. In a few months time, I was able to form a women activist group and led demonstrations in front of the Government offices demanding the basic infrastructure like road, water, electricity, school.

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<sup>1</sup> Medinipur was a district in the state of West Bengal, India.

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Although we could see some positive responses, I was called up at the local police station and was asked to leave the village immediately. When I was sent to my next assignment, I was very sure that the activist mode would not bring sustainable development—so this time, I tried to convince various Government and non Government organizations to join us and lead the development initiatives. You know, gradually this approach started showing results. This learning contributed significantly to CINI's strategic concept of CWFC (Child and Woman Friendly Communities) ... Sarat<sup>2</sup>, Senior Project Manager, CINI.

Social entrepreneurship and social enterprises as subjects of inquiry have been receiving increasing attention of management scholars in the recent years. Social entrepreneurship encompasses 'the activities and processes undertaken to discover, define and exploit opportunities in order to enhance social wealth by creating new ventures or managing existing organizations in an innovative manner (Zahra et al. 2009, p. 522) and uses complex organizational form and market mechanisms in addressing social issues (Miller et al. 2012). The main vocation of social entrepreneurship is to meet social and societal needs that have not yet been adequately addressed by the state or the commercial sector (Alvord et al. 2004; Austin et al. 2006; Fayolle and Matlay 2010; Nicholls and Paton 2009; Thompson 2002) by creating and nurturing a venture with a social purpose (Zahra et al. 2009), popularly termed as social enterprise. A social enterprise is the outcome of the purposive action of a social entrepreneur in response to a market failure and institutional void where neither the market forces nor the government could create mechanisms to address certain needs of the society adequately.

Academic interest on social entrepreneurship is a relatively new phenomenon (Nicholls 2010) and primarily covers investigation of social entrepreneurs, social enterprises and processes (Dacin et al. 2010). Consequently, the social entrepreneurs, creation of the social venture and survival and success issues of the SEs have been the major focus of researchers. The evolutionary dynamics of social enterprises over a long period of time has received scant attention of the scholars. Published works on social enterprise (SE) with the organization as the unit of analysis studied the emergence (Cornelius et al. 2007; Dees 1998; Dorado and Ventresca 2012; Marshall 2010; Ryan 1999; Sagawa and Segal 2000), form (Bugg-levine and Kogut 2012; Foster and Bradach 2005; Nwankwo et al. 2006; Peredo and Chrisman 2006; Tracey et al. 2005), structure (Datta and Gailey 2012; Haugh 2007; Rangan 2004; Townsend and Hart 2008; Wheeler et al. 2005) and performance (Battilana and Dorado 2010; Di Domenico et al. 2010; Drayton 2002; Grimes 2010; Hemingway 2005; Hiatt et al. 2009; Kuratko et al. 2011; Mair and Marti 2009; Raufflet and Gurgel do Amaral 2006). Several scholars have emphasized the critical relevance of organizational legitimacy in the context of social entrepreneurship. It is argued that social organizations need to gain and maintain different types of legitimate positions vis-a-vis different institutional and non-institutional stakeholders for its survival and sustenance. It is also observed that changes in the environment often challenge the established legitimate positions of the SEs threatening their sustainability. Therefore, SEs tend to face the challenge of earning and nurturing legitimacies not once at the early stage of the life cycle, but repeatedly and periodically at different stages of their evolution.

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<sup>2</sup> Sarat (name changed) in 2012, completed 28 years at CINI.

However, how the organizational actors of a SE through their purposive actions earn and nurture different types of legitimacy engaging with important institutional and non institutional stakeholders at different stages of the organizational life cycle has not been adequately researched so far. In this chapter we present the outcome of a yearlong study of a reputed social enterprise based out of India to address this gap in the extant literature. In our research we specifically address the following research questions: *what are the different forms of external legitimacy that the SE attempts to gain and nurture while engaging with different stakeholders, what are the mechanisms of earning such legitimacies and how do the legitimization processes shape the strategic direction of the SE?* Using interpretive methods, we have studied the Child In Need Institute (CINI)—a 38 year old well established Indian social enterprise with the mission of ‘sustainable development in health, nutrition, education and protection of child, adolescent and woman in need’. We have explored the continuous interactions between the members of CINI and the field researching how strategies for earning legitimacy get enacted through such exchanges. We have extensively interviewed several organizational actors and dug deep into the archival resources to track the evolutionary dynamics of CINI. The field observations, interviews and analyses of the archival data reveal that CINI has attempted to establish eight types of legitimacy with the institutional and non institutional constituents of its external environment by adopting different mechanisms and legitimization processes at various stages of the life cycle in various combinations and sequence. It is also evident that the evolution of the mission and the organizational strategies of CINI over the years have been influenced by the micro-level interactive legitimization processes of the organizational actors with the external constituents.

The rest of the chapter is organized as follows: We present a brief introduction to the theoretical foundation of our research, followed by a discussion on the methodology—the empirical context, selection of the SE and an account of the research method and process. The description of the social enterprise, our observations and findings follow. We then discuss our observations, draw theoretical and practical implications and end with the conclusions.

## 10.2 Theoretical Considerations

What theoretical understanding must we develop in studying the phenomenon? What would be the theoretical foundation of our study? Dacin et al. (2011) have suggested that the future SE theories could be built on sociology, institutional theory, network theory, study of culture, image, identity and cognition. As our study intend to see the organizational strategies of SE in a larger social context with a key focus on the organizational actors and their micro level exchanges that contributed to the enactment of organizational strategies in earning legitimacy in both institutional and non-institutional context, we have anchored in the past scholarly works on legitimacy (Bitektine 2011; Sonpar et al. 2009; Suchman 1995). We have also given due consideration to the past works on legitimacy in social entrepreneurship (Maguire

et al. 2004; Nicholls 2010; Nwankwo et al. 2006; Rangan 2004; Ruebottom 2011; Sud et al. 2008) relevant for our study.

The study of organizational legitimacy has its origin in organization theories. Till 1960s, management theories mostly viewed organization as a social machine that converted material inputs into material outputs and also as entity isolated from its environment (Scott 1987, pp. 31–50). However there was a considerable deviation from that view when DiMaggio and Powell (1991) argued that structural isomorphism in organizations was a result of institutional pressure from its external environment consisted of socially constructed rules, norms and beliefs. Actions that conformed to such institutional rules were considered to be legitimate (Pugh and Hickson 2007). Around the same time came the concept of open system that defined (Scott 1987, p. 31) organization as ‘systems of interdependent activities linking shifting coalitions of participants; the systems are embedded in—dependent on continuing exchanges with and constituted by—the environments in which they operate’. The concept of organizational legitimacy led the transformation (Suchman 1995). Based on the work of Weber (1978) and Parsons (1960), scholars have made legitimacy an important theoretical focal concept in explaining the forces that shape up the activities of the organizational actors (Suchman 1995).

In his seminal work, Suchman (1995) synthesized the past works on organizational legitimacy and based on his analysis proposed definition, typology and key approaches for organizational legitimacy. He proposed a new definition of legitimacy:

Legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs and definitions. (p. 574)

He found two clear approaches towards legitimacy. The *strategic approach* considers ‘legitimacy as an operational resource that organizations extract, often competitively from their cultural environments and employ the same in pursuit of organizational goals’. The *institutional* tradition believes that ‘external institution constructs and interpenetrates the organization in every respect’. The duality exists in reality where legitimacy acts like organizational resource as well as like a taken-for-granted belief system. Bitektine (2011) did an extensive review of the part literature on legitimacy and extended the typology suggested by (Suchman 1995).

*Internal legitimacy* is obtained from organization’s internal members whereas *external legitimacy* comes from the constituents from the external environment of the organization (Kostova and Roth 2002; Kostova and Zaheer 1999; Bitektine 2011). *Managerial legitimacy* is decided based on efficiency logic; *technical legitimacy* is awarded based on the legitimacy seeker’s technology, quality and qualifications (Ruef and Scott 1998; Bitektine 2011). Typology suggested by Suchman (1995) is consisted of *pragmatic legitimacy*—based on self interested calculations, *moral legitimacy*—based on normative approval and *cognitive legitimacy*—based on taken-for-grantedness (Bitektine 2011). Pragmatic legitimacy is further divided into exchange (practical and transactional consequence), influence (orientation towards larger interests) and dispositional legitimacy (audience believes that its primary interests match well with legitimacy’s seeker’s core organizational objective); consequential (based on performance), procedural (faith on organizational

processes), structural (structure of organization fits in the morally favoured taxonomy of audience) and personal legitimacy (individual charisma) are part of moral legitimacy (Suchman 1995).

In summary, the typology as outlined in organizational legitimacy literature indicates that attaining different types of legitimacy from different external or internal constituents requires different types of actions.

### 10.3 Methodology

Study of social entrepreneurship is a relatively new phenomenon. The phenomenon is best characterized as something that involves intense human interaction in a complex and dynamic social context. As we intend to go closer to the phenomenon we decide for qualitative study (Welter 2011). We decided to undertake an interpretive study to understand the socially constructed phenomenon as this method pays undivided attention to the broader cultural (rather than immediate situational) context within which events and social interactions unfold' (Prasad 2005a). Participant observations and narrative interviews are used to gather data. To analyse the empirical data, we adopt micro-reduction method to filter out the prominent practices. Then following Bourdieu (1986), we moved from micro to macro in order to link such practices and the social and institutional forces that shape and get shaped through the interactions.

We conducted the present study on the Child In Need Institute (CINI), a Non Government Organization (NGO) headquartered in Kolkata, India. The primary reason for selecting CINI was its long and successful history as a social enterprise and its recent entry into social business. Our familiarity with the socio-economic, political, linguistic and cultural context in which CINI operates and the proximity of its operations that facilitates undertaking regular field visits also influenced our choice of CINI.

We started the fieldwork at CINI in December, 2011. We were introduced to CINI by someone who knew the founder director of CINI. We did not approach CINI with a research proposal, but asked for CINI's help to assist us in understanding the development initiatives in the districts where CINI had its operations. The management of CINI agreed and in the next few months, a comfortable working relationship was established. Then we came up with the idea of writing a teaching case on CINI. The case won a global case competition and was accepted by a very reputed global publisher for inclusion in the case repositories. Our relationship with CINI, after the publication, became a trusted one. During that time, we shared our research intention with CINI. The proposal was discussed at CINI's board meeting and approved. We did not require signing any confidentiality agreement, but still tried to ensure the highest ethical standards. In this article, we have masked all the names of the people we interviewed at CINI (except the founder-director) to maintain ethical standards ensuring individual privacy.

Professional ethnography prefers an *emic* rather than an *etic* orientation demanding intimate closeness and yet distance from the natives to be studied. To conform

to the standard, one of us was located in the organization and tried *go native* while the other member worked on to capture the view of the participants from the external environment of CINI. To understand CINI, we interviewed many CINI members—the founder, the additional director, the functional heads, the members of the governing body and a number of present and ex-employees of CINI. We went to the field with the field stuffs, attended internal meetings as observer, joined the employees in lunch, visited their homes and often socialised with them over informal evening meets. We also interviewed the CINI beneficiaries, staffs in Government administrators and employees of some funding agencies. Overall, we interviewed 62 people who agreed to participate as interviewees in our research. The interviews lasted from 30 min. to 3 h. All interviews were open ended and semi structured; many were audio-taped and saved in a secured digital repository system. Many interviewees agreed to be interviewed with condition of anonymity. Field notes were also taken and following the *crafting model* of qualitative research (Prasad 2005b), field strategy for a given day was prepared based on the previous field works—a process consistent with *constant comparative method* (Strauss and Corbin 1998). Periodic back-ups were taken to prevent any data-loss. CINI also provided us access to various records and physical documents including the annual report and audited accounts for the past 38 years. Hermeneutics was used to interpret the texts.

## 10.4 Description of CINI

CINI, co-founded in 1974 by Dr. Samir N Chaudhuri, Sister Pauline Prince and Rev Fr. John Henrichs SJ, initially operated two small health clinics to treat malnutrition in one of the slum areas in Kolkata. In the next 38 years, it has evolved as one of the leading and well respected non-government-organizations in India. With around 1200 people on board and an annual budget close to US\$ 5.5 Million<sup>3</sup>, in 2012, CINI reached more than 3 million beneficiaries through direct and facilitator services. CINI's source of funds was a mix of donations, grants and earning from social business. CINI invented and reinvented itself many times—the mission of the organization has been changed five times (Fig. 10.1) since inception to recognize and adjust into the dynamic environmental contexts.

CINI, in its early days undertook many approaches to address the problem of child malnutrition, an acute problem for India that caused millions of child deaths every year. CINI started daily health clinics in some areas in Kolkata, an emergency rehabilitation centre for severely malnourished children, nutrition supplement production and distribution programs and community awareness programs in villages. As the Government started strengthening its healthcare infrastructure, CINI adopted a facilitator role in assisting the Government. When the Indian Government rolled out Integrated Child Development Services (ICDS) across the country, it invited CINI to train the ICDS employees. With that CINI started an independent research

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<sup>3</sup> Around ` 270 million.

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|------|--|
| 1979 | <ul style="list-style-type: none"> <li>❖ To provide integrated nutrition and health services to the child in need</li> <li>❖ To act as a catalyst in promoting socio-economic development for the poor and needy in the area</li> </ul>  |
| 1991 | <ul style="list-style-type: none"> <li>❖ To develop and implement a community based, low cost, comprehensive healthcare programme for mother and children</li> <li>❖ To organize women into effective groups (Mahila Mandala) who will initiate group action programmes in mother and child health</li> <li>❖ Raise mothers' income as well as that of the family by family level activities</li> <li>❖ Train health and development workers from the govt. And NGO sectors</li> <li>❖ Conduct monitoring and evaluation of CINI's ongoing programmes as well as basic research in PHC activities</li> </ul> |
| 1998 | Sustainable health and nutrition development for women and children in need.   |
| 2006 | Sustainable development in health, nutrition and education of child, adolescent and women in need  |
| 2009 | Sustainable development in education, protection, health and nutrition of child, adolescent and women in need  |

**Fig. 10.1** Mission Statements of CINI. (Created from CINI Annual Reports 1971–2011)

and training unit. The knowledge generated at the research and training unit was then leveraged in serving the street children of Calcutta. In the CINI shelter homes street children were counseled and then provided education so that they could return to normal life and joined school. The bridge courses developed by CINI helped the street children join free government sponsored schools. CINI ASHA was born to work for the urban children. CINI then took the learning to villages and started community driven programs that helped the school dropouts to go back to schools. CINI gradually adopted a holistic, integrated and community driven approach. As in 2012, CINI's mission is "Sustainable development in health, nutrition, education and protection of child, adolescent and woman in need".

## 10.5 Findings

CINI members shared many experiences, thoughts and anecdotes on varied issues and topics during the course of the field study, interviews and discussions. However, right from the beginning in our conversations with the CINI members, it was revealed, sometimes implicitly and sometimes explicitly, that what drives their actions most is the urge of establishing legitimacy of the organization to the relevant constituents of its environment. The data, presented in a thematic form below, portrays the normative order of the organizational players while working towards establishing external le-



gitimacy. As the actions of the individual actors are best explained when one develops an understanding of the actor, its position in its environment, the context and history, we use thick narrations in introducing and explaining the actor-actions. Then we try to filter out the key actions or organizational learning and present our key findings.

### ***10.5.1 Seeking Legitimacy from the New Audience***

As we try to study CINI's evolution, the logical first step is to understand how the key actors worked towards establishing a legitimated position with the target group of beneficiaries.

Dr. Samir N Chaudhuri (Samir), the co-founder and head of CINI told us about his early life and the early days of CINI. He did MBBS in medicine in 1961 from Rangoon, Burma (presently Yangon, Myanmar) and applied to the Indian Army through the Indian embassy in Burma. He was selected and migrated to India. As an Army doctor, he had the opportunity to explore India. He took part in two wars. . . . While in Army, he planned to do specialization in pediatrics and on completion of the service period at Army, he joined the All India Institute of Medical Sciences (AIIMS) to specialize in pediatrics.

Probably what triggered me off was a project that came to me while I was at AIIMS. The project was from the Indian Council of Medical Research (ICMR). It was the first national study on Nutrition that led to ICDS. ICDS was originated from the study. AIIMS undertook the Delhi chapter of the study. My professor selected me to work on the project after some of his students couldn't do much with it. It was a challenging job and my vehicle to enter the domain of malnutrition.

The study was done in the rural villages of Hariyana<sup>4</sup> where AIIMS had a field base. Six centres such as the AIIMS, Institute of Tropical Medicine Calcutta, covered the entire country for the study. It was the first national study to find the causes of malnutrition, how malnutrition affected different age groups and possible solutions. His MD was completed while the study was on. By that time, the remaining part of the entire study was given to AIIMS. With a scholarship from ICMR, he completed the study.

I really worked hard, studied a lot and understood malnutrition well. The scholarly opportunity at that time was very high; many of my works got published easily. One day my Prof told me 'look, ICDS is coming. Will you be a part of it?' My reply was simple 'I got my degree, I learnt a lot, I got a good hold on the subject of malnutrition. I must now return to Calcutta and be with my family'. Frankly speaking, I did not want to take a Government job. My vision was clear—to go to Calcutta, earn a decent leaving, be with my son and take care of my sister and widow mother.

Back in Calcutta in 1971, he started consulting practice. Being one of the few pediatricians in Calcutta, within a few months, he started earning handsomely. Around the same time, his published works got the attention of Jim-O-Connor, the head of the newly established food marketing division at XLRI Jamshedpur<sup>5</sup>. He had a hypothesis—marketing is the basic problem of food distribution in India. Jim was building the core team for the division requested me to join his team as a nutritionist. He envisioned the division to be the national hub of food marketing research in India. Jim invited Samir to visit his centre for 7 days. Samir went there and the research set-up at XLRI again brought back his dream of being a dedicated researcher on nutrition. Jim offered Samir a monthly salary of ` 3,000—an amount equivalent to one-fifth of Samir's monthly earning in those days. Still, he agreed.

<sup>4</sup> A state in India.

<sup>5</sup> *XLRI is one of the leading management institutions in India. It was founded and is still run by the Jesuits.*

Once I joined, I started teaching as well as starting my research. I established my research set-up in remote villages, started publishing papers and even presented my works in two international conferences. However, all of a sudden, the funding for the centre was withdrawn and as a result the initiative got closed. So I again returned to Calcutta. During my stay at XLRI, Father Henrichs, a Jesuit father from Calcutta visited our centre and appreciated my work. He told me that he was trying to work on something called Community Nutrition Program and asked for my assistance.

After returning from XLRI, Samir resumed his consulting practice. One day, out of curiosity, he went to meet father Henrichs. While chatting, he told Samir about Sister Pauline Prince—an Australian nun and a qualified dietician who was trying to develop the community nutrition program in Thakurpukur—suburb of Calcutta. As per father Henrichs, she was absolutely frustrated as the initiative wasn't moving well; She could see the kids there suffering in malnutrition, she tried to educate the community on malnutrition but the outcome of the program was not satisfactory. Father wanted Samir to meet her.

Next day, father took me to sister Pauline and trust me, she was IN NEED (stressing) of a person like me—I have been working in this area for quite some time now...see, in this area there is an acute problem of child malnutrition and subsequent brain damage. You have deep research experience in this area, can you help me? she asked. As I was a visiting doctor in a nearby hospital, I told her that I could be able to commit only a day in a week to work with her. She agreed and we started working together. She asked me 'how should we start?' I told her 'look, the problem of malnutrition starts at home. We need to hire some ladies who would visit every house and help the families to adopt practices to reduce malnutrition, brain damage, infection and other related diseases'. She told me that she would try to arrange for a fund of US\$ 500. The money was arranged. The local Catholic Church provided us space to train the recruited health workers and to start a weekly health clinic. One day Pauline informed Samir that she came across a group of donors interested in giving a onetime fund of 100,000 \$ for malnutrition program. She wanted Samir to lead the program. With that money they formally started daily clinic and the recruitment, training and deployment of female health workers who would visit every household in the Thakurpukur area to educate people on the right practices to arrest malnutrition. Many potential donors started visiting the project and expressed their desire to donate. That time Pauline and Samir felt the need of having a legal organization. Samir shared the thought with Pauline, she agreed to his thoughts.

One thing I made very clear to her 'Look, our religions are different; like you, I am also committed to my religion. I would walk out of the collaboration that day I find that there are religious motives like converting people'. I remember what she replied 'no, no... this is going to be a professional relationship and the organization would be established on this basic principle of professionalism'. In 1975, Child in Need Institute was registered as a Non Government Organization (NGO) with me, Pauline and Father Henrichs as founding directors. Sister worked with me for another 6 years before she went back to Australia... in fact, today she was in Calcutta to visit CINI...for the next 10 years CINI was 100% funded by foreign institutional donors like GOAL, Bread of People as well as by many individual foreign donors. We kept our focus primarily on Health and Nutrition.

Sarat, whose narration we used at the beginning, was one of the early managers at CINI, who was sent to work in Diamond Harbour—an economically backward area, around 20 kms South of Calcutta. When we interviewed him in early 2012, it was his 27th year in CINI:

*My house was close to CINI's office. As child, we got to see the foreigners at CINI, it seemed to be an out of the place, you know! I applied to CINI against a newspaper advertisement. I was in a dilemma whether to join an NGO or not, so did not participate actively in the interview process. However, there was a direct question from Samir that what I would do if I was given ` 100,000. My answer sounded very different than the answers from other interviewees. I said that I would*

*keep the money in bank, every year I would take out the interest and then go to the community asking for a little contribution and the sum would be enough to help a group of children in studies. Remember, our village was the hub for the production of illegal country liquor. As I grew up in that area, I always thought that only interest in education could bring the children out of the not-so-nice environment. So my answer reflected my thoughts. I don't know what played in Samir's mind, but I was hired. I joined against my family's wish.*

In the first 7 years he gradually developed his own views. In his mind, he started questioning the donor funded fully service mode—*How many years one can go to the same set of donors asking for funds for the development of the same set of families?* It was indeed a very disturbing thought for him. To him, charity was not sustainable. He took up a small study to study the social impact of charity mode.

I would like to give you just one example, how do you justify this—a woman spending ` 6 and 2 h in commuting to our centre to collect educational materials worth of ` 5 that we distributed free? Isn't that a problem? So I developed an 8 pager concept note, walked to Samir and asked for a scholarship to go to and work in an area where CINI had no presence. I just wanted to go into an area, help the local people to develop a community organization and to take care of their own development issues through that. Samir agreed...mind it, the scholarship was to cover only my personal day to day expenses.

What a time it was, I stayed in mud huts, had meals only once in a day...kept organizing meetings, I know what it is. I helped up the community women to start their own organization working for their own issues. I got my major learning from there. The Panchayati Raj Institution (PRI) was launched in 1992 and while working in the village, I was convinced of Panchayet's potential in bringing the desired changes in the society. I could also realize the value in the partnership of Panchayet and NGO. I had to wait for another couple of years before I got the opportunity to do something based on that realization. How to think of projects beyond the conventional form?

From the data analysis of patients in our Thursday clinic, we could see that a significant percent of the patients were coming from the Diamond Harbour area. So the thought was to reach the area to support the families taking the pain of coming to the clinic from such long distance. I was given the charter of working in that area. We started Saturday health clinics at some locations in Diamond Harbour and adjacent areas. We deployed a mobile van in which the team of doctors and assistants travelled from location to location in that area. I could see that the temporary arrangements were not enough to support so many patients. From there, the conception of Project Implementation Units was born and I was asked to start the Diamond Harbour Unit (DHU). DHU was started in late 1997. We started with one Panchayet area that had around 10,000 children; today we cover the entire district.

An organization like CINI gets represented by its members. In working with the beneficiaries, the field workers represent CINI. One common challenge that CINI field workers face is to convince the target audience. Here is an article published in the field journal (2012) of CINI:

*CINI is the implementer of the Link Worker Scheme (LWS) in a few districts of West Bengal. This Government scheme tried to reach and help the high risk groups and Vulnerable in a given area....when we started working in North Dinajpur district, our LWS team faced many challenges. Lots of resistance came from the people target group itself as they were not interested in discussing the problems. Frankly speaking, they could not trust us. Our first objective was to establish the trust. Our field workers started helping them in the area of child malnutrition, mother and child health care and also made the group aware of various government schemes for women and child. As we had success in solving such problems and gradually the community*

*members started trusting us. Some young people from the communities realized the importance of LWS and contacted us and they took the lead in designing and rolling out various awareness programs. They even formed a club that started convincing and sending community members to the health centres for HIV/AIDS test. They are also assisting us in bringing positive behavioural changes in the community.*

Why Pauline was looking for the support of a doctor in her initiative at Thakurpukur? This is an important question to understand the birth of CINI. So, we tried to understand why Pauline did not get success when she was working alone before she met Samir. Our field study uncovered two reasons. First, the community, where she worked, had high rate of child mortality. Mothers brought their children hoping that she would cure them. But, she was a dietician trying to teach the community members some scientific practices to prevent malnutrition. So, her actions could not produce any visible results of curing the deceased children. Second, the subaltern community did not understand the meaning of diet. Her actions did not establish legitimacy as it was oriented more towards a social change—which the audience did not understand or could not relate to; whereas the solution that the target audience was expecting from her (i.e., medical treatment) that she was not qualified to deliver. Her actions failed to earn legitimacy. Samir filled the gap when he joined Pauline. As a medical doctor, he could treat ailing children. His qualifications as a doctor gave him the legitimacy and his activities produced results. Still, the collective actions of Samir and Pauline could not influence the audience to adopt child healthcare practices at home. At that point, they trained and deployed local women whose position as community members were already established. Using that socially accepted legitimate position, the preventive healthcare practices were tried to be communicated.

The 2012 LSW experience reveals similar pattern—the actors could not establish a legitimate position initially, thus they started identifying and addressing some issues where the community would easily appreciate the assistance. That approach helped the CINI members quickly legitimize their position.

Sarat's narration points to another interesting finding. Though his actions in Medinipur of trying to be 'one of them' established his legitimacy as an individual to some, his actions were considered threat to a few institutional actors. Our focus here is not to find whether his experiment as an activist was right or not. The notable point is that his actions were not thought to be legitimate to some important institutional actors and as an individual, he could not handle the institutional resistance and thus he had to leave the place without achieving any tangible progress towards his mission. He couldn't sustain the work that he had initiated.

### ***10.5.2 Seeking Participation***

Many donations to CINI had conditions attached to it. The condition of using the funds in providing free services was a common condition. Like Sarat, many CINI members realized that only active participation from the community members could sustain the initiatives. Samir was of the opinion that establishing an exchange relationship would give opportunity to the community members to have their own voice:

*From the very beginning, we charged each patient a nominal fee of 25 paise. The collection hardly helped our operation. We have a tendency of taking free things for granted, hardly putting an effort to realize the value. I wanted the patients and their families to have a voice to demand for appropriate services for which they paid. In the process, I expected the patient families to listen (stress) to the doctors and when back home, to follow the instruction of the doctors. At the same time, we treated those patients free whose family could not even afford to pay that 25 paise.<sup>6</sup> Some institutional donors insisted us to provide free services, we used such funds to provide free health camps in selected areas where the level of poverty was very high.*

If charging token fees for the services was to give voice to the subaltern beneficiaries, involving them to CINI's initiatives was another form of community participation that CINI was looking for. We found instances of such approach in an old journal publication:

*CINI Nutrimix, a nutrition blend of wheat, moong daal and skimmed milk powder providing 1,735 calories and 84.5 g protein in a 450 g polythene pack has undergone feeding trials in South Calcutta on 2,400 pre-school children over 6 months period. Mothers at the slum or village level participate in preparing the blend and are exposed to nutrition and health education by trained mother and child health workers. CINI-Nutrimix serves as a catalyst and helps integrate inputs of nutrition and health education along with its basic healthcare for pre-school children ....selection of beneficiaries and mothers participating in the programme is left to local community leaders, space for preparing the supplement is provided rent free by the community, raw ingredients stored and guarded free by the local community...a contribution of 25 paise/pkt is charged from all beneficiaries, along with a service charge of 25 paise per clinic visit...all children participating in the programme had to purchase a weight for age card for 50 paise...the authors are deeply indebted to the Loreto Sisters of USA who have funded the projects for 6 months. Grateful thanks are also due to Catholic Relief Services—USCG who helped in directing funds and food resources to this project (Chaudhuri and Prince 1978)*

For the implementation of the initiatives, CINI tried to hire the field workers from the community that the initiatives intended to serve.

*It is an absolute must that the field workers are local ladies. There are certain habitus that we, being the externals, would never know. The local workforce trained by us could be a critical means for us to make the campaigns socially acceptable. Even today, this is a key operational strategy, for any project or initiatives; we first look for local resources. Nitu<sup>7</sup> Administrative Head, CINI.*

The above narrations surface another set of normative beliefs at CINI 'engaging with the target community through exchanges that followed socially accepted norms would contribute in earning desired social impact'. Samir's expectation behind charging token fees for the offered services wherever possible was that it would give the target audience a voice. A voice that would enquire, seek explanation and then through that communication channel CINI would seek a legitimate

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<sup>6</sup> 1 Rupee = 100 paise.

<sup>7</sup> Name changed.

position. Apart from seeking community participation through the recruitment of individuals from the community, we also found an additional set of actions like giving some decision making power to the community leaders, sharing activities for the initiatives undertaken by CINI. Giving the community members more insight to the organizational processes was to seek a legitimate position for the organization.

### 10.5.3 *New Ways, New Opportunities*

Initially, the field workers used to participate in the grass-root activities. They went to the field, primarily to campaign in every household on scientific childcare practices. Some of them started realizing that the campaigns were not effective. They also gave possible reasons of failure—the campaigning language was too technical that the members of illiterate or semi literate households did not understand. CINI felt the need of building competencies to understand the culture of the society, innovate appropriate communication techniques and have more grounded solutions in addressing the community issues. We met Payel<sup>8</sup>, the head of CINI's research and training unit. When we met her, it was her 26th year in CINI. She joined CINI immediately after completing her PHD in Social Anthropology. CINI was the only organization that she served. She joined as a Project officer. A growing need was hard-pressing CINI then—training of the field workers were not structured at CINI. The need was continuously felt to develop a training facility to train the newly recruited health workers and volunteers. As a field officer, she had to closely work with the Assistant Director of CINI. One day, he asked her whether she would be interested in building the training operation of CINI. She agreed and a new division 'CINI Chetna Resource Center (CCRC)' was born. She had been leading CCRC since then.

*The first batch, trained at CCRC, was a mixed group. The group consisted of people with varied ethnic background, varied level of literacy—illiterates to semi-literates, varied profile. It was a real challenge to design a training program for this kind of audience. We had to do away with all the jargons. It was nothing that I was prepared for. I had to start from scratch. At CCRC facilitators understood the challenges that they were going to face as a training unit—due to considerable variation in profile and background, different people would have different interpretation of the same thing. Thereby need was felt for having more simple, user-friendly, graphical content.*

Though ICDS/Anganwadi programme was launched in October, 1975, Government struggled to make the programme a success as there was no proper training facility available to train the ICDS workers. In early '80s Government approached CINI for training its ICDS employees. At the beginning, we received ` 50,000 per year for training ICDS workers and 5 dedicated trainers managed the program. In the year 2012 we received Rs 5 Crores<sup>9</sup> for training Anganwadi workers. The number of dedicated trainers has also grown from 5 to 30. ICDS remains as our main source of our revenue generation, over time Government has shown faith in our style of

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<sup>8</sup> Name changed.

<sup>9</sup> A crore means 10 million.

learning delivery....As Government of India initiated the Reproductive and Child Health (RCH) programme in October, 1997, we adopted the concept of Life Cycle Approach (LCA) in order to address a number of interrelated issues of child health and nutrition. For the effective implementation of RCH programme the concept of Regional Resource Centre (RRC) came up. In 2012 CCRC served as RRC for seven north-eastern states of India. In November 1998, the National Institute of Health and Family Welfare (NIHFW) recognised CINI as a Collaborative Training Institute.

*We partnered with Indira Gandhi National Open University (IGNOU) to start Community College initiative to impart skills for employment and self-employability, particularly to the marginalized and underprivileged sections of society. As community training became an area of competency, we started working with the street children education with the support from UN and the Government. Gradually, we took the model to work with the school drop-out in villages. As, at village level, we maintained data for the children to track drop-outs, it became a useful source of information to prevent child trafficking and child marriage. With the help of local communities and administration—we extended out services towards child protection.*

Payel's account points towards the formation or emergence of another few practices that helped the organization strengthen the interaction with its environment. We have tried to find such practices and the key motives behind those. One key motive was to search for a legitimate *language* that the target community would understand. If the services were to influence the existing social practices that needed to be improved or to seek behavioural changes, both the content and the processes needed to be something appropriate for the target audience; again, something legitimate. The involvement of the community in co-creating the processes and contents were thus felt a necessity. CCRC was created as the platform. The acquired competency and output of CCRC helped in earning legitimacy at another level, the institutional players—who found value in what CCRC achieved. This highlights the critical role of CCRC in gaining legitimacy at two levels: from the target audience, by involving members from the community in co-creating the appropriate ways and means for the field workers to interact with the target audience, and from the institutional forces as the processes and outcomes were very appropriate and useful for a larger community of beneficiaries.

The observations are also supported by CINI's mission statements of 1991 that indicated CINI's foray into research and development, training of other NGOs and Government.

### **10.5.4 Diverse Opportunities and Key Challenges**

CINI did not get much success with a broader focus as reflected in its 1991 mission statement. We interviewed Suresh<sup>10</sup> who, after serving CINI for 30 years, retired in 2011. He told us about his early days at CINI:

*I just completed 10th standard when Government of India started various self-employment schemes for the unemployed. With the help of CINI, we started a self*

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<sup>10</sup> Name changed.

*help group. Few members bough cattle, I acquired an irrigation pump that the farmers rented, a few opened small shops. As we did not have experience, none of the ventures survived. True, that CINI got us loans under the schemes but we did not get support from them in running our respective businesses. Once the business failed, some of us kept pressuring CINI management to give us jobs and finally they agreed....however employment services of most members of our group were terminated soon, but I was lucky as CINI kept me...*

We tried to find the reasons for the failure or withdrawal of many such services and the reasons why CINI offered newer services. A few things enacted the CINI leaders in taking such decisions. First of all, because of having a deeper understanding of the community, CINI became aware of other issues affecting the community. Second, the leaders believed that using the existing legitimacy, CINI would be able to work with the community in addressing other such issues. Moreover, using the legitimated position established with the donors, CINI was able to mobilize funds. The leaders envisioned CINI as an organization that would be able to address most the key issues of the communities it worked with. So, what did not work? Our findings suggest that in many areas CINI failed for not having the required technical expertise. For example, CINI mobilized donors to finance the beneficiaries to help them in starting small businesses; CINI anticipated that the beneficiaries won't need any further support in making their respective economic activities successful. The economic activities undertaken by the beneficiaries were so diverse that CINI could not offer them the required vocational training. So, most of such initiatives failed. On the other hand, CINI was successful in addressing the issues that were affecting CINI's core audience—'the women and child in need'. So in many cases, using the same set of fieldworkers, CINI could extend its services in addressing issues such as pre-school education, child protection, etc.

Failure in handling a wider set of core activities, we found, challenged CINI's legitimacy in many ways. Failures resulted into withdrawal of services, into downsizing of workforce that included members from the community, in getting pressure from some institutional forces to continue with existing services and also into lowering donor confidence. We noticed major change in CINI's mission statements of 1998 that talked about health and nutrition for 'women and child in need' as the only focus areas. 'Education' was added in mission statement in 2006 and 'protection' was further added in 2009 mission statement indicating an approach towards careful and logical progression in expanding its offered services.

### ***10.5.5 Rapid Environmental Change and Search for New Legitimated Position***

From early '90s, the Indian Government started liberalizing the economy gradually with the intention of aligning it with the global economy and moving towards a relatively free market economy. With the support from bi-lateral and multi-lateral agencies, India increased the budget for strengthening the development infrastructure. Many new policies were introduced with a vision of inclusive growth. The



relevance of the offered services of many NGOs was challenged due to the newly established Government infrastructure primarily in healthcare and education. Sarat gave an interesting narration of his experience in starting CINI DHU in 1992:

*Initially we did all the activities by our own, like we did in all projects—because of the vast population, it was becoming impossible. I could also feel that our direct intervention model was loosely coupled with the community, the relationship was more of exchange relationship—we need it and you have it. The division between ‘we’ and ‘you’ were very visible. How to bridge the gap—was my thought. There were small local NGOs and community clubs that we thought of collaborating to for the delivery of the services. I thought of building capacity of those organizations so that the services would continue when we left. But that did not happen; those entities were gradually becoming dependent on us and on our funds. As priorities were different, this model did not work. I had to look for a different approach...So then I looked at the Panchayati Raj Institutions (PRI) and started visiting the Panchayet offices. What is Panchayet? It consists of people—right? So in due course, the head of one panchayet became close to me—almost like friends. I told him ‘look, how about a partnership model. I will definitely bring some money, but I need your active participation. You give me infrastructure...as you have better access to people, so give me field level support...you should also share little cost, you don’t need to pay us the money...let’s plan for a joint programs and we’ll share the activities and other costs, there should not be any financial exchanges between CINI and the Panchayet’. He then convinced the other elected members of the Panchayet and then we signed an agreement. Everything was transparent. The elected members of the Panchayets are associated to political parties. I even started talking to the parties that such development programs would only brighten the image of the party and the Panchayets let by it. It was not an easy task but I was clear to my consciousness. They probably realized that through this the local leaders also would get greater visibilities. It was something new and as the first initiative got good response, other Panchayets showed interest in similar arrangements. I personally visited households, talked to the families, talked to the elders and in the process created 42 self help groups. There are sensitive zones in the area, lots of criminal activities..the leaders came to me and asked for my help to ‘do something’..you know (to us), you must also do a study on how our intervention helped to reduce the criminal activities in those areas (laugh). Check with the government records, the two areas (took two names) where fighting and even murders were almost regular events did not have a single case of murder from 2002 to 2012.*

*Why people would get aligned to something if there is no fun? We started sports events and cultural centres in the area, it was a great move. Through this process, we develop strong bonding with the individuals and community as a whole. Once the base got cemented, then we started talking about malnutrition, importance of education, problem of drop-outs and child trafficking.*

*Even the CINI management looked at my activities with suspicion that I was getting politically aligned. I spent lots of time explaining Samir and other leaders that I was working with the Panchayet system and not with any political party. The funds were coming from Panchayets that received funds from the Central and state*

*Government. Gradually they could see my point. Sustainability has a simple meaning to me—when I am not there or even CINI is not there, the works that we started must continue. With that vision, I go ahead and select institutions like Panchayets who have the ability to take it forward. I insisted for written contracts with the institutions (shows me a bunch of files full of legal contracts). In many Panchayets, I work as principal consultants. I tried to bring a shift in the mindset of the people, the initiatives are not led by CINI but led by the Panchayet or community, supported by us. In the annual reports of the Panchayet, look here... (showing some annual reports of a few Panchayets), here are the reports of the initiative taken by the Panchayets and CINI's contribution in it. We are transparent, we are established and we are accepted. Even though there is no guideline from the Government for the Panchayets to publish annual reports, but we help the Panchayets where we work to publish such reports, isn't it good for them? Am I not good for you researchers (laugh) as I am giving you so many evidences to support my sayings?*

Sarat himself termed the event as a *paradigm shift*—to join other prominent institutional actors such as the Government and work towards sustainable development—from the position of an independent agent to take a new position of an active constituent in a system in the development field.

CINI in 2012 is very different than what CINI was even a decade ago. As we travelled independently to the locations where CINI had presence, the local people had different views on CINI—some thanked CINI for saving the lives of their kids, many gave CINI credit for their education, many Government officials that we met expressed their dependency on CINI in the implementation of many development projects for the women and child and we also came across a number of people who accused CINI for withdrawing the direct services, retrenchment etc. Was the change necessary? Wouldn't it have been better if CINI continued with only donor funding? With a few such questions, we met Rakesh<sup>11</sup>, the associate Director of CINI:

*From late '80s, many changes happened in the environment. The donor funds started becoming conditional; a number of donor agencies opened their project implementation offices in India, the global economic condition made the foreign funds from individual donors unpredictable. In the Indian context, the number of NGOs increased rapidly and we had to compete for the donor funds. The nature of competition demanded a so called professional attitude, so we needed a different kind of professionals- internal cost was increased. How could we cover the cost? On the other side, the Government put significant emphasis towards development and inclusive growth, the overall development infrastructure including policies and grants started becoming better and better.*

*What are the options we had? To compete with the Government with our services?... What's the point in doing so? Isn't that a waste of resources? So it was a conscious decision to strengthen the Government's development infrastructure by offering our direct intervention services, knowledge services and facilitation services. Today 70% of our funding come from various Government projects, donor funding and other income constitute the rest...*

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<sup>11</sup> Name changed.

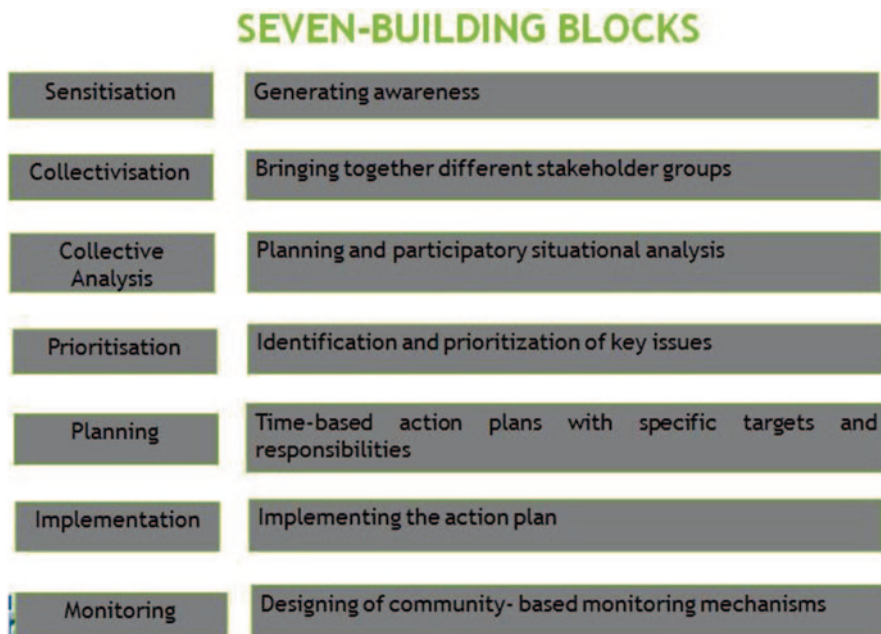


Fig. 10.2 CINI Community Interaction Framework. (Source: CINI CWFC Brochure 2011)

We notice that during the first half of '90s, CINI's legitimacy as an independent development actor was challenged. Due to the improvement in Government infrastructure, in many places, the offered services became redundant. CINI, till that time, worked in areas where the institutional services either did not reach at all or had marginal presence. CINI, as an organization, tried to *fill in* such voids. But in the new scenario, strengthening the development infrastructure of Government and other institutional players became the new approach. It required the actors to look for legitimacy at two new levels: at the ground level, to establish new position of legitimacy by offering knowledge and facilitation services to the institutional players like PRI and at the other level, re-establish itself to the target audience or communities as a partner in a larger system that worked towards sustainable social development. Working with the PRI system became a norm for the field leaders in defining and establishing new form of legitimacy. CINI's top leaders then tried to market the success obtained at the ground level to form and nurture legitimacy with the relevant Government institutions. One organizational norm that remained probably unchanged at CINI is its orientations towards projects. Over the years, CINI has formalized the process of managing projects (see Fig. 10.2) and it is one of the instruments that touch almost all CINI members. The culture of project is a strong culture at CINI. Even while deciding the mission of the organization, the key members look at the ongoing projects, classify those under broader areas, review

organizational strength under each such area and the review findings become a key factor in deciding future goal of the organization.

## 10.6 Discussion

Institutional void could be a possible antecedent to the emergence of social enterprise (Mair and Marti 2009). Legitimacy is an important variable for the performance of SE (Ruebottom 2011). The importance of ensuring community participation in SE activities has been established by past studies (Haugh 2007; Nwankwo et al. 2006; Peredo and Chrisman 2006) Thus earning legitimacy from the target community could be a critical factor for organizational success. From the observations discussed in the previous section we find that the first focus of the organizational actors remains on the community or group unable to have access to the existing development infrastructure: high child mortality in the Thakurpukur area was the reason for Samir set up the first clinic there. Sarat was sent to work in the DH/area precisely for the same reason. To start the operations the respective actors had to be convinced to have two competencies either in themselves or in the organization—one, that they had the required technical knowledge to address the problem and two, their actions would be legitimate under the specific societal norms. Getting the attention of the individuals in the target community was the first objective. That could be established through direct exchanges with the community members. The establishment of legitimacy was dependent of the outcome of such exchanges in terms of practical consequences. *Exchange legitimacy*, a form of *pragmatic legitimacy* was precisely the first form of legitimacy that the actors tried to establish for themselves using the existing cultural capital (Bourdieu 1986)—technical competence, educational qualifications, personality of the individual actors.

As the exchanges reached a certain mass or a critical section of the community where the section looked at the individual actors responding towards their larger interest, the next form of legitimacy was more socially constructed (Giddens 1984)—*influence legitimacy*. Only at the juncture, the conception of an *organization* was introduced. When we talked to the beneficiaries in the areas where CINI just started operation, we found that the beneficiaries were more comfortable in describing the CINI as *Samir and his organization* or *Sarat's organization*. Legitimization at this level cannot be obtained in a short period of time, in CINI's case, it took years. However, we find justification in this slow but careful approach conceived based on deep understanding (Mair and Marti 2009) of the target audience. Consumer and seller behaviour has expressive, moral and emotional underpinning that cannot be understood without a broader conceptualization of human motives and actions (Varman and Costa 2008). For poor consumers, exchange restrictions and related negative consequences associated with poverty make the access to the market much more difficult than is often contemplated (Chaudhuri 2010).

Lewis (1967) was one of the firsts to define the “culture of poverty” as a design for living that is passed on from one generation to the other. At the individual level,

the markers of the culture of poverty have strong feelings of marginality, helplessness, dependence, inferiority, ability to defer gratification, and fatalism. At the level of family life, the culture of poverty is marked by a high incidence of the abandonment of children and mother, and a trend towards single mother families. They also rarely connect with the major institutions of the larger society and make inadequate use of banks, stores, entertainment (Kumar 2009). Lewis (1967) argues that the culture of poverty should be seen as a response by the poor to their marginal position in a class-stratified society. Once established, the culture of poverty tends to perpetuate itself from generation to generation. Shanmugam (1957) finds that this group of people had a higher emotional instability. Pareek (1970) defines poverty as a function of deprivation, helplessness and dependence. In his opinion, poverty causes three-fold motivational pattern viz. low need achievement, low need of extension and high need for dependency. Legitimacy based on dependency as a mere receiver of benefits was not something that CINI's actors had in mind, so a token exchange mechanism was established to treat the audience as participant and to strengthen the base of *exchange legitimacy*. Sen (1999) argued for considering the deprived as agent of development and not just a mere receiver of aids.

Low-income consumers often show great skills in exploiting their environment to exert some control within their lives (Hill and Stephens 1997). They try out various coping strategies at cultural, psychological and behavioural levels to minimise their existential anxieties, so to say, in the form of everyday resistance (Scott 1990). In studying subaltern ethics, Howe (2003) argues that under relations of vastly unequal power, narrators may have had to become circumspect and deceptive, or may have had to perform actions that violated their deepest ethical norms, or energetically furthered the projects of oppressors. Under such context, the CINI actors had to find ways to earn *moral legitimacy* for the organization—to make the organizational actions socially acceptable. As the social outcomes of the actions were not immediately achievable, the actors preferred earning *procedural legitimacy*, a form of moral legitimacy earned through processes appropriate for the society. CINI actors thus focused in developing the *appropriate methods*. Involving the community members through recruitment, deployment of local talent as project lead and through their participation in co-creation was the strategic step in earning *moral legitimacy*.

In CINI's early days, the leaders of CINI envisioned the organization to attain *cognitive legitimacy*—the taken-for-grantedness of the organization by the society. The vision was to engineer (Zahra et al. 2009) the development processes through the attained position of *cognitive legitimacy* in the community of beneficiaries. However, such position was a difficult position to manage (Suchman 1995). The beneficiaries started asking for employments, often there were physical attacks on the organization when projects were completed, withdrawn. That was the time, the leaders looked for a different model—to position CINI to the beneficiaries not as an independent development agency but as a part of a system of development agencies where the system would have a *cognitive legitimate position*.

The influence of institutional forces on SE has already been observed (Dorado and Ventresca 2012; Miller et al. 2012). CINI's actions had high dependency on a few major institutional forces—the donor agencies, the bilateral and multilateral

agencies and the Government. In the first 10 years, CINI had complete dependency on the donor funds. The first series of funding came because of the *personal legitimacy* of Sister Pauline, Father Henrichs and Samir. Project proposal and project reports were integrated part of the funding process. Donors and potential donors also visited CINI's operations. The reports presented to them were actually reports on social progress presented in numbers and through narrations and pictures. As funds came based on the outcome of the past projects—to us it was *consequential legitimacy*, a form of moral legitimacy established based on the past accomplishments. As CCRC got established, the project designs started aligned to the practices of bi-lateral and multilateral agencies to attract the funding from donor agencies, the international organizations also demanded specific structural approach for the disbursements of funds—so *procedural, structural and consequential* legitimacy were the positions for achieving one type of institutional legitimacy. This findings supports the past work of Dart (2004) and Baur and Palazzo (2011).

For institutional players, choice of development partners depends on the project sustainability and partner accountability (Cornelius et al. 2007) making it necessary for the SEs wanted to be partners, to earn legitimated position from the institutional players. At partners, SEs can provide support services or facilitation services to the institutional players engaged in development (Cornelius et al. 2007).

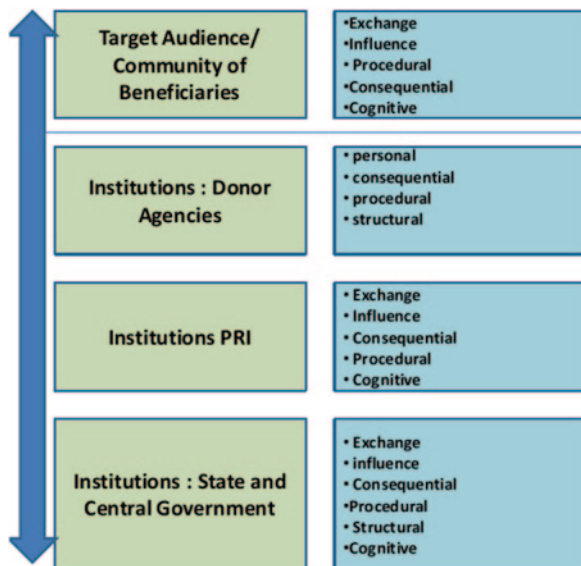
India has quasi federal Government, the citizens of India elect members for central, state and local governments. Power is divided between the central and state government. Municipality and Panchayati Raj Institutions (PRI)<sup>12</sup> are lowest form of local administrations. Grants under various state and central Government schemes are disbursed through PRIs for the development projects. PRI was rolled out in 1993 through the 73rd. amendment to the Indian constitution. CINI first worked with the Government in the ICDS program. CINI was awarded the assignment based on CINI's performance in similar projects that already earned CINI *consequential legitimacy* combined with the *personal legitimacy* of Samir. So, previous performance was the precedence in earning *consequential legitimacy*. That position helped CINI actors to be in various Government policy committees. As CINI grew, it obtained the *structural legitimacy* in terms of size and geographical reach that qualified it to be part of various development initiatives funded by the Government. That was the explanation of *institutional legitimacy* at central and state level.

At an interpersonal level, the legitimacy was still *pragmatic (exchange legitimacy, to be more specific)*, where CINI members had to continuously convince the individuals at various decision making bodies assuring results that would improve the individual image and performance records of the individuals in the decision making bodies. Sarat, with the PRIs, did the same—establishing exchange legitimacy first and then moving towards gaining *consequential legitimacy*. The approach of working as an integrated part of a *larger development system* minimized the risks that CINI faced earlier while it tried to earn the cognitive legitimacy for the communities it worked for. As on date, the practitioners of strategy at CINI tries to maintain

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<sup>12</sup> <http://www.mapsofindia.com/events/republic-day/indian-panchayats.html> has good description of PRI.

**Fig. 10.3** Organizational legitimacy through strategic actions at CINI



the balance at two level—towards gaining *cognitive legitimacy* from the other constituents of their envisioned holistic development system and towards establishing cognitive legitimacy for this holistic development system to the target audience. CINI conformed to the norm that SE needed institutional support for success (Sud et al. 2008). As Samir said in the final interview “ *when we started, our approach was to find the gaps in the system and then trying to fill the gap, after more than three decades, as the Government infrastructure keeps improving, our contributions today are towards strengthening the system (stressing the word ‘system’)*”

Our findings indicate that the practitioners of SE focus in earning and maintaining different types of legitimacy through appropriate strategic actions and that in turn, contribute to the survival and sustenance of the SE. Figure 10.3 summarizes our key understandings—the type of legitimacies that an SE would most likely try to earn from different institutional and non institutional stakeholders that in turn would continue in defining the organization’s strategic actions towards achieving its goals. Figure 10.4 shows how the continuous cycle of organizational mission, strategic actions and the process of legitimization drives the organizational evolution.

### 10.7 Conclusion

Often past research on SE is criticised for mainly being descriptive, atheoretical and biased from the tendency of stylization, heroic characterization, power concentration and local embeddedness (Dacin et al. 2011). Some argued that it lacked established epistemology and future work should focus on rigorous theory building and careful empirical testing (Nicholls 2010). We believe our theorization makes

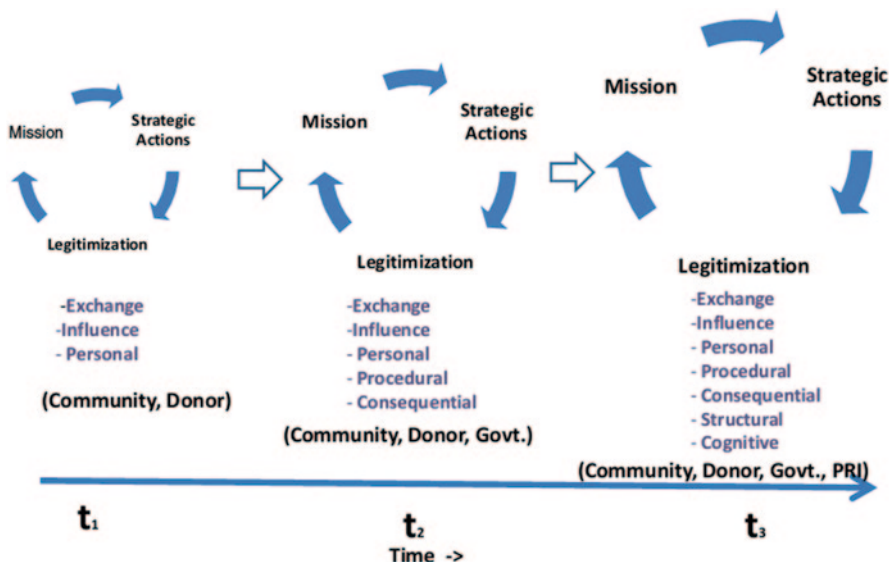


Fig. 10.4 Organizational evolution through legitimization

valuable contribution in advancing the recent theoretical works. First, we extend the existing SE works on legitimacy (Miller et al. 2012; Miller and Wesley II 2010; Ruebottom 2011; Sud et al. 2008) by showing how organizational strategy gets enacted through the exchange between the actors and the field in gaining and maintaining legitimacy; second, our study also extends the work of Corner and Ho (2010) as it shows how the continuous process of evaluating the organization’s position as a partner in development and making necessary internal adjustments contribute to the evolution of a SE; third, we complement the work of Rangan (2004) and show how short term projects can contribute in attaining long term and broader social objectives of SE. We sincerely believe that our study also generate new insights on organizational strategy and legitimacy in the context of social entrepreneurship and social enterprise.

### 10.7.1 Implications for the Practitioners in Social Entrepreneurship

Our study has a number of implications for the professionals in the field. First it highlights the importance of having deep understanding of society and technical understanding of the social issue. We believe that the combination of the two creates the right platform to develop concepts and processes in solving the social issue. In fact, the same could also guide the appropriate legal form of organization. The professionals should give importance not only to the success of projects but the



channelization of projects toward fulfilling the long term organizational goals. Often we have found that social organizations focus either in earning legitimacy from the beneficiaries, or from the institutional forces. Some organizations even understand the value of both but miss the elements to connect the two processes. Through the study, we highlight such crucial junctions and also show how one organization has dealt with such challenges. We have deliberately avoided being normative by finding and highlighting the best practices of CINI. Instead, we have focused our attention in identifying the strategic elements that the practitioners should give due consideration to, while formulating the strategies towards earning and nurturing different types of legitimacies.

### ***10.7.2 Limitations of the Study and Scope of Future Research***

Our study is context specific and the objective is to identify a few concepts underlying the myriad of actions and present those in a coherent framework as a step towards theory building and guiding practice. We are aware of the limitations of generalization from a single case study. Neither do we claim to have produced generalized theories applicable in all contexts. We expect our work to initiate scholarly debate and discussion towards strategy formation in social enterprises with special emphasis on legitimacy. There should be other theoretical considerations in studying organizational strategy in social entrepreneurship. Our theorization has followed the process of descriptive theory building. More such studies are needed to develop testable propositions, which should be tested empirically under normative theorization process to have another level of insights.

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# Chapter 11

## Developing Businesses and Fighting Poverty: Critical Reflections on the Theories and Practices of CSR, CSV, and Inclusive Business

Mara Del Baldo

### Abstract

#### Purpose

The work explores the development of inclusive businesses, paying particular attention to the mission and the motivations underlying the choices of sustainable businesses that—by increasing access to goods and services and creating new sources of income—benefit low-income communities and bring added value for companies and people living in poverty alike.

#### Research design/methodology

Our approach is both deductive and inductive. After having outlined the theoretical framework, we provide multiple case studies relative to different inclusive business experiences. This is followed by a discussion on the different approaches in which we try to categorize them according to two fundamental types: CSR (Corporate Social Responsibility)-oriented approaches and CSV (Corporate Shared Value)-oriented approaches.

#### Findings

We found that there are a variety of inclusive business models whose differences can be predominantly attributed to the ethical perspectives at the base of their entrepreneurial formula.

#### Value/originality

The value of the study is attributable to the attention paid to the authenticity of the mission of inclusive business, which lies in an ethical orientation toward poverty and disadvantaged peoples. This helps evaluate inclusive business experiences, often less known—as the EoC (Economy of Communion) companies, or the “ideal motive” SMEs—in which the principles of inclusion, responsibility, and sustainability are based more on the authentic virtues and charisma of the entrepreneurs and managers than on the desire to conjure new ways of making a profit by reducing situations of poverty in different areas of the world.

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**Keywords** CSR (Corporate Social Responsibility) • CSV (Corporate Shared Value) • Inclusive business • Authenticity • EoC (Economy of Communion) companies • CBE (Community-based Enterprises) • “Ideal motive” SMEs (small and medium-sized enterprises) • Social enterprises

## 11.1 Introduction

One of the greatest challenges in business orientation toward CSR (corporate social responsibility) and CSV (corporate shared value) is the issue of poverty, often discussed in the context of the base or Bottom of the Pyramid (BoP). Over the next few decades, the incidence of poverty is likely to rise if the problem is not tackled aggressively (United Nations 2001; World Bank 2001). Today, the overwhelming majority of people who have to get by on less than \$ 2 per day live in rural areas. By 2050, the planet will have 3 billion more people than it does today. The people at the bottom of the global income pyramid are not dispersed equally throughout the globe; they mainly live in the urban slums and villages of developing countries. Poverty is a multifaceted phenomenon (Narayan-Parker 2000), and a holistic perspective is necessary to overcome it. In the last few decades, responsibility toward people, the planet, and profit (the so-called triple P; Elkington 1997) has been neatly defined (WCED 1987; World Economic Forum 2009; IBLF 2008).

In September 2000, world leaders decided to adopt the United Nations Millennium Declaration, committing their nations to a new global partnership to reduce extreme poverty and establishing a number of objectives to be reached by 2015. This agreement, known as the Millennium Development Goals (MDGs), refers to the development of a “global partnership for development” in which there is a specific role for companies (Nelson and Prescott 2008). Most companies have the potential to make a contribution to the MDGs through one or more of the following three areas: core business operations and value chain; social investment and philanthropy; public advocacy, policy dialogue, and institution strengthening. An increasing number of large and globalized companies—known for their hard-nosed approach to business and for their narrow conception of capitalism—as well as small and medium-sized businesses (Jenkins 2007; Jenkins et al. 2007; Revell and Blackburn 2007) and social enterprises (Mair and Marti 2006) have embarked on important shared value initiatives (Hart 2010; Hart and London 2011). The emergence of core business approaches to enhancing development impact comes along with an array of terminology for business that is responsible, sustainable, inclusive, pro-poor, high-impact, win-win, or triple bottom line (Table 11.1). “Inclusive business” is the term already used by the World Business Council for Sustainable Development and Netherlands SNV. The inclusive business models also frequently appear in connection with the following two concepts: social enterprise/social business and corporate social responsibility. These models try to answer the question: “Is it possible to fight poverty through business?”

**Table 11.1** Terms/Concepts and Tools of Application for businesses' approach to poverty and development. (Source: Gradl and Knobloch, Endeava Report, Inclusive Business Guide 2010)

| Current terms and concepts                     | Contexts and tools of application   |
|--|---|
| Base (or Bottom) of the Pyramid (BoP)          | It refers to the idea of acquiring people living in poverty as consumers, thus fighting poverty and tapping into a huge market. The focus is usually on the marketing aspect. The Inter American Development Bank (IADB) calls this "opportunities for the majority"  |
| Business linkages                              | It refers to possibilities for establishing business ties with small companies and micro-enterprises in developing countries. The International Business Leaders Forum (IBLF) organizes dialog forums on this topic together with the International Finance Corporation (IFC) and the Harvard Kennedy School  |
| Inclusive business                             | It refers to the inclusion of people living in poverty into business processes along the value chain. This term is used by the alliance between the World Business Council for Sustainable Development (WBCSD) and the Dutch development organization, SNV, as well as by the United Nations Development Programme (UNDP) within the "Growing Inclusive Markets Initiative" |
| Full Economic Citizenship (FEC)                | It is the term adopted by the non-profit organization Ashoka for this concept (inclusive business)  |
| Making markets work for the poor/<br>MMW4P/M4P | It refers to a development strategy that aims to make markets work more effectively and thus increase the income and improve the quality of life of those living in poverty. At the forefront of this effort are the development organizations DFID, SDC and SIDA   |
| Pro-poor value chain development               | It is a method used by development organizations to integrate producers, especially small farmers, more effectively into value chains   |
| Responsible supply chain management            | It summarizes management methods for sustainable supply chain organization. One focus is on the fair inclusion of micro-producers, for example, for agricultural products   |

Social enterprise refers to both newly created and existing entrepreneurial organizations with a social dimension that pursue social objectives as part of their business model, among them fighting poverty. Social enterprises apply business logic to at least cover their costs (Borzaga and Defourny 2001; Dart 2004; Light 2006; Noja and Clarence 2007; EC 2012). Social entrepreneurship is therefore defined as a process that aims to: alleviate significant problems and social needs (Light 2006; Mair and Marti 2006); generate social change (Mair and Marti 2006); alleviate the suffering of a specific group of people (Martin and Osberg 2007); generate a benefit to society with specific emphasis on poor and marginalized people (Schwab Foundation 2011); and create and distribute new social values (Peredo and McLean 2006). The definitions agree then to consider social entrepreneurship as a means to alleviate social problems and to increase the well-being of two broad categories of

beneficiaries: the community in general and specific groups of people who live in a situation of social disadvantage (the poor, the disabled, etc.).

Corporate social responsibility refers to the responsibility of companies (both large- and small-sized) to make a contribution to society and prevent damage. CSR is broadly defined as the extent to which firms integrate on a voluntary basis social and environmental concerns into their ongoing operations and interactions with stakeholders (Godoz-Diez et al. 2011). Nevertheless, there is no single, commonly accepted definition of the concept of CSR (Carrol 1979, 1999; Gatewood and Carroll 1991; Hill et al. 2007) and many different ideas, concepts, and practical techniques have been developed under the umbrella of CSR research “including corporate social performance, corporate social responsiveness, corporate citizenship, corporate governance, corporate accountability, sustainability, triple bottom line and corporate social entrepreneurship”. “All these are different nuances of the CSR concept that have been developed in the last 50 years—and beyond” (Freeman et al. 2010, p. 235). Most CSR definitions emphasize CSR’s orientation toward the social context beyond the technical, economic, and legal activities of business (Carroll 2008). “Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the community and society at large” (Holme and Watts 2000, p. 8). Following the European Commission, CSR can be defined as a concept whereby “companies integrate social and environmental concerns in their daily business operations and in their interaction with their stakeholders on a voluntary basis” (EC 2001, Green Paper, p. 6) and, more recently, as “companies’ responsibility for their impact on society” (CE 2011). CSR is placed at the base of the renewed European strategy for the period 2011–2014, which is oriented toward a “smart growth” (based on innovation and knowledge), a “sustainable growth” (based on a more efficient use of resources and so-called green energy) and an “inclusive growth” (based on the employment development and on the social and territorial cohesion).

Many companies strive to integrate CSR activities into their core business. Inclusive business pursued by companies also falls into this category. In fact, these types of initiatives also often originate in the CSR department in larger companies or are driven by entrepreneur behavior and attitudes.

Inclusive business refers to profitable core business activities that also tangibly expand opportunities for the poor and disadvantaged in developing countries. “Inclusive business models engage people living at the base of the economic pyramid (BOP) in corporate value chains as consumers, producers, and entrepreneurs” (Gradl and Jenkins 2011, p. 5). By focusing on business viability “these new models have the capacity to be increased in scale, thus including thousands of people living in poverty. The emphasis is on ‘core business’ rather than on philanthropy” (Gradl and Knobloch 2010, p. 5).

In many countries, the poor are still excluded from economic and social development. The idea behind inclusive business can be synthesized in doing business with the poor to combat poverty. Both companies and people living in poverty can benefit from inclusive business, since it brings added value by integrating the



poor into the value chain as consumers or producers, thus making a positive contribution to the development of companies, the local population and the environment (WBCSD 2004, 2007, 2008; Anderson and Billou 2007; Mair and Seelos 2007; UNDP 2008, 2010; Frandano 2009; Gradl and Knobloch 2010; Gradl et al. 2010; IFC 2010; Jenkins et al. 2010). Private-sector institutions and especially governments play an important role in inclusive business ventures. They are responsible for protecting the interests of both consumers and producers and can also improve the overall conditions for business at the macro level. There are four main areas where a principle of inclusive business can be incorporated: supply chain, employment, products/services, and distribution channels. Inclusive business models can consist of: (a) developing or adapting existing supply and/or distribution chains in order to increase the participation of disadvantaged producers, informal traders, and employees; and (b) developing or adapting existing products and services needed by the poor and/or enabling greater access to these products and services to the poor while creating low carbon-emitting, climate-resilient businesses that help communities adapt to changing environments.

Evidence shows that inclusive business can truly make a significant contribution to fighting poverty. Virtually any business (not just that which is labeled “inclusive” and not just big corporations) can help a country develop, through taxes, employment, market expansion, and technology transfer. But are all inclusive businesses always authentic “good companies”? Are there different “ways of being” an inclusive business? What are the differences among approaches to inclusive businesses? Are their mission and governance aimed more at fighting poverty or at developing markets and increasing competitiveness? What distinguishes inclusive businesses from other types of companies (intended both for and non-profit companies)? Is it possible to discriminate different models of inclusive businesses depending on their mission and governance’s ethical orientation?

These basic research questions characterize the present work that reflects on, and tries to evaluate, the phenomenon of inclusive business that has recently been developed. The aim of the paper is to understand if the ethics underlying the approach (that can be read in the context of CSR ethical theories—Garriga and Melé 2004) distinguishes diverse models or typologies of inclusive business practices.

In order to reach this objective, our approach is both deductive and inductive. After having outlined the theoretical framework, we provide multiple case studies relative to different inclusive business experiences. This is followed by a discussion on the different approaches and an attempt to categorize them according to two fundamental types: CSR-oriented approaches and CSV-oriented approaches.

From a methodological point of view, the analysis of possible forms of inclusive business is based on three different approaches and on the use of diverse sources and techniques of data collection. The study of inclusive businesses was based on an analysis of the Endeava Report and information research through the Internet (by visiting the websites of several companies). For the EoC (Economy of Communion) businesses, we relied on the analysis of results of the empirical research. For SMEs (territorial companies), we summarized the results of previous empirical researches based on several companies and carried out through interviews, semi-structured

questionnaires, participation to initiatives, and common meetings with the entrepreneurs. Finally, the analysis of community-based business and social enterprises was based on the literature review and on the analysis of examples described on the Endeava Report.

This paper is structured as follows: Sect. 11.2 presents the theoretical framework containing the phenomenon of inclusive business in relation to the concepts of CSR and CSV. In subsequent sections, several models of inclusive businesses will be presented, including an outline of the distinguishing features; examples and distinctions are drawn between those promoted by social enterprises, big companies, community-based business, small firms, and EoC companies. The concluding chapter contains reflections that have emerged with regard to the various typologies of company.

## 11.2 CSV, CSR, and Pro-Poor Partnership

Poverty leads to miserable living conditions for the poor and to limited economic and environmental sustainability as a consequence of a lack of resources and education and the use of inappropriate material in dealing with urgent and daily needs. From industrial countries and multinational organizations, specific international agencies have been heavily involved in interventions in the developing world over the last decades.

Traditional approaches to development suggest that it is the responsibility of the State and the public authorities to operate as institutional entrepreneurs in order to improve the existing institutional pressures faced by the inhabitants of disadvantaged communities (Evans 1995; North 1990). However, several contributions suggest that the State might not be the most appropriate level of action. Works in organizational theory (Tracey et al. 2011; Peredo 2003; Peredo and Chrisman 2006) and entrepreneurship (Mair and Marti 2009) suggest another approach, one that focuses on the activities of institutional entrepreneurs at a more micro-level. Such institutional entrepreneurs include public private initiatives (McDermott 2007; McDermott et al. 2009) and NGOs (Mair and Marti 2009), and at a lower level these factors may also engage in activities that aim to change the institutional arrangements.

On one end, the BoP perspective states that organizations can eradicate poverty by investing in BoP markets (Prahalad 2004). For companies entering BoP markets, it is important to cultivate partnerships with the local community in the BoP market at stake by helping organizations access resources, customers, and employees (Monitor Institute 2009). Companies could team up with trustworthy local government players and NGOs. Elaborating on Carroll's model (1979, 1999), Gössling and Vocht (2007) studied and defined the organizations' conceptions of their social role. They distinguished between narrow role conceptions (solely focus on economic and legal responsibilities) and broader role conceptions (also focusing on

ethical and philanthropic responsibilities). They found that most companies present themselves as good corporate citizens.

In BoP ventures, the notion of selling to the poor has been replaced by business approaches that suggest sustainable value creation, implicating the development of strategies that serve triple bottom line goals (Hammond 2011). These include economic, social, and environmental benefits or, in other words, the responsibility to (and goals of) the “Triple P” of people, the planet, and profit (Elkington 1994), which in the last decade has been neatly defined (WCED 1987; World Economic Forum 2009; IBLF 2008).

Several studies in the BoP literature framework reveals that three high level factors may need to be aligned in order to ensure optimized value creation of BoP venture (BoP strategy, partnerships, and product/service development) and that there is a delicate balance among the three (all three are interdependent and mutually influence each other).

Dobers and Halme (2009) point out that different capacities of organizations and their managers are implied to understand and address pressing CSR issues in different cultural contexts (i.e., South America and Africa), including corporate actions not only based on economic investments but also on programs in areas such as enhancing capacity in detecting tax fraud, antitrust, and the unveiling of corruption cases; even if legislation is a task of politicians, governments, and international governmental bodies, these matters should also be seen as a CSR issue (Garriga and Melé 2004). They stress the urgency for concerted efforts by the private sector, public sector, and non-governmental organizations to develop structures and institutions that contribute to social justice, environmental protection and poverty eradication.

Over the last 5 years, the rise of CSR and the growing recognition that business and development objectives often coincide has placed the private sector at the heart of the struggle to raise living standards in emerging economies. Recently, businesses (as represented by the International Chamber of Commerce) have had extensive involvement in the many UN and other international meetings and conferences (Reed and Reed 2008; Dossal 2004; Richter 2004; Del Baldo 2012; EC 2002, 2004) that have identified the crucial components of a global partnership for development and its interlinked priorities. These conferences reflect a global consensus on the challenges facing humanity and set out a roadmap for cooperative action by governments, business, and other groups in society. Poverty eradication has emerged as the foremost unifying priority to face. Yet despite all of their hard work and creativity, many people are still trapped in poverty. They lack not only income and capital but also, and more importantly, real opportunities for growth and development. This lack of opportunity is to a great extent due to a lack of markets.

In this regard, business has consistently emphasized the importance of mobilizing domestic resources and encouraging local entrepreneurship, foreign direct investment, private capital flows, and overseas development assistance and integrating the informal economy into the formal economy. Creating an environment conducive to enterprises of all sizes and in all sectors to create jobs and pursue technological innovation and cooperation—coupled with sound governance and policies to reduce barriers to international trade and foreign direct investment—is

the best model for helping people to get out of poverty and paves the way to reaching the MDGs.

The eight Millennium Development Goals (MDGs) represent the most comprehensive and universally agreed-upon development goals, embodying the international community's pledge to create a better and healthier future for billions of people in developing countries by 2103. The goals strive to reduce poverty and hunger, empower women, increase access to education, health care, clean water and sanitation, protect the environment, forge global partnership for development, and reduce the incidence of a number of deadly diseases.

Tackling the challenges of achieving the MDGs will require concerted effort and partnership by all actors in society. The UN, other intergovernmental organizations, and national governments are encouraged to seek out the involvement of the private sector in these vital efforts and include business representatives in discussions on how to take them to the next level. Over the last decade, considerable progress has been made but significant challenges remain.

Success will depend on the willingness and capacity of local and national governments to create and implement the appropriate policy frameworks and to pursue partnerships with business and other stakeholder groups. In turn, these efforts will need to be supported by the international community. Sound public policies and investments are central for achieving the MDGs and accelerating economic growth, but they are not enough. The private sector is the engine of innovation and growth providing incomes for rural and urban populations. Where possible, countries should draw on the private sector to complement governments in designing, delivering and financing interventions to achieve the MDGs. The economic growth and wealth creation that is essential for the achievement of the MDGs will come primarily from private enterprise (Nelson and Prescott 2008).

Reaching the MDGs calls for collaboration among all stakeholders, starting from enhancing the role of the private sector (which can serve as a catalyst for action) and development (creating jobs, building skills, developing technologies).

Most in business view the millennium development process as integral to their business interests and to their global citizenship. Business will continue to engage respectfully and openly with communities, governments, and other stakeholders around the world in pursuit of the millennium development objectives.

Companies and entrepreneurs can make a significant contribution to human development. They can (and must) improve the quality of life in developing countries and drive toward more sustainable paths of development in terms of consumption and production. Large globalized companies especially have the processes necessary to create products that meet the needs of producers and consumers living in poverty as well as the management know-how to grow successful models and expand their reach. On the other hand, developing countries and people living in poverty will play an increasingly significant role in future business development for different reasons. First, the markets at the top to the income pyramids are largely saturated, thus lower-income segments open opportunities for the positioning at an early stage of these markets and secure competitive advantages. Second, developing countries offer an alternative supply source of raw materials for the manufacturing

and food industry (which are becoming ever more scarce and expensive). The supply chain can be strengthened by teaming up with the producers of natural raw materials and handcrafted products as well as local service providers: not only because the supplier base is broadened, but also because it leads to product diversification, better quality and unique selling propositions such as fair production conditions or traditional ethnic handicrafts. Third, they offer a stable environment for investment and trade: many governments are working on reforms aimed at facilitating trade processes and improving reliability for businesses. Finally, business models that improve the opportunities for people living in poverty are meeting with more support.

Political leaders and governments are, in turn, publicly supporting company activities that contribute to the MDGs. We can mention, for example, the UNDP's Growing Inclusive Markets Initiative, the Clinton Global Initiative, the World Business Council for Sustainable Development (WBCSD)-SNV (Netherlands Development Organization (SNV) Alliance, and the MDG Call to Action (UK).

Among organizations that are aimed at supporting the development of inclusive business we can consider, for example, the Business Innovation Facility (UK Department for International Development—DFID by PricewaterhouseCoopers LLP in alliance with International Business Leaders Forum). Among the projects aimed at promoting inclusive businesses we also can mention the *develoPPP.de* program, created by the Federal Ministry for Economic Cooperation and Development (BMZ) ([www.develoPPP.de](http://www.develoPPP.de)).

On the other hand, Porter and Kramer (2011) state that, departing from a new conceptualization of capitalism, new models are emerging that aim at the application of the principle of “shared value,” which involves the creation of economic value in a way that also creates value for society by addressing its needs and challenges. “Shared value then is not about personal values. Nor is it about ‘sharing’ the value already created by firms—a redistribution approach. Instead, it is about expanding the total pool of economic and social value” (Porter and Kramer, p. 65).

In light of this principle, businesses try to reconnect company success with social progress. Thus, shared value is not social responsibility but a new way to achieve economic success, and the corporation's purpose must be redefined as creating shared value that focuses on the connection between societal and economic progress. In other words, successful businesses and successful communities can go hand in hand. NGOs and governments recently have appreciated this connection. The concept of shared value can be defined as policies and operating practices that enhance the company's competitiveness while simultaneously advancing the economic and social conditions of communities in which it operates, expanding the link between societal and economic progress (competitive advantages and social issues). There are numerous ways in which addressing societal concerns can yield productivity benefits to a firm (i.e., regarding energy and water use, employees' safety and skills, environmental impact, procurement, and enabling local cluster development). Mostly, companies can create shared value opportunities in three key ways: reinventing products and markets, redefining productivity in the value chain, and enabling local cluster development (Porter 1998).

Greater opportunities seem to arise from serving disadvantaged communities and developing countries. “The societal benefits of providing appropriate products to lower-income and disadvantaged consumers can be profound, while the profit for companies can be substantial” (Porter and Kramer 2011, p. 68). As capitalism begins to work in poorer communities, new opportunities for economic development and societal progress increase exponentially. This requires the identification of all the societal needs, benefits that are or could be embodied in the firm’s products or in the supply chain and distribution methods.

Porter states that CSV differs from CSR programs (Porter and Kramer 2006). These programs focus on reputation and have a limited connection to the business, while CSV is internal to a company’s profitability and competitive position and involves new and heightened forms of collaboration. It will benefit from insights, skills and resources that cut across profit/nonprofit and private/public boundaries.

“The fact is, the prevailing approaches to CSR are so disconnected from strategy as to obscure many great opportunities for companies to benefit society” (Porter and Kramer 2011, p. 68). If corporations analyze their opportunities for social responsibility using the same frameworks that guide their core business choices, they discover (as Whole Foods Market, Toyota, and Volvo have done) that CSR can be much more than a cost, a constraint, or a charitable deed—it can be a potent source of innovation and competitive advantage (Porter and Kramer 2011). They propose a fundamentally new way to look at the relationship between business and society that does not treat corporate growth and social welfare as a zero-sum game. They introduce a framework that individual companies can use: to identify the social consequences of their actions; to discover opportunities that benefit society and themselves by strengthening the competitive context in which they operate; to determine which CSR initiatives they should address; and to find the most effective ways of doing so. They also stress the role of social enterprises/entrepreneurs that “are not locked into narrow traditional business thinking and are often well ahead of established corporations in discovering these opportunities” (Porter and Kramer 2011, p. 70).

Following these preliminary remarks, attention will be focused in subsequent chapters on the various forms that the phenomenon of inclusive business can take on and will include a critical analysis and classification of these forms.

### **11.3 Different Models of Inclusive Businesses**

As previously stated, inclusive business refers to profitable core business activity that also benefits low-income communities and tangibly expands opportunities for the poor and disadvantaged, especially in developing countries, thus making a positive contribution to the development of companies, the local population, and the environment. When people living in poverty are included in business either as producers or consumers, opportunities can emerge on both sides: Inclusive business thus helps fight poverty on the one hand and increases competitiveness on the other.

Added value and benefits lie in several areas for people in poverty that come from participating in inclusive business:

*Basic needs:* Many basic needs are still not met today, but examples of inclusive business models already exist that provide food, access to clean water, electricity and Internet, wastewater disposal, medical supplies, housing construction, and education.

*Productivity:* Access to electricity, telephone, and Internet as well as financial services, such as loans and insurance, make day-to-day life more efficient and open up new business opportunities for individuals and microenterprises.

*Income:* Farmers, artisans, and other producers find new sales channels; services are in demand and jobs are created. Lower-priced products increase real income.

*Empowerment and confidence:* New possibilities for consumption and income and new forms of market participation or creation give people the feeling that they have more control over their lives.

At the same time, companies can boost their competitiveness in a variety of ways:

*New markets:* Establishing growth-intensive sales and supply markets expands the supplier and customer base. These markets are expected to grow rapidly because of strong population growth and increasing income in many developing countries.

*Enhanced Reputation:* The contribution that inclusive business makes to society as a whole improves the image of the company and the trust placed in it by customers, suppliers, governments, investors, and the general public. This underscores the company's CSR activities.

*Employee retention and training:* An employer's commitment to pursuing social goals is important and strengthens the employees' identification with the company. Having employees work in an inclusive business environment can also be beneficial for job and management training purposes and for the employees' own personal development.

*Innovations and the capacity for innovation:* Creative solutions for products, processes, and business models are always the engine for company growth and a prerequisite for long-term market survival. As a result, a company's overall capacity for innovation is enhanced by pursuing projects that follow an unusual logic, ask new questions, and new organizational solutions.

Environmental protection is also of particular importance for people living in poverty. Innovative technologies and solutions can make sustainable business possible in every respect—and create opportunities for the long-term growth of companies that have the necessary expertise.

During the G20 Summit in Cannes, France in November 2011, participants launched a global competition, "The G20 Challenge on Inclusive Business Innovation," seeking to recognize businesses with innovative, scalable, replicable, and commercially viable ways of reaching low-income people in developing countries. Between November 2011 and February 2012, 167 applications were received from businesses in 72 countries.

The most innovative models are the result of creativity and business discipline that enabled the integration of the base of the pyramid in their value chains. The four main features of innovation are: building the capacity of the base of the pyramid, financing the base of the pyramid, adapting products for the base of the pyramid, and distributing goods and services to the base of the pyramid (IFC 2012, p. 3). These new business entrants—inclusive businesses—can increase competition, lower prices, and improve consumer choice, often bringing products and services previously unavailable or unaffordable (IFC 2012, p. 14).

Only a few success stories have been reported for inclusive business in a handful of industries, meaning much experimentation is necessary before arriving at a working model for each company. Nevertheless, a first guide of inclusive business experiences, provided by the Endeava Report (2010), explains how companies can take better advantage of inclusive business and tackle the specific challenges they face with the aim to inspire many new business ideas.

**Local traditions and skills.** Skilled workers in developing countries provide valuable services. Opportunities exist particularly in the case of labor-intensive and handcrafted products, such as those in demand for interior design. IKEA works with cooperatives and family-run companies in Vietnam to produce textiles and ceramics. The company concludes long-term contracts with the suppliers that have fixed payment terms, a mutually beneficial model. In this case, the inclusive business model is “Contract Production/Contract Farming,” a system that directly sources from large numbers of small-scale farmers or producers in (often rural) supply chains. The contractor organizes the supply chain, provides critical inputs, specifications, training, and credit to its suppliers, and the supplier provides assured quantities of specialty produce at fair and guaranteed prices. The wealth and diversity of natural raw materials makes it possible to safeguard, broaden, and improve the supply chain, make use of new and unusual materials and satisfy the quality criteria for “organic” or “fair.” Direct procurement setups bypass middlemen and reach into the base of the economic pyramid, enabling purchases from large networks of low-income producers and farmers in rural markets and often providing training for quality and other specifications. There are numerous examples in Africa (GADCO, Frigoken, AAA Growers, Masara N’Arziki, SOCAS, etc.) and India (Calypso Foods, KBRL, Mahagrapes, Agrocel, etc.) (Kubzansky et al. 2011, p. 10, 29). The object of this model (which has also been developed in Brazil and Pakistan) is to promote measurable improvements in the key environmental and social impacts of cultivations worldwide to make them more economically, environmentally, and socially sustainable. In the case of cotton cultivation, 68,000 farmers grew “better cotton” during the 2010–2011 seasons in India, Pakistan, and Mali. The Better Cotton Initiative involves large companies and organizations like Tesco, IKEA, Adidas, Gap and H&M.

**Services from tourism to translation.** The service sector is very underdeveloped, but this is starting to change, thanks to the widespread availability of data networks. Digital Dividend in Cambodia and TxtEagle in Rwanda are start-up companies that rely on mobile technology to provide services like translation in local languages—a kind of micro-business process outsourcing. Interest is also growing in tourism that is committed to making a positive impact on the local culture and the natural environment,



and in the process creating unique experiences for tourists. The company Hospitality Kyrgyzstan is an ecotourism operator in Kyrgyzstan that offers homestays with local nomad families. The local population is essential as a service provider here (Jenkins 2007; Berdegué et al. 2008). This inclusive business experience can be regarded as an example of a mobile-enabled service. Mobile-enabled business models aim to leverage low-income ownership or use of mobile devices to provide information, transactions or services to low-income customers in a range of sectors including agriculture, healthcare service, livelihoods or other information services. Different inclusive business examples are present in Africa (Google Suite, KenCall, National Farmers' Information Service, and Grameen's Community Knowledge Worker Initiative) and India (Neurosynaptic, Thomson Reuters) (see Kubzansky et al. 2011, p. 10).

***The Case of Kenya Vodafone Group Communication for a development (Africa).*** In 1980, there were only four landline connections for every 100 inhabitants in Africa. Vodafone identified this opportunity and invested in the mobile network infrastructure on the African continent. Nowadays, one in four people in Africa has a cell phone. Both the phone companies and the users have benefited enormously. Entrepreneurs and farmers can conduct their business more productively, having access to information about prices and demand, allowing them to sell their goods at better terms and saving them unnecessary trips to markets. Skilled workers can be contacted directly by customers from different regions. In the private sphere, having a phone saves time and improves the quality of life (better access to information, and health care and emergency numbers that help protect against crime).

Together with its partner Safaricom, Vodafone offers additional services in Kenya. M-PESA, the mobile banking service, makes monetary transactions possible for people who don't have bank accounts. This saves them time and money. The M-PESA's service of mobile money solution was introduced in Kenya in 2006 and has rapidly grown. Vodafone's success was immediate: In March 2010, M-PESA had 9.5 million customers and 10,000 new users sign up every day.

In 2010, 9.5 million Kenyans were already using their cell phones to pay for their groceries in supermarkets or to transfer money to their families. M-PESA service is fast, easy, and inexpensive, and no account is required. Both the phone companies and the users have benefited enormously (Endeva Report 2010, p. 15).

In general terms, these examples of inclusive businesses are related to large globalized companies (i.e., IKEA and Vodafone), which are active involved on poverty alleviation, but it is difficult to understand if this orientation is authentic or due to a "conditional morality" as we discuss in the following paragraph.

### ***11.3.1 The MNC's Role in Fighting Poverty***

Large firms are acknowledging that combating poverty is not only important for contributing to a stable operating environment and managing risk but can also represent a major opportunity. Firms are implementing new business practices, often in partnership with public and civil society bodies, in order to develop these opportunities.

The UN Commission specifically looked into how the MDG potential could be realized, underlining the importance of multinational corporations (MNCs), although its main focus was on local businesses (UNDP 2004). The potential and opportunities of multinational companies (MNCs) in relation to poverty alleviation are receiving considerable attention (Kolk and van Tulder 2006).

Their contribution is also recognized in the growing number of partnerships, in which expertise and knowledge, usually through best practices, are transferred. Such cooperation takes place in different forms, with governmental, non-governmental, and/or private participants. While criticism of the negative impact of MNCs continues to be heard (Hertz 2001; Klein 2002; Stiglitz 2002), most policy attention tends to be drawn to their potential added value in alleviating poverty.

Furthermore, MNC poverty policies can address themselves to several areas: local conditions, dynamic comparative advantage, training, and monitoring. In the first case, MNCs carry out activities in harmony with development priorities, social aims, and the overarching structure of the host country; in essence, MNCs strictly obey national laws and regulations. In the second area, MNCs adopt and develop technology suitable to the needs of host countries, invest in relatively high-productivity, high-tech, knowledge-based activities, establish backward linkages with domestic companies where possible, and conclude contracts with national companies. In the third area, MNCs provide training for employees at all levels, which develops useful skills and promotes career opportunities; they participate in training programs organized by/together with governments and make services of skilled personnel available to assist in training programs. Finally, MNCs foster and strengthen local capacities to monitor the company's poverty reduction programs (participatory methods), encourage the development of local poverty reduction indicators and targets to evaluate the company's activities, and design poverty monitoring systems, which provide evaluations of the company's anti-poverty programs.

The World Business Council for Sustainable Development published a field guide resulting from its "Sustainable Livelihoods Project" (WBCSD 2004; WBCSD 2007). Almost 20 cases underline the fact that "doing business with the poor" could help MNCs to reach a largely untapped market of 4 billion potential customers. This is not just philanthropy but a CSR strategy that also makes economic sense and can give companies active in this way a competitive edge (Prahalad and Hart 2002; Prahalad and Hammond 2002). MNCs can realize this by focusing on activities related to their core competencies and unique resources and capabilities utilizing local capabilities and knowledge about markets, production and external expertise through partnerships. MNCs might then "do well" in both an economic and societal sense at the same time, thus addressing criticism that companies need to concentrate on profit maximization and not be distracted from that objective (Henderson 2001; Whetten et al. 2002).

The role of MNCs related to poverty at the international and macro level has been widely considered in the academic and societal debate. In the international policy discussion on the impact of MNCs in relation to poverty, different aspects have been mentioned: one side pays most attention to the negative effects of their activities and powerful positions, while the other stresses the poverty-alleviation potential. Developing countries still try to attract MNCs for a number of reasons,

including their potential to help alleviate poverty. A focus on CSR offers the opportunity to emphasize the potential role of MNCs in regard to poverty alleviation.

CSR is generally seen as encompassing the legal, ethical, social, and environmental responsibilities of companies in addition to the traditional economic one (Carrol 1999, 2000). Nevertheless, how MNCs act with regard to CSR depends on both intrinsic and extrinsic factors (i.e., sectoral interdependencies, as international companies operating in global industries).

Basu (2001) argued that MNCs can play four different roles regarding CSR and poverty. An MNC can choose not to be actively involved in alleviating poverty, while other are (a free-rider situation); it is active in poverty alleviation but only if other MNCs do the same (Basu's concept of conditional morality); no MNC is involved in poverty alleviation (comparable to a "prisoner's dilemma"); an MNC is the only company active on poverty alleviation. A framework of analysis can be derived using the OECD (2001) document in order to identify the main aspects related to MNCs and poverty: equality of opportunity and treatment; conditions of work; and collective bargaining.

In general terms, Kolk and Tulder (2006) state that MNCs are overall not (yet) very outspoken on poverty alleviation and that in general only few issues are addressed. They also state that sustainable solutions can only be reached by offering poor people "tools" (know-how, technology, and resources) to escape the poverty trap by themselves and that MNCs do not yet reach their full potential in offering these tools to the poor. Only if they themselves are actively involved will they be able to develop their full potential role as poverty alleviation.

They also point out the implications of conditional morality for action and policies that try to involve MNCs in poverty alleviation, and they stress the need for approaches that overcome the logic of "single (even if high profile) approach" adopted by MNCs, NGOs, and international organizations, since it is necessary to create an enabling environment that facilitates dialogue and actions at the sector level through a "community morality."

### ***11.3.2 The Role of Small-sized Businesses***

Given that SMEs are such a vast sector of the economy at a local level, social entrepreneurs and small and medium enterprises (SMEs) continue to make a major contribution to the MDGs. Most of the world's private sector activity takes place at this level, rather than within and between large firms, and although many of the brief examples in this report feature corporations, the world's small-scale operators provide a huge additional range of replicable business approaches. Contact between large firms and the SMEs' sector takes place through company supply chains. As such, enterprise development and business linkage initiatives and other projects to transfer skills, technology and finance to small companies and social enterprises is one of the most important contributions that large national companies and multinational corporations can make to the MDGs. In Italy, whose socio-economic fabric is

made up of small companies, entrepreneurs and their families, there are many zones whose values in terms of know-how, sense of belonging to a local community and to the same culture inspire entrepreneurial behavior. A recent piece of research, which centered on various cases involving Italian SMEs, allowed verifying an important connection between orientation toward sustainability of companies led by entrepreneurs (“champions of CSR”) and the sharing of those values typical of their local context (Harvey et al. 1991; Putnam et al. 1993).

These values spring from the rural culture and from the culture of the Italian cities in Renaissance Humanism, which is the heritage of the civil economy of the historical tradition of the country. In contexts such as these, there are numerous companies, normally small-to-medium sized that—thanks to the entrepreneurial vocation and to the “civil charisma” of those subjects able of leading companies that present themselves as value-based organizations—offer tangible examples of innovative routes of sustainable development (Del Baldo 2010). First and foremost, the companies work within the context of their local territory albeit not exclusively, since they push themselves to support sustainability projects and actions on national and international levels. These routes are based on the capability of these entrepreneurs/companies to take part in and to activate networks that include several factors: banks, trade associations, unions, local authorities, non-profit organizations, chambers of commerce, and others.

Such entrepreneurs are capable of activating virtuous circuits. Charismatic people, who, thanks to their vision, are able to open new frontiers on human need and rights communicate with urgency their vision of social life; institutions subsequently extend these innovations into social structures. They are authentic champions of CSR capable of influencing and molding the socio-economic terrain from which they come (Jenkins 2004, 2006). And this comes from the richness and the appeal of their own virtuous testimony, able to “imitate the virtues.” The SMEs—especially “rooted” in their respective region and characterized by long-term, established mechanisms and rules—possess a good starting position for a sustainability strategy as a result of their structure and regional infusion (Storper 2005). The strong ethical and moral base that molds the company’s mode of conduct is irrespective of the individual and has its roots in local traditions, which foster a model of sustainable entrepreneurship. A genuine commitment inspires these values-driven businesses to demonstrate their social responsibility and relational sustainability (Perrini 2006). This dynamic occurs through the creation of networks through which companies interact with the local and extra-local context, rich in both tangible and intangible resources and through which social goods such as prestige, reputation, and friendship are exchanged (Del Baldo 2010; Del Baldo and Demartini 2012). This relational logic flows into the construction of forms of local collaborative governance (Zadek 2004, 2006) centred on partnerships multi-stakeholders and on projects that sustain the co-evolution and territorial development following the logic/objective of the shared value. They also sustain a cultural change that considers rootedness and the relationship with the local community as a strong point for the creation of shared value (Porter and Kramer 2011).

These companies can be considered forms of businesses as their tendency to social responsibility falls within the strategic profile and is desired by the entrepreneur.

They are not always internationalized and therefore do not fight poverty through their local presence but maintain it from afar through networks of relationships with international associations. They fight poverty close to its context. In other words, they are themselves community-based businesses. In many cases, they have avoided impoverishing the areas in which they have set up and developed, by offering work, training, and environmental requalification to areas that would otherwise remain degraded or depopulated. They make up a fundamental component of the socio-economic community which they have contributed to building.

### ***11.3.3 The Role of Community-based Businesses***

There is increasing interest in the importance of communities, and researchers insist on the importance of paying more attention to the local level, to the institutional pressures that shape the context in which new ventures are created, moving beyond a view of entrepreneurs as disconnected from the local context in which they operate. This constraining aspect is especially critical and problematic in disadvantaged communities (Leca and Naccache 2011; UN-Habitat 2008) that live in informal settlements and slums where an important role can be played by institutional entrepreneurs (i.e., the activities of the Technological Incubator of Popular Cooperatives at the Federal University of Rio de Janeiro) who provide venture members with autonomy and eventually rely on them to diffuse institutional change within the communities.

Different authors have stressed the imperative of acting at the local level by stating that value creation and innovation through local business development are essential means for the alleviation of poverty and preservation of the natural environment (Peredo 2003).

Drawing on theoretical considerations from different fields (entrepreneurship, environmental management, anthropology, and development studies) and focusing their attention on the regional Canadian and South Australian models of sustainable practice where organizations developed community partnerships, Peredo and Chrisman (2006) state that Community-Based Enterprise (CBE) come provides a potential strategy for sustainable local development.

CBE is defined as a community acting corporately as both entrepreneur and enterprise in pursuit of the common good. It is the result of a process in which the community acts entrepreneurially, to create and operate a new enterprise embedded in its existing social structure. “Furthermore, CBEs are managed and governed to pursue the economic and social goals of a community in a manner that is meant to yield sustainable individual and group benefits over the short- and long-term” (Peredo and Chrisman 2006, p. 4).

They consider CBE as a promising strategy for fostering sustainable local development, since CBEs are created by community members acting corporately, and are the result of a process grounded in collective experience: They are based on available community skills; they are characterized by a multiplicity of goals depending on (and recognizing) the diverse needs of the members of their founding

communities; and they are dependent on community participation. In summary, CBEs are built upon the collective skills and resources of the community, and they have multiple social and economic goals acting corporately in pursuit of the common good. CBE represents both the entrepreneurial process of venture creation and the venture created through the process. They are a product of incremental learning and are dependent on social capital since they are created on the basis of collectively owned cultural, social, and ethnic endowments (Bourdieu 1997; Putnam 1973). In this context, being embedded is a concept that owes a good deal to the notion of the “gift economy.”

Most efforts to assist in the improvement of developing regional economies have in fact been unsuccessful because they have either been unmindful of local cultures and values or have been simply charitable programs that failed to address the root causes of poverty (Burkey 1993; Davis 1993; Cornwall 1998; Dana 1988; Sachs 1992).

This means that overcoming poverty requires an understanding of the specific socio-economic environment in which that development is to take place (Peterson 1988). Several authors (Light and Rosenstein 1995; Morris 2000) stress the need to look at the interaction among communities, families, and individual entrepreneurs (Cornwall 1998; Onyx and Bullen 2000). This also means thinking of the community orientation of a society in terms of “embeddedness,” “social capital,” and “social networks local communities,” which create collective business ventures, and, through them or their results, aim to contribute to *both* local economic *and* social development.

There are different documented cases of community-based enterprise: the Mondragon Corporation Cooperative in Spain (Greenwood 1991; Morrison 1991); the village of Ralegan Siddhi in India (Hazare 1997); Retirement Living in Elliot Lake, Canada (OECD 1995); the Walkerswood Community in Jamaica (Lean 1995); Floriculture Using Hotsprings Energy in Amagase, Japan (OECD 1995); New Dawn Enterprises in Atlantic Canada (MacLeod 1986); and the self-managed community enterprise of Llocllapampa and the Community of Chaquicocha Trade Fair, both in Peru (Peredo 2003). Community-based solutions have been emerging for environmental conservation and income generation among poor populations in Latin America (Peredo 2001; Tenenbaum 1996), Asia (Hazare 1997; Lyons 2002), Africa (Nelson 2000), and poor rural areas of rich countries (Lyons 2002; MacLeod 1986).

Community-based enterprises represent both a promising solution to the problems faced by many small communities in poor countries, and—in a macro-economic sense—an alternative and promising model for development that sits in an unconventional form of entrepreneurship. This is based on regarding collective and individual interests as complementary and interconnected and seeing communal values and the notion of the common good as essential elements in venture creation.

An exemplary case of community-based business is found in the *Tiviski camel milk dairy of Mauritania*:

Tiviski is a camel milk dairy in Mauritania (the Sahel region of Africa), where the majority of the population still depends on agriculture and livestock for their livelihood. The extreme conditions that Tiviski has been confronted with since its

formation in 1989 are a good example of the structural challenges posed by inclusive business projects.

Tiviski has successfully set up Africa's very first camel dairy in Mauritania. Today, the company sells 20 products. Tiviski produces a wide range of dairy products ranging from fresh milk to its "Camelbert" cheese sold in many small stores in the country. More than 1,000 families supply camel milk. Success was driven by many investments and innovations: Tiviski, for example, set up a refrigeration and collection system. A separate cooperative organization supports the herders, makes credit available offers veterinary services, and provides advice about livestock breeding and herding. The producers are paid with vouchers that can be submitted to Tiviski for payment. The success of the dairy also led Mauritians to look at animal husbandry "as an economic activity, not merely as a way of life passed on from father to son" (Case Study 6, Endeava Report 2010, p. 27; Gaye 2007).

### 11.3.4 The Role of EoC Companies

The companies belonging to the economy of communion project (EoC companies) are an example of businesses in which entrepreneurship and managerialism are characterized by the tendency to communion, universal brotherhood, and the common good (Argiolas et al. 2010; Gold 2010; Baldarelli 2011; Bruni and Zamagni 1995; Zamagni 1995).

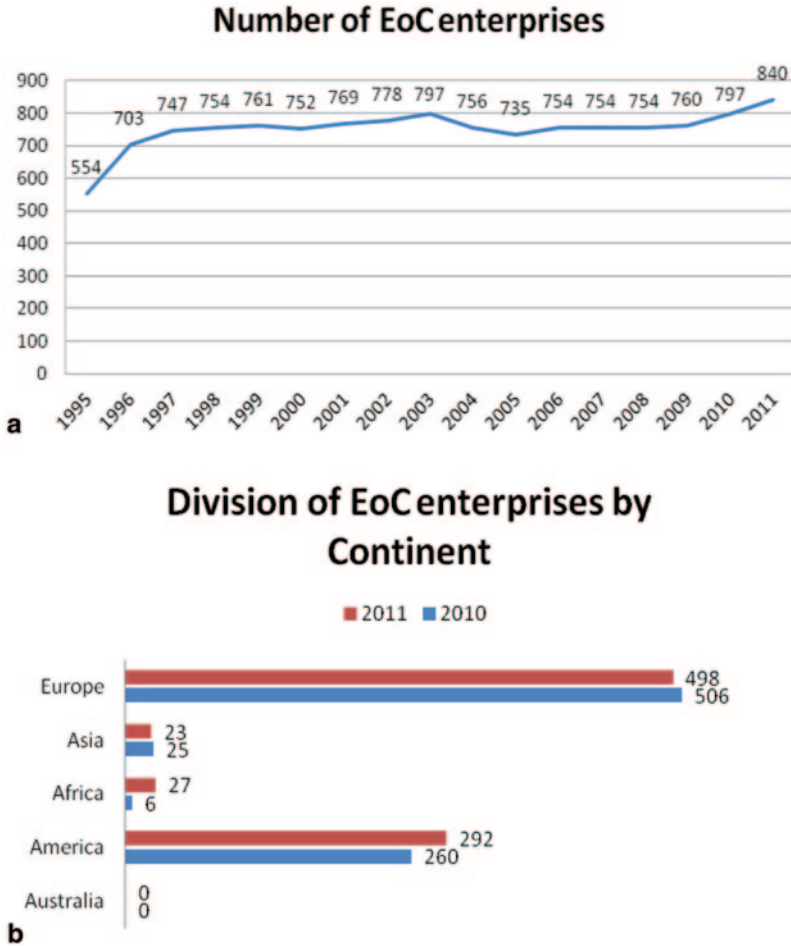
On May 29, 2011, the EoC project finished 20 years of life. From the beginning, one of the most important elements of the project was the need to reply better to poverty, especially in Africa. These companies are the results of the charismatic founder, Chiara Lubich, who is also the founder of the Catholic movement of the Economy of Communion (Lubich 2002, 2003).

The pioneers of this project were pushed forward into taking part in it, since they were enlivened by a dream: that of alleviating poverty near and far to achieve universal fraternity, which is developed through the adoption of adopting a culture of "giving."

"During the Brazil trip which was in May 1991, Chiara Lubich was left profoundly touched by the strong social inequality encountered ... in the *favelas* that surround the metropolis of São Paulo. (It is) in this context that she launches a proposal: to have companies be set up, guided by competent people in such a way as to make them operate in an effective way so as to gain assets..." (Gold 2010, pp. 333–334).

The experience of the EoC companies has developed over 20 years and we can see from the following tables their evolution ([www.edc-online.org](http://www.edc-online.org)). Table 11.2a, b refer to May 29, 2011 on the occasion of the 20-year anniversary of the project launch.

Around the mid-1990s, the International Office of Economics and Labor, a supporting organ of the EoC made up of scholars, entrepreneurs, and students, was constituted. During the course of its meetings, contingent and strategic EoC problems were examined, and an attempt was made to solve them in such an adequate manner. In fact, several EoC commissions (Gold 2010) operate on various levels:



**Table 11.2** The evolution of the EoC companies

international, national, and local, functioning as “laboratories” to understand strategies in order to offer efficient solutions to problems that projects might face.

In 1999, a “Manifesto for an Economy of Communion” was drawn up and, in 2008, new guidelines were designed to lead EoC companies to make their management and organization characteristics more evident based on the following main points: (1) entrepreneurs, workers and enterprises; (2) the relationship with the customers, the suppliers, the civil society, and the external subjects; (3) ethics; (4) quality of life and production; (5) harmony in the workplace; (6) training and education; and (7) communication ([www.edc-online.org](http://www.edc-online.org)).

These principles have been promoted, at the same time, by way of the creation of “Schools for Entrepreneurs” and other training initiatives, which, since 2001, have been aimed at orienting managers to the most important values of the project,



teaching entrepreneurs and managers the optimum use of company governance tools and enhancing the exchange of experiences within logic of reciprocal growth.

From these points, we may infer some managerial models, amongst which that one which considers the pillars of dialogue, trust, and reciprocity (Argiolas et al. 2010).

Industrial poles have been built in order to make the entrepreneurial experience of EoC companies more visible. They first came into being in Brazil and later they spread to various parts of the world: Italy-Loppiano (FI), Argentina, Belgium, Portugal, and the USA. Furthermore, EoC entrepreneurs prefer the small and medium dimensions because they are leaner, more flexible, and make the creation and development of relational assets smoother (Gui and Sugden 2005). More than 900 businesses follow the Economy of Communion model. Most are small and medium size, but some have more than 100 employees. They function in various sectors of production and service, and are located on every continent. The 45 businesses in the United States include an import-export business, a law office, an environmental consulting firm, a tutoring business, a violin shop, an accounting firm, an apparel labeling shop, a goat farm, several restaurants, and a chocolate factory.

The phenomenon of the EoC company has been studied by scholars in various fields (Gold 2010; Bruni and Uelmen 2006), including empirical and statistical levels (Baldarelli 2011). Initially, they were only economists (Bruni 2002). Later on, scholars from almost every discipline joined them (Baldarelli 2006; Argiolas 2006; Gold 2010).

In relation to the consistency of the phenomenon, the data obtained from the Centre for Italian EoCs shows that there are approximately 230 businesses throughout all various parts of the country. Among these, a recent study involving 43 companies (micro-companies (73%); small companies (18.60%); and medium companies (9%)) has revealed the coherence of their governance according to the project guidelines and the specificity of the EoC companies, with particular relevance to the following aspects: the enhancement of human labor; the importance of ties and relationships; time dedicated to listening and dialogue; involvement based on trust; attention to the competitive logic of the market in order to find the right balance between efficiency and communion; and concern to satisfy clients based on the ability “to put oneself in others’ shoes.”

Being an EoC company does not mean applying a corporate philosophy but represents a balance between practice and theory using known corporate models.

This represents the economic turning point in a lifestyle, which has a profound impact on all aspects of behavior. The fundamental content of lifestyle is “the culture of giving,” and those who share its various aspects are committed to spreading such a culture. The culture of giving transforms the modality through which production and the distribution of wealth take place. The novelty of this proposal lies in its consideration of the local community and its specific nature a central and significant variable.

The mission of EoC companies reverberates within a whole list of objectives in the absolute conviction of wanting to actively take part in the betterment of collective well-being and especially to spring to the aid of the most proximate situations concerning material and spiritual poverty.

The presence of both social enterprises and profit-making companies, among the EoC companies project, leads some authors to define them as “companies with an ideal motive” (Molteni 2009), in that they are the fruit of an ethical substratum, which directs every field of human behavior and, therefore, that economic behavior too.

The significance of this ethical substratum shines through the account of Teresa and Francis Ganson of Bangko Kabayan in the Philippines:

Toward mid-1997, at the onset of the Asian crisis, the Philippines had to come to terms with a devaluation of 60%, which hit the financial sector the most. Default on loans and errors in industry were connected with the liquidation, and therefore some banks began to have difficulties due to the loss of clientele ... In the following months, yet more close-downs around us added to the panic ... We realised that we were part of a greater family, that which included all the other entrepreneurs who live the experience of the Economy of Communion. We shared this experience with them ... The moral encouragement we received, especially via Internet messages, helped us a lot in continuing the journey ... moreover, we had discovered force in trust and safety which each person in the organisation had ... our manager who represents the minority of the partners, put aside 2.6 mln dollars' credit line for the bank without asking for any guarantee in exchange.

Two aspects qualify the EoC's model of corporate governance: The first is inserting ethical principles into the production of profit; the second is the wealth of the company thought of, not as an end in itself, but as a means that allows achieving a much wider aim which is, as stated earlier, universal fraternity.

The EoC profits can be divided in three equal parts and used for direct aid for the poor, educational projects that can help further a culture of communion, and development of the businesses. A full two-thirds of its profits are destined to broader community development, either as direct aid for the poor, or to support educational programs that further a culture of giving—both aspects which may not necessarily have a tight connection with employees, customers, or others with a more direct interest in the business itself. A fundamental role is played by the poor themselves for whom such businesses are established in the first place. Indeed, adhering to the Economy of Communion project, the entrepreneur decides to devolve a third of his positive income to resolve situations of indigence (whether nearby or far-away) (Bruni and Uelmen 2006).

The active presence of persons (the poor) who depend for their survival and development on that third of the assets of the companies of the project, sets off a mechanism of cohesion, which reciprocally and multi-directionally involves every subject internal to the company, that is: the partners, the administrators, the executives, the managers, and the staff, to name a few. The emphasis is not on philanthropy but on sharing, in that each person gives and receives with equal dignity.

EoC companies are “a life of Communion in which the Poor are active participants.” Those who receive help are not considered “assisted” or “beneficiaries.” Rather, they are regarded as active participants in the project, all part of the same community, who also live the “culture of giving” (Bruni and Uelmen, p. 653). The Economy of Communion entrepreneurs are not considered as “the rich” who share their surplus; rather, they are the first to live poverty, in an “evangelical” sense. This is because of their readiness to put their goods into communion and to face, out of love, the risks of business (Gui 2003).

These are not companies whose ultimate objectives are solidarity; their goals are to help the poor and the “new” culture they are promoting, which become the means of a broader objective, that of creating a universal “fraternity.” It is this aspect that distinguishes all of the other non-profit and social organizations, which are born from a solidarity-focused orientation that becomes their ultimate aim. The entrepreneur who founds an EoC company is prepared to put his creative talents and risk-taking ability into play for an end that surpasses the boundaries of his company, in that he finds himself having a plan for stakeholders that goes well beyond typical competitive and environmental factors (Freeman et al. 2010; Alford and Naughton 2002). Such a plan considers the poor at the core of the mission. “Providence” (the hidden partner) silently, yet inevitably, enters into his management; “providence” materializes in ideas and in the strategic and operational intuition that are thought of individually but also together with other interested subjects (Fiorelli 2002).

EoC businesses are also “travel companions and activators” of all those initiatives not only in the economics field but also social and civil fields. They attempt to go beyond the borders that exist between profit-making companies and non-profit-making ones through collaboration networks that highlight the particularities of both. At the same time, they determine a common basis that is placed onto the pillars upon which they are founded: dialogue, faith in humanity, and reciprocity (Bruni 2009; Argiolas et al. 2010).

Moreover, we define them as companies that develop the “globalization of solidarity” (Gold 2004) since, considering the actual conditions of the countries wherein they operate, they have developed (or are developing) a model of growth and relationship that, while following the initial model in Brazil, adapts itself to competitive and environmental circumstances and situations specific to the area. Consequently, they give life to unique models for each country that are suited the specific local context.

### ***11.3.5 The Role of Social Enterprises***

Finally, we have to consider the role of social enterprises, which began to develop in the 1980s and have emerged as innovative third sector organizations—in the context of a dual transition from modern, industrial societies to post-modern, post-industrial societies—embodying a new entrepreneurial spirit with a social mission in the pursuit of a variety of social and economic aims (Borzaga and Defourney 2001; Evers 1995, 2004).

The definition of social enterprise has come into use to distinguish—following a wide interpretation (Thompson and Doherty 2006)—the entrepreneurial forms with a social aim, generating benefits for the community (UNDP-EMES 2008) and characterized by a relevant degree of public benefit connotation from more traditional non-profit organizations. Yunus (2008, 2010) defines social business as a sub-category of social entrepreneurship that operates as a business, selling products and services to customers. He also proposes a model of social business that refers to profit-oriented companies, owned and controlled by disadvantaged. In this case, the

social objective is that profits are distributed among the “social entrepreneurs” with the aim of reducing their poverty. The European Commission sees social enterprise as “an actor of the social economy whose main objective is not to generate profits for its owners or shareholders, but have a social impact” (EC 2012, p. 2). This definition includes both companies that provide social services to a vulnerable public (care for the elderly or disabled, inclusion, etc.) both inclusive businesses, which, by the production of goods or services, pursue an aim that is social in nature (i.e., social and professional integration through access to employment for disadvantaged people).

Though primarily responsible for the production and delivery of human services (i.e., care giving and job training), social enterprises’ managerial capacity, democratic internal structure, and emerging role as key interlocutors between diverse community members has drawn attention to their hybrid character (Evers 2004; Gonzales 2006; Austin et al. 2006). Although scholars frequently underscore their value as social institutions, for the most part, research has focused on their economic and managerial properties in an attempt to gauge their comparative productive and economic advantages. In recent years, attention has also been paid to the way in which social enterprises influence the formation and accumulation of social capital (Evers 2001). Social enterprises are also appreciated as potential agents of empowerment for marginalized populations. Focusing on their contribution to social inclusion and on two key functions of social enterprises, social production, and social mobilization, they develop forms of empowerment critical to the fight against social exclusion: consumer empowerment and civic empowerment (Gonzalez 2007). For marginalized service beneficiaries, empowerment is a salient aspect of social inclusion since it connotes enabling individuals or groups of individuals to develop competencies or capabilities. As service-based institutions, social enterprises offer two basic mechanisms for empowering users. The first relates to their social production function through which they generate consumer empowerment. The second mechanism for empowering users relates to the social mobilization function. Based on an understanding of service users as a collective group of disadvantaged citizens, this dimension signifies the ability of social enterprises to overcome key cultural and psychological barriers to social inclusion. As such, it relates to civic empowerment, which constitutes users’ abilities to challenge underlying norms and rules of engagement that typically lead inequities and injustices to have a taken for granted quality.

The pursuit of public interest objectives determines organizational principles, which differ from for-profit firms in four main respects:

First, the founding aim (the principle underlying the start-up of social economy initiatives) is a response to an emerging need in society. Examples include France’s companies specializing in labor market re-entry, special-interest associations, and local neighborhood councils; Italy’s social cooperatives and social enterprises; Germany’s employment and training corporations; Belgium’s on-the-job training companies and workshops; the United Kingdom’s community businesses and community interest companies; and Canada’s community development corporations (Borzaga and Defourny 2001; Nyssens 2006).

Second, the presence of allocation principles exist based on solidarity and reciprocity. As already emphasized, social-economy initiatives operate at least in part according to the principle of solidarity and reciprocity.

The third objective is the inclusion of participation modalities and a democratic decision-making process in the organizational structure. Democracy in the decision-making process refers theoretically to the rule of “one person, one vote.” This principle implies the primacy of workers or consumers over capital.

Fourth, there is a plurality of resources. Operating differently from for-profit and public organizations, social economy organizations must rely on different sources of revenue originating from the market, non-market, and non-monetary economy.

The role of these enterprises has become sufficiently large to form a new sector called the “fourth sector” (Fourth Sector Network 2009). Social enterprises orient the entrepreneurial fabric in the direction of the civil economy and contribute to the development of a more humanized economy (Zamagni 2007).

## 11.4 Concluding Remarks

The objective of this paper has been to highlight the importance of a significant rethinking of conventional business models. There are a growing number of companies that have profitably navigated these challenges, and the development benefits appear to have been relevant. Developing business and fighting poverty offers real opportunities for sustainable growth. While many questions remain to be answered, “We already have substantial information and experience at our disposal for how to integrate people living in poverty into value chains. Every company and entrepreneur has to learn their own lessons through trial and error to some extent. Thus, the learning journey continues” (Gradl and Knobloch 2010, p. 7) .

The business sector is widely acknowledged as a key factor in solving major global development challenges. Notions of how business can play this role have changed. The focus has shifted from purely philanthropic interventions to ways to adapt commercial practice, and from “do-no-harm” responsible practice to strategies that optimize positive returns for business and development. One of the most important innovations in this context has been the emergence of inclusive business models that involve doing business with low-income populations anywhere along a company’s value chain. Their incorporation into the supply, production, distribution, and marketing of goods and service generates new jobs, incomes, technical skills, and local capacity.

In BoP ventures, the notion of selling to the poor has been replaced by business approaches that suggest sustainable value creation, implicating the development of strategies that serve triple bottom line goals. These include economic, social, and environmental benefits. Even if the concept is unique, the practices of inclusive business can differ among one another.

Basically, there are three common points. The first is that they are alternative approaches to business strategy and management for sustainable development that can

follow both CSR and CSV orientations. Secondly, they are based on the concept of the poor as stakeholder and on the embeddedness into the socio-economic context in which they operate. Nevertheless, there is a substantial element of difference that lies in the ethical bases orienting their CSR and CSV strategies. Porter and Kramer speak about profits involving social purpose that represent a higher form of capitalism, one that creates a positive cycle of company and community prosperity: “creating shared value will be more effective and far more sustainable than the majority of today’s corporate efforts in the social arena” (2011, p. 75). They state that creating shared values represents a broader conception of Adam Smith’s invisible hand. The difference has to be considered between CSR and CSV in terms of citizenship, philanthropy, sustainability versus joint company and community value creation. Differences also have to be appreciated in terms of response to external pressures versus actions integral to competition and finally in terms of separate-from-profit maximization versus integral-to-profit maximization.

Nevertheless, we have to consider another relevant factor: the ethically-based foundation of the inclusive business that is associated to the authenticity in achieving the common good. This element is the one that allows us to distinguish between opportunistic inclusive business and authenticity-driven inclusive business. In the former, we can include the majority of inclusive business strategies developed by MNCs. In the latter, we can account for inclusive business models developed by SMEs, community-based businesses and venture, social enterprises, and EoC companies. In particular, the latter are “charismatic companies” that underline the concept of companies that work for universal fraternity (Gold 2010). EoC enterprises have solidarity in their final aim that tries to promote a new culture; in essence, they become a conduit for joining the objective of world fraternity and a Life of Communion in which the poor are active participants.

Thus, we can conclude by developing three main propositions that can be tested in a future step of the research:

- P1: All inclusive business models can be considered as a possible response to poverty but are characterized by a “different strength” by virtue of the authenticity they express.
- P2: The ethics base of inclusive business represents the real distinctive element among opportunistic CSV and CSR strategies and brings significant advantages to the fight against poverty.
- P3: We can speak of real initiatives that fight poverty only where there is a strong ethical connotation found in the mission and governance, which is then reflected in the tools of accountability and in the active participation of the poor in the mission.

In conclusion, all forms of business considered in the work can be seen as possible solutions, but they are characterized by a “different strength” in virtue of the quality of authenticity they express.

The behavior of EoC companies springs from deeply held values that are reinforced through human relations (Gui and Sugden 2005) and are incorporated into a shared fundamental strategic orientation. In this way, the entire range of objectives

becomes “ethically oriented” (Baldarelli 2006) and heads for the integral development of the business (Melé 2012), whereby the day-to-day business culture and the higher, transcendent goals are both necessary to make the company sound and continuous and a promoter for the common good (Zamagni 2007).

In direct correlation are the local and social enterprises that have a body of common values, which local and social entrepreneurs share with stakeholders. Innovative models of local development and of civil and social economy have been affirmed in time in Europe as evidenced by the capacity of the entrepreneurial fabric—and above all of SMEs, CBEs, and social enterprises—to engage locally, adhering to multi-stakeholder partnerships and developing networks of collaboration characterized by genuine commitment (Zsolnai 2002) aimed at linking economic well-being, social cohesion, and environmental protection. The frontier of responsible competitiveness is marked by value-driven businesses (Cohen and Warwick 2006; Carrol 2000) in which entrepreneurial success is strictly tied to the capacity to create shared value with stakeholders.

Finally, in inclusive businesses developed by MNCs, a stronger degree of opportunism can be found in the component of shared values due to the marked tendency toward the profit-making that characterizes them. EoC companies, social enterprises, value-oriented SMEs (Del Baldo 2009, 2012) and CBE (in which the highest level of the enterprise achieve CSR and CSV objectives) can be defined as “ideal motive companies” (Molteni 2009) inasmuch as they are the product of an ethical basis of every field of human behavior, including economic behavior.

In effect, companies with ideal motives and sound economic behavior become the engines of profound change for the greater good of humanity.

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# Index

## A

Achleitner, A. 12  
Achleitner, A.-K. 67, 68, 70, 71  
Acs, Z.J. 140  
Adema, W. 72  
Adner, R. 128, 129  
Aiken, M. 37  
Alcock, P. 34  
Alford, H. 213  
Alter, K. 92, 93, 144  
Alvarez, C. 3  
Alvarez, S.A. 53  
Alvesson, M. 12  
Alvord, S. 164  
Alvord, S.H. 155  
Alvy, G. 51, 52  
Amen, M. 2  
Amit, R. 76  
Anderson, A.R. 37, 43  
Anderson, B. 146, 153, 155  
Anderson, J. 195  
Andersson, F.O. 87  
Andreoni, J. 69  
Anheier, H.K. 2, 72, 91  
Ansari, S. 3  
Arab 144–146, 149, 158, 159  
Argandoña, A. 89  
Argiolas, G. 209, 211, 213  
Armstrong, S.J. 3  
Ashoka, U. 112–115, 122  
Austin, J. 51, 53, 64, 87, 94, 164, 192, 214  
Authenticity 216  
Autio, E. 128, 129

## B

Bagnoli, L. 146, 148  
Baines, S. 42  
Baldarelli, M.G. 209, 211, 217

Ballintyne, S. 36  
Bandsuch, M.R. 2  
Barendsen, L. 21, 75  
Barney, J.B. 53  
Baron, R.A. 18, 94  
Basu, K. 205  
Battilana, J. 34, 37, 164  
Baum, J.R. 13  
Baur, D. 183  
Bayona, B. 130  
Belk, R.W. 69  
Ben-Ner, A. 91  
Berdegué, J.A. 203  
Berzin, S.C. 3  
Besel, K. 70  
Betta, M. 3, 35, 37  
Bielefeld, W. 130  
Billou, N. 195  
Birkland, T.A. 88  
Bishop, M. 69  
Bitektine, A. 165, 166  
Bjerke, B. 2, 86  
Bodur, M. 3  
Bornstein, D. 2, 95, 144  
Borschee, J. 146, 148, 152, 153  
Borzaga, C. 193, 213, 215  
Bosma, N. 2  
Bourdieu, P. 167, 181, 208  
Bowman, W. 74  
Bozeman, B. 86, 89–91, 94, 95, 97, 103, 104, 106  
Bradach, J. 164  
Branco, P.D. 132–134  
Brandenburg, M. 70  
Brazil 128, 130–135, 138  
Brock, D.D. 112–115, 122  
Brooks, A.C. 2, 72, 73  
Brotheridge, C.M. 13

Bruni, L. 209, 211–213  
 Bugg-levine, A. 164  
 Bugg-Levine, A. 70  
 Bull, M. 42  
 Bullen, P. 208  
 Bullough, A. 2  
 Burke, S. 208  
 Byrne, J.A. 114

## C

Cahn, M.A. 88  
 Carl, D. 36  
 Carmel, E. 34  
 Carrol, A. 194  
 Carrol, A.B. 194, 205, 217  
 Carroll, A.B. 196  
 Carroll, D.A. 75  
 Carter, S. 12  
 Cassar, G. 2  
 Chaudhuri, S.N. 174  
 Chaudhuri, H.R. 181  
 Cheney, G. 12, 13  
 Cho, A.H. 51, 53, 54  
 Chrisman, J. 164, 181  
 Christensen, C.M. 129  
 Christman, J.J. 207, 208  
 Cohen, B.R. 217  
 Cohen, R. 73, 79  
 Collins, J. 13, 14, 28, 146, 148  
 Community-based Enterprises (CBE) 207, 208  
 Cools, E. 3  
 Coombes, S.M. 89, 94  
 Coon, G.S. 69  
 Corbin, J. 168  
 Corbin, N.B. 130  
 Cornelius, N. 164, 183  
 Corner, P.D. 184  
 Cornforth, C. 37  
 Cornwall, J.R. 208  
 Corporate Shared Value (CSV) 192, 196, 200, 216  
 Corporate Social Responsibility (CSR) 194, 197, 200, 204–206, 216  
 Costa, A.D. 135  
 Costa, J.A. 181  
 Cotton, J. 2  
 Cozzens, S. 95, 101  
 Cragg, W. 2  
 Croson, R.T.A. 70  
 Crumpler, H. 69  
 Cukier, W. 36, 37  
 Cusumano, M.A. 129

## D

Dacin, M.T. 12, 17, 22, 36, 37, 52, 63, 87, 122, 165, 184  
 Dacin, P. 87, 164  
 Dacin, P.A. 12, 13, 17, 18, 34, 36, 52, 53, 55, 122, 140  
 Dacin, T. 87, 95  
 Dahl, R.A. 88  
 Dana, L.P. 12, 208  
 Dart, R. 94, 183, 193  
 Datta, P.B. 164  
 Davis, S. 208  
 De Oliveira, A.C.M. 70  
 Dean, T.J. 90  
 Dees, G. 86, 91, 92, 144, 146, 148, 153–155  
 Dees, G.J. 67  
 Dees, J.G. 17, 51, 53, 54, 130, 164  
 Defourny, J. 70, 73, 91, 96, 193, 213, 215  
 Del Baldo, M. 197, 206  
 Dey, P. 12, 18, 86  
 Di Domenico, M. 140, 164  
 Di Domenico, M.L. 46  
 DiMaggio, P.J. 166  
 Diochon, M. 37, 43  
 Discourse 34–38  
 Dobers, P. 197  
 Doherty, B. 213  
 Dorado, S. 37, 88, 164, 182  
 Dossal, A. 197  
 Drayton, W. 164  
 Driver, M. 2  
 Drucker, P. 18  
 Drucker, P.F. 94  
 Dunn, K. 36

## E

Economy of Communion (EoC)  
     companies 196, 209, 211–213, 217  
 Eikenberry, A.M. 87  
 Elkington, J. 16, 18, 19, 192, 197  
 Embeddedness 184  
 Emerson, J. 69  
 Emmons, R.A. 15  
 Estrada, E. 77  
 Evers, A. 213, 214  
 Exline, J.J. 15

## F

Fayolle, A. 164  
 Fernandez, M.T.F. 3  
 Fine, G. 75  
 Finkle, T.A. 113, 118  
 Fiorelli, E.T. 213

Fischer, R.B. 70, 75  
 Fjeldstad, O.D. 129  
 Florin, J. 52, 55, 63  
 Foster, W. 75, 164  
 Freeman, E. 148  
 Freeman, M. 89  
 Freeman, R.E. 194, 213  
 Frese, M. 18  
 Friedman, M. 92, 148  
 Fry, L.W. 14

## G

Gailey, R. 164  
 Gardner, H. 21, 75  
 Garriga, E. 195, 197  
 Gartner, W. 2  
 Gartner, W.B. 113  
 Gatewood, R. 194  
 Gawer, A. 129  
 Gaye, M. 209  
 Gedajlovic, E. 67, 87  
 Gekas, G. 36  
 Germak, A.J. 3  
 Giddens, A. 181  
 Godos-Diez, J.L. 194  
 Gold, L. 209–211, 213, 216  
 Goldman, S. 15, 18, 20  
 Goldsby, M.G. 113  
 Gonzales, V. 214  
 Goss, D. 3  
 Gössling, T. 196  
 Gradl, C. 194, 215  
 Grant, D. 34  
 Gray, C.M. 74  
 Green, M. 69  
 Greenwood, D.J. 208  
 Gregg, T. 3  
 Grenberg, J.M. 13, 14  
 Grimes, M. 24, 164  
 Grossman, A. 69  
 Grossman, P.J. 69  
 Grunig, J.E. 88  
 Gudmundsson, A. 12  
 Gui, B. 91, 211, 213, 217  
 Gumaste, G. 146, 149  
 Gundry, L.K. 95  
 Gurgel do Amaral, C. 164

## H

Hager, M.A. 74  
 Haigh, N. 130  
 Halme, M. 197

Harbaugh, W.T. 69  
 Harding, R. 36  
 Hardy, C. 34  
 Harlock, J. 34  
 Harris, R. 71, 78  
 Hart, S. 204  
 Hart, S.L. 192  
 Hart, T. 164  
 Hartigan, P. 16, 18, 19  
 Harvey, B. 206  
 Haugh, H. 37, 46, 53, 55, 86, 87, 164, 181  
 Havens, J.J. 69  
 Hawks, M. 2  
 Hazare, A. 208  
 Heinecke, A. 67, 68, 71, 77, 78  
 Heinrich, C.J. 91  
 Heister, P. 69  
 Hekman, D.R. 13, 14, 27  
 Hemingway, C. 164  
 Hemingway, C.A. 12, 21  
 Henderson, D. 204  
 Herrero, D.B. 3  
 Hertz, N. 204  
 Hiatt, S.R. 164  
 Hickson, D.J. 166  
 Hill, C.J. 91  
 Hill, R.P. 182, 194  
 Hitt, M.A. 52, 53, 56  
 Hjorth, D. 86  
 Ho, M. 184  
 Hoffman, A.J. 130  
 Holme, R. 194  
 Hood, C. 91  
 Hoogendoorn, B. 86, 106  
 Hoogendorn, B. 71, 74  
 Hosu, I. 3  
 Howe, L. 182  
 Huberman, A.M. 95  
 Humility 12–14, 23–25, 27, 28  
 Hunt, T. 88

## I

Iansiti, M. 129  
 Ideal motive 212  
 Identity 34–37, 40, 43, 45  
 Inclusive business 192, 194–196, 199–202,  
 209, 215, 216  
 Innovation 2, 3, 5  
 Innovation ecosystem 128, 129, 133, 135,  
 136, 138  
 Internal financing 72  
 Ireland, R.D. 53, 56



**J**

James, E. 74  
 James, N. 12  
 Jansen, S.A. 76, 78  
 Jarillo, J.C. 129  
 Jarvis, O. 77  
 Jenkins, B. 192, 194  
 Jenkinson, T. 78  
 Jensen, S.M. 12, 14  
 Jones, R. 3, 35, 37, 46  
 Justo, R. 2

**K**

Kaniskas, J. 103  
 Kaplan, H.B. 158  
 Kaplan, S. 78  
 Kaplinsky, R. 101  
 Karlsson, M. 2  
 Keating, E. 74  
 Kendall, J. 34  
 Kerlin, J.A. 71, 86, 93, 101, 106  
 Khavul, S. 135  
 Kickul, J. 94, 95  
 Klak, J. 70  
 Klein, N. 204  
 Knobloch, C. 215  
 Kogut, B. 164  
 Kolk, A. 204  
 Kostova, T. 166  
 Kramer, M. 148  
 Kramer, M.R. 199, 200, 206  
 Kraybill, D.B. 12, 28  
 Kubzansky, M. 202, 203  
 Kumar, M. 181  
 Kuratko, D.F. 113, 164

**L**

Ladaique, M. 72  
 Lampinen, M. 128  
 Laswell, H. 88  
 Latham, J. 3, 35, 37  
 Lawrence, T. 19, 20  
 Lawrence, T.B. 34  
 Lean, M. 208  
 Lebanon 144–146, 149, 151, 155–158  
 Leca, B. 207  
 Lees, A. 51, 52  
 Leete, L. 74  
 Legitimacy 164–167, 169, 173, 176, 177, 179,  
 180, 182–185  
 Lehner, O.M. 103  
 Leijonhufvud, C. 70  
 Lepoutre, J. 2

Lerner, M. 145, 146  
 Letts, C. 69  
 Levien, R. 129  
 Lewis, O. 181  
 Liao, J. 2  
 Light, I.H. 208  
 Light, P. 67  
 Light, P.C. 13, 28, 86, 91, 193  
 Lindsey, W.E. 2  
 List, R. 2, 91  
 Locke, E.A. 13  
 Lubich, C. 209  
 Lumpkin, G. 17  
 Lumpkin, G.T. 3, 63, 140  
 Luthans, F. 12, 14  
 Lutz, E. 12  
 Lynn, L.E. 91  
 Lyons, T. 94, 208

**M**

Maak, T. 140  
 MacLeod, G. 208  
 Magalhaes, S. 137  
 Maguire, S. 34, 166  
 Mair, J. 17, 52, 67, 87, 130, 164, 180, 181,  
 192, 195, 196  
 Marshall, R.S. 164  
 Marti, I. 52, 67, 130, 164, 180, 181, 192, 196  
 Martí, I. 17  
 Martin, R.J. 193  
 Martin, R.L. 17, 157  
 Martinez, A.F. 3  
 Mason, C. 34–36, 39, 45  
 Massa, L. 76  
 Matear, M. 12, 52, 87, 122  
 Matlay, H. 164  
 Maurer, A. 3  
 Mayer, J. 12, 77, 78  
 McCarney, P.L. 2  
 McCarthy, B. 3  
 McDermott, G.A. 196  
 McLean, M. 51, 53, 54  
 McMullen, J. 24  
 McMullen, J.S. 90  
 Meer, J. 70  
 Megali, C. 146  
 Melé, D. 195, 197, 217  
 Melo Neto Segundo, J.J. 137  
 Melo, J. 137  
 Mendell, M. 73  
 Milani, K. 130  
 Miles, M.B. 95  
 Miller, P. 2  
 Miller, T. 164, 182, 184

- Miller, T.L. 24, 27  
 Milligan, K. 70  
 Minna, P.J. 130  
 Mirabella, R. 2  
 Molteni, M. 212, 217  
 Monroe-White, T. 95  
 Moody, M. 69  
 Moore, J.F. 129  
 Morris, J.A. 13, 23  
 Morris, M.H. 208  
 Morrison, R. 208  
 Mort, G.S. 64  
 Moss, T. 17  
 Moss, T.W. 3, 63  
 Müller, S. 3  
 Munir, K. 3  
 Murdock, A. 86, 94, 95, 103  
 Murphy, P.J. 89, 94  
 Mycoskie, B. 24–26
- N**
- Naccache, P. 207  
 Namir, O. 3  
 Narayan-Parker, D. 192  
 Narratives 35, 37, 38, 41, 44, 45  
 Nasr, S. 145  
 Naughton, M. 213  
 Nelson, J. 198  
 Nelson, J.J. 192  
 Neubaum, D.O. 67, 87  
 Newman, M. 77  
 Nicholls, A. 51, 86, 87, 94–96, 103, 164, 166, 184  
 Nielson, T.R. 2  
 Noble, A. 67, 68, 71  
 Nogales, R. 73  
 Nolt, S.M. 12  
 Normann, R. 129  
 Nwankwo, E. 164, 166, 181  
 Nyssens, M. 70, 73, 91, 96, 215
- O**
- O'Donohue, N. 70  
 O'Flynn, J. 91  
 O'Herlihy, M.A. 69  
 Onyx, J. 208  
 Organizations 11, 14, 16–18, 20, 27  
 Ormiston, J. 52  
 Osberg, S. 17, 193  
 Owens, B.P. 13–15, 27, 28  
 Ozgen, E. 94
- P**
- Packer, P. 3  
 Palazzo, G. 183  
 Pareek, U. 181  
 Paris, D.C. 88  
 Park, N. 14  
 Parsons, T. 166  
 Pate, L.E. 2  
 Pearce, D. 145  
 Pennings, E. 71, 86  
 Peredo, A. 86, 164, 181  
 Peredo, A.M. 51, 53, 54, 193, 196, 207  
 Perrini, F. 206  
 Petersen, R. 87  
 Peterson, C. 13  
 Peterson, C.M. 14  
 Peterson, R. 208  
 Petrick, J. 2  
 Phillips, N. 46  
 Pless, N.M. 3, 87  
 Porras, J. 146, 148  
 Porter, M. 148, 159  
 Porter, M.E. 53, 199, 200, 206  
 Powell, W.W. 166  
 Prahalad, C.K. 63, 196, 204  
 Prasad, P. 167, 168  
 Prescott, D. 192, 198  
 Preston, A.E. 74  
 Prince, P. 174  
 Public funding 68, 72–74, 77, 78  
 Public value failure theory 86, 87, 91, 94, 103  
 Pugh, D.S. 166  
 Putnam, R.D. 206, 208
- R**
- Ramirez, R. 129  
 Rangan, V. 164, 166, 185  
 Rankings 112, 113, 118  
 Rauch, A. 18  
 Raufflet, E. 164  
 Raviv, A. 71  
 Rayson, P. 39  
 Reave, L. 14  
 Reed, A.M. 197  
 Reed, D. 197  
 Renko, M. 2  
 Reynolds, J.C. 88  
 Richards, N. 14, 15  
 Richter, S. 74  
 Rittel, H. 87, 103  
 Roberts, D. 21  
 Robinson, D. 36  
 Rodriguez-Lopez, A. 13, 14, 23

- Roper, J. 12, 13  
 Rosen, H.S. 70  
 Rosenbloom, R.S. 129  
 Rosenstein, C.N. 208  
 Roth, K. 166  
 Rowatt, W.C. 14  
 Ruebottom, T. 86, 166, 180, 184  
 Ruef, M. 166  
 Rushton, M. 72, 73  
 Ryan, W. 69, 164
- S**
- Sachs, W. 208  
 Sadler-Smith, E. 3  
 Sagawa, S. 164  
 Sakarya, S. 3  
 Salamon, L.M. 2, 72, 91  
 Saltuk, Y. 70  
 Sandage, S. 13  
 Sandler, T. 74  
 Santos, F.M. 87, 94, 96, 140  
 Sañudo, M. 2  
 Savaya, R. 3  
 Scaling 75–77  
 Schaper, M. 97  
 Schervish, P.G. 69  
 Scheuerle, T. 74  
 Schmidt, E. 52, 55, 63  
 Schmitz, B. 74  
 Schöning, M. 67, 68, 70, 71  
 Schües, R. 74  
 Schumpeter, J.A. 18  
 Scott, J.C. 166, 182  
 Scott, W.R. 166  
 Seelos, C. 195  
 Segal, E. 164  
 Segbers, K. 2  
 Selekler-Göksen, N. 3  
 Seligman, M. 13  
 Sen, A. 182  
 Seymour, R. 52  
 Shanmugam, T.E. 181  
 Sharir, M. 145, 146, 152  
 Shaw, E. 12  
 Short, J.C. 3, 17, 21, 63, 85  
 Shulman, J.M. 67, 87  
 Simon, H. 88  
 Singer, P. 138  
 Singh, K.K. 3  
 Sinitsyn, M. 74  
 Sirmon, D.G. 53, 56  
 Small and medium enterprises (SMEs) 195,  
 205, 216, 217
- Smith, I.H. 20  
 Social enterprise 85–87, 89, 91, 93–98, 164,  
 165, 167, 180, 185, 192, 193, 196, 200,  
 205, 212–215  
 Social entrepreneurship (SE) 2–6, 85–87, 89,  
 91, 94, 106, 112–114, 116–118, 121,  
 128–131, 133, 135, 138, 144–146, 149,  
 157, 159, 164, 166, 167, 185  
 Social value creation 51–53, 55–57, 59–64  
 Sokolowski, S.W. 2, 91  
 Solomon, R.C. 14  
 Sommerfeld, J. 69  
 Sommerrock, K. 67  
 Sonpar, K. 165  
 Spear, R. 37  
 Spiess-Knafl, W. 12, 67, 68, 70, 71,  
 73, 74, 78  
 Stabell, C.B. 129  
 Stange, D. 3  
 Stater, K.J. 75  
 Steinberg, R. 74  
 Steiner, S. 112, 113  
 Stephens, D.L. 182  
 Stevenson, H. 51, 87  
 Stewart, A. 2  
 Steyaert, C. 18, 86  
 Stiglitz, J. 204  
 Stoetter, N. 140  
 Stokols, D. 154  
 Stoner, J.A.F. 2  
 Storper, M. 206  
 Strauss, A. 168  
 Suchman, M. 165–167, 182  
 Sud, M. 166, 183, 184  
 Sugden, R. 211, 217  
 Supply chain interactions 56  
 Sustainability 3, 5, 128, 129, 131, 132, 134,  
 135, 164, 183
- T**
- Tajfel, H. 20  
 Tan, T.M. 12  
 Tan, W.L. 12  
 Tangney, J.P. 13–16  
 Tashakkori, A. 3  
 Teasdale, S. 34, 36, 37, 45  
 Technology 95, 98  
 Teddlie, C. 3  
 Tenenbaum, D. 208  
 Terjesen, S. 2  
 Theodoulou, S.Z. 88  
 Thies, J. 2  
 Thomas, L.D.W. 128, 129  
 Thompson, J. 164, 213

- Thompson, J.A. 51, 52  
 Thurik, R. 71, 86  
 Toepler, S. 2, 91  
 Toly, N.J. 2  
 Townsend, D. 164  
 Tracey, P. 17, 36, 46, 77, 87, 122, 164, 165, 184, 196  
 Trenholm, S. 36  
 Trivedi, C. 154  
 Tschirhart, J. 74  
 Turner, J.C. 20
- U**  
 Uelmen, A.J. 211, 212  
 University programs 112  
 Urban, B. 145  
 Urbano, D. 3  
 Urbanski, J.C. 13
- V**  
 van Tulder, R. 204  
 Varian, H. 90  
 Varman, R. 181  
 Ventresca, M.J. 88, 164, 182  
 Vera, D. 13, 14, 23  
 Vesper, K.H. 113  
 Vesterlund, L. 69  
 Vining, A.R. 90  
 Virtue 13, 14, 20, 22, 27  
 Vocht, C. 196  
 Vogus, T.J. 24
- W**  
 Wankel, C. 2  
 Warwick, M. 217  
 Watts, P. 194  
 Webb, J.W. 53  
 Webber, M. 87, 103  
 Weber, M. 166  
 Wedell-Wedellsborg, T. 2  
 Weerawardena, J. 64  
 Weimer, D.L. 90  
 Weisbrod, B.A. 74, 91  
 Wei-Skillern, J. 51, 87  
 Welter, F. 167  
 Wesner, E.J. 12  
 Wheeler, D. 164  
 Whetten, D.A. 204  
 Wiess, T. 13  
 Wilkins, A.L. 14  
 William, C.L. 70  
 Williams, J. 12  
 Willmott, H. 12  
 Wilsker, A.L. 70  
 Wincent, J. 129  
 Wolf, C., Jr. 90  
 Woods, C. 21  
 Woodworth, W.P. 20  
 Woolrych, R. 42  
 Worsham, E.L. 2
- Y**  
 Yildirim-Öktem, O. 3  
 Yin, R.K. 128  
 Young, D.R. 2, 70, 74  
 Young, R. 51, 52  
 Yunus, M. 70, 92, 213
- Z**  
 Zacharakis, A.L. 129  
 Zadek, S. 206  
 Zaheer, S. 166  
 Zahra, S.A. 12, 13, 51–54, 67, 87, 164, 182  
 Zamagni, S. 209, 215, 217  
 Zanakis, S.H. 2  
 Zott, C. 76  
 Zsolnai, L. 217