

Social Entrepreneurship Business Models



Incentive Strategies to
Catalyze Public Goods Provision

Katharina Sommerrock



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Goods Provision**

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Foreword

The discourse on social entrepreneurship is probably one of the most exciting issues to have emerged in social and economic research in recent years. The exclusive fixation of organizational theory on institutions and structures has given way to the dynamics of personal involvement once again. A person can make all the difference. And a value-driven culture can make all the difference. Civil society matters for the solution of social problems and the production of public goods in the twenty-first century.

Social entrepreneurship has the potential to transform our understanding of the social fabric of a modern society. But to reach that point, new types of social scientific research programmes have to be developed. Fruitful research directions could possibly be inspired by the following research questions: What exactly is the role of a social entrepreneur *vis-à-vis* stakeholder networks in the context of modern society? What are the critical success factors of social entrepreneurial activity? Which business strategies are most promising for what types of problem or institutional environment?

In her contribution, Katharina Sommerrock approaches many of these questions with intriguing precision. She begins her argument with traditional economic and business concepts such as the theory of public goods, the asset-based view of management strategy, and so on; but she transforms elements of this well-introduced body of knowledge into new and exciting analytical tools for empirical social entrepreneurship research. She contributes to a better understanding of this new topic of research, which could help social scientists to approach it more systematically, politicians to co-operate better with civil society, and entrepreneurs themselves to develop their business models successfully.

Thorough contributions like this in-depth book offer a most significant service to the emergent and practically minded social entrepreneurship community: they contribute to 'mainstreaming' social entrepreneurship in management science, help it to appear in student textbooks and frame the mindset of a next generation of business scholars and practitioners. Only with that arduous endeavour does scientific progress evolve and contribute to making the world a better place. I hope that many readers will follow Katharina's path having read this book and continue where her research project ended.

ANDRÉ HABISCH

Acknowledgements

When John W. Gardner was sworn in as the US Secretary of Health, Education, and Welfare on 27 July 1965, he said in his speech, 'What we have before us are some breathtaking opportunities disguised as insoluble problems.' This point of view describes exactly the mindset of social entrepreneurs, the protagonists of this book, who act as catalysts for public goods by creating and implementing solutions to the world's most pressing social and ecological problems.

Equally, Gardner's insight can sum up the author's experience during the creation of this book, which is based on a research project at the Center for Corporate Citizenship at the Catholic University of Eichstaett-Ingolstadt, Germany. Discovering the tremendous opportunities and insights behind the many roadblocks encountered during the research project would not have been possible without the generous help of some extraordinary people.

First, I would like to express my deep thanks and highest respect to my academic advisers: Prof. Dr André Habisch, Center for Corporate Citizenship at the Catholic University of Eichstaett-Ingolstadt and Prof. Dr Stephan Kaiser, Institut für Entwicklung zukunftsfähiger Organisationen at the Bundeswehr University Munich, for the time, experience and supportive advice they were always willing to share with me. I would also like to thank Prof. Johanna Mair and Prof. Gregory Dees for the open-minded discussions we had, as well as their advice on this research project at an early stage.

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I owe my deepest gratitude to my parents, whose guiding values, enduring support and imperturbable belief in me continue to give me the strength and motivation to advance towards my goals and become the person I would like to be; to my sister and brothers, whose love and companionship provide a rock-solid basis; and to my husband Fabian, my strongest supporter and fiercest critic, who continually encourages me to make my, and our, dreams come true. This book is dedicated to them.

KATHARINA SOMMERROCK

Grammatical gender

For reasons of simplicity, in this book male third-person pronouns are always used for general gender expressions that also explicitly include the female, unless the expression relates to a specific example.

List of Abbreviations

AAB	Adopt-a-Business Ltd
ARNOVA	Association for Research on Nonprofit Organizations and Voluntary Action
BGMEA	Bangladesh Garment Manufacturers and Exporters Association
CASE	Center for the Advancement of Social Entrepreneurship
CDI	Committee for the Democratization of Information Technology
DA	Development Alternatives
ECCD	Early Childhood Care for Development
eG	Eingetragener Genossenschaft [German] – legal form of an organization
eV	Eingetragener Verein [German] – civic association
FLA	Fair Labor Association
gGmbH	Gemeinnützige Gesellschaft mit beschränkter Haftung [German] – non-profit legal form of company
GmbH	Gesellschaft mit beschränkter Haftung [German] – for-profit legal form of company
IBFS	Interkultureller Bildungs- und Förderverein für Schüler und Studenten [German] – intercultural development association for students
ITCRS	Information Technology & Citizen’s Rights Schools
MBA	Master of Business Administration
MDG	Millennium Development Goal
NGO	non-governmental organization
OECD	Organisation for Economic Co-operation and Development
SE	social entrepreneurship
UK	United Kingdom
USA	United States of America
USP	unique selling proposition

Part I

Introduction

Prologue

Who can imagine people paying a considerable 'entrance fee' to spend an hour with a blind person, thus creating hundreds of jobs for blind and disabled people worldwide? Who can imagine homeless people from all over the world gathering in one place for a soccer tournament, thus changing their lives for the better? Who can imagine lending some dollars via the internet to a grocery-shop owner in Ecuador, for expansion, thus enabling the mother of seven to pay for her children's education? Who can imagine people in Nigeria earning their living by charging fees for the use of toilets they manage, thus creating both jobs and improving hygiene? Anyone?

In fact, there are people who have exactly those visions. When believing in Irish dramatist George Bernard Shaw's 'Maxims for Revolutionists': 'The reasonable man adapts himself to the world: the unreasonable one persists in trying to adapt the world to himself. Therefore all progress depends on the unreasonable man',¹ these 'unreasonable' people have the potential to change the world as they work to turn their visions into reality.

Andreas Heinecke opened an exhibition named 'Dialogue in the Dark' in Germany, where blind people guide visitors through dark rooms with certain themes to convey an impression of the world of the blind and thus instigate mutual understanding and social exchange. Since it opened in 1988, the exhibition has been presented in more than 150 cities worldwide and has provided jobs for more than 5,000 blind and disabled people.²

In 2003, Mel Young kicked off the Homeless World Cup in Graz in Austria with teams from seventeen nations; in 2008, 500 homeless men and women from fifty-six nations fought for victory in Melbourne, Australia. Many more received a chance to change their lives through

4 *Introduction*

soccer with the help of grassroots organizations worldwide, which organize local competitions and eventually select players to attend the central Homeless World Cup.³

Kiva is a US-based organization founded in 2005 by Matt Flannery and Jessica Jackley Flannery. They had a vision of taking microcredit to an individual level, connecting potential private lenders in developed countries through the internet with those in financial need in developing countries. Via facilitating institutions in the target countries, an individual can lend any sum of money to a specific person based on the profile published on the internet. The lender receives his/her money back once it is repaid by the borrower.⁴

DMT Mobile Toilets was founded in 1992 by the Nigerian Isaac Durojaiye, also known as Otunba Gadaffi, to provide outdoor events in Nigeria with sanitary facilities. However, the founder realized that there was a general lack of public sanitary facilities in the country in terms of quantity and quality and by 2007, DMT had evolved into a multifaceted company, not only providing jobs by producing, renting and leasing mobile toilets for outdoor events, but also by supplying them to poor people across the country, who charge fees for their use by other citizens and are thus able to earn a living, while simultaneously improving sanitary conditions in Nigeria.⁵

These 'unreasonable' people are so-called social entrepreneurs and the organizations they founded are examples of the phenomenon of social entrepreneurship. Social entrepreneurs are highly motivated individuals who cross sectors and conventions to establish innovative and sustainable solutions to the world's social and ecological problems. Pressing challenges in areas as diverse as poverty, health, education, unemployment, environment and social integration are still far from being solved by politics, business or non-governmental organizations (NGOs). For most people, these challenges represent huge problems, burdens and threats. Social entrepreneurs, in contrast, change perspectives and see opportunities rather than problems:⁶ 'The time is certainly ripe for entrepreneurial approaches to social problems ... Social entrepreneurs are needed to develop new models for a new century.'⁷

Social entrepreneurship, pursuing social objectives with entrepreneurial approaches, is a promising phenomenon in the search for solutions to social and ecological problems. The scientific world can contribute to its advancement through both descriptive and prescriptive research, fostering understanding as well as the development and distribution of social entrepreneurship. The introductory part of this book details first how the book aims to contribute to the scientific advancement of

social entrepreneurship and which research questions it tries to answer. Subsequently it positions this research effort within the philosophy of science and outlines the scientific methodology applied. Finally, it introduces the course of investigation followed in the book.

Notes

1. Shaw (2001), p. 260.
2. Dialog im Dunkeln homepage, published online at: <http://www.dialog-im-dunkeln.de/>, accessed: 20.02.2008.
3. Homeless World Cup homepage, published online at: <http://www.homelessworldcup.org/>, accessed: 20.02.2008.
4. Kiva homepage, published online at: <http://www.kiva.org/>, accessed: 20.02.2008.
5. DMT Mobile Toilets homepage, published online at: <http://www.dmttoilet.com/>, accessed: 20.02.2008.
6. Social entrepreneurs 'reframe challenges', Barendsen/Gardner (2004), p. 48.
7. Dees (2001), p. 1.

1

Introduction

Motivation and objectives

The international phenomenon of social entrepreneurship has existed in various forms for centuries, but gained global recognition only recently as a result of the increased reach and scale of the social impact generated by social entrepreneurs.¹ Since Muhammad Yunus, social entrepreneur and founder of the Grameen Bank for microcredit in Bangladesh, was awarded the Nobel Peace Prize in 2006, public interest in the phenomenon social entrepreneurship has increased:

In the past decade ‘social entrepreneurship’ has made a popular name for itself on the global scene as a ‘new phenomenon’ that is reshaping the way we think about social value creation. Some of these practices are uniquely new; however many have been around for a long time having finally reached critical mass under a widely endorsed label.²

Politicians (for example, Gordon Brown and Tony Blair in the UK³), business people (for example, Jeff Skoll, the founder of eBay), academic institutions (for example, the Harvard Business School), international institutions (for example, the World Economic Forum), and specific support institutions (for example, Ashoka – Innovators for the Public, or The Schwab Foundation for Social Entrepreneurship) increasingly turn to social entrepreneurs for solutions to the most pressing challenges facing the world, supporting them in various ways.⁴

Generally, ‘research on social entrepreneurs is in its infancy.’⁵ It represents a developing interdisciplinary field of research that draws mainly on insights from non-profit, management and entrepreneurship research.⁶ Mair and Schoen point to the lack of understanding of social

entrepreneurial behaviour: 'Although social entrepreneurial organizations have begun to receive more scholarly attention, we still know relatively little about *how* they are able to create both social and economic value.'⁷

To date, several general research streams have evolved. One is based on traditional entrepreneurship literature and explores the definition of social entrepreneurship as an independent field of research different from that of for-profit ventures, analysing its characteristics regarding individual and organizational specifics.⁸ Another stream explores the operations and management of social entrepreneurial organizations, viewing social entrepreneurship as a process involving the recognition of an entrepreneurial opportunity, the launch of an organization, and the collection of resources.⁹ A third stream focuses on the social entrepreneur as an individual, detailing specific attributes, particularly in comparison with other entrepreneurs.¹⁰

Social entrepreneurial solutions occur in a large range of forms and strategies, as also demonstrated in the introductory part of this book: 'Social entrepreneurship ... represents an umbrella term for a considerable range of innovative and dynamic international praxis and discourse in the social and environmental sectors.'¹¹

Social entrepreneurs create social value with innovative entrepreneurial approaches, break through the borders between public, business and non-profit sectors, and revolutionize traditional approaches to social value creation. When discussing the value creation of social entrepreneurial organizations, many contributors assert that social entrepreneurial organizations engage in the provision of public goods. The following represent three examples:

[S]ocial entrepreneurship responds to market failures by providing public goods and services.¹²

In the design of public support programmes, their effort to activate social capital resources should become acknowledged as something which is good for the social enterprise itself but which also contributes to the public good.¹³

Wedding passionate leadership for the public good with tough-minded effectiveness, social entrepreneurs represent the vanguard of the global civil society.¹⁴

However valid these statements might be, to date no scientific or theory-based findings exist to lend them support. The provision of public goods

is linked to a number of challenges caused by the very characteristics of public goods' non-rival consumption and non-excludability. These lead to market failure for public goods and a resulting lack of supply of these goods.

These considerations lead to the research question to be answered by this book:

How do social entrepreneurial organizations contribute to the provision of public goods?

It is particularly relevant to investigate the role that social entrepreneurial organizations play in the provision of public goods, and how they are able to overcome the challenges posed by such provision. Consequently, the proposed research question has two subquestions: what is the role of social entrepreneurial organizations in the provision of public goods; and which strategies do social entrepreneurial organizations apply to contribute to the provision of public goods?

Regarding the objective of research on social entrepreneurship, Mosher-Williams questions:

Should the ultimate goal of research on social entrepreneurship be to increase the future pool of social entrepreneurs, i.e. understand social entrepreneurs in order to find and create more? Or should research primarily seek to help widen the impact of social entrepreneurs' activity?¹⁵

This book aims to fulfil both of the objectives cited. First, it aims to advance the understanding of social entrepreneurial organizations, their functions and their strategies, in order to allow for differentiated research and recommendations: 'Success will depend on a better understanding of how to effectively combine elements from the business world and the social sector, and how to recognize the limits and the risks.'¹⁶

Second, the insights generated in this book could reveal possible lines of action for existing or future social entrepreneurs to build or enhance their business models: 'Finding the right economic structure to implement a specific social impact theory in a given context is the dominant consideration.'¹⁷

The insights generated in this book on social entrepreneurship and public good provision might also be used as inspiration for other institutions involved in the provision of public goods, such as public authorities, and other non-profit or for-profit organizations.

Classification in the philosophy of science, and research strategy

Being an interdisciplinary field of research, social entrepreneurship has been studied from various perspectives (for example, non-profit, social science, economics, business administration). This book aims to examine the proposed research question from an economics perspective, and in particular, a business administration perspective. Economics is part of the real sciences (as opposed to the ideal sciences) and focuses on the phenomena of economic activity.¹⁸ Generally, economic activity is defined as deciding on the disposition of scarce resources.¹⁹ Business economics, as a main discipline of economics, focuses on the economic activity within a business or enterprise.²⁰ Since deciding on the disposition of scarce resources is also the crucial activity performed in social entrepreneurial organizations, this phenomenon can be analysed from the perspective of business economics.

In order to classify this contribution within the philosophy of science, the scientific object, the scientific objective and the scientific methodology of the research are defined. Regarding the *scientific object*, research on social entrepreneurship can be separated into three levels following the structure of entrepreneurship research:²¹

- Functional or macroeconomic level: *What* do social entrepreneurs do? (Function of social entrepreneurship in society.)
- Psychological/sociological/individual level: *Who* does social entrepreneurship? (Socio-cultural/psychological characteristics of the social entrepreneur.)
- Management/instrumental/organization level: *How* do social entrepreneurs act? (Management of the social entrepreneurial organization.)

Each of these levels can be linked to a certain area of theory.²² Research at the functional or macroeconomic level mainly reverts to economic and macroeconomic theories. The individual level is analysed mainly using theories concerning personality. Research at the organization level draws mainly on organization theories. Since this book aims to analyse the role in public good provision and the strategies applied by social entrepreneurial organizations, it can be classified into both the functional and the organizational level.

Generally, the *scientific objective* of business economics is twofold:²³ The first part aims to explain the conditions and activities of businesses as economic entities (explicative objective), while the second part aims

at developing or demonstrating approaches to a targeted design of business activities (prescriptive or practical-normative objective). The fulfilment of the explicative objective is a precondition for the accomplishment of the prescriptive task.²⁴ With the analysis of the role and the strategies of social entrepreneurial organizations regarding the provision of public goods, the scientific objective of this book is primarily explicative. Since no research results are yet available for these research questions, explicative research results have to be generated before prescriptive suggestions can be derived.²⁵

Regarding the *scientific method*, this book applies the inductive or explorative method. Following the inductive method, a researcher infers general explanations of reality from empirically observing and abstracting facts (from specific phenomena to general evidence).²⁶ However, this contribution does not completely abstain from the use of theories: it uses organization theory as a guiding perspective for the conceptualization of social entrepreneurial strategies and structures. Siggelkow advocates this theory-guided inductive approach: 'In my view, an open mind is good; an empty mind is not. It is true that one wants to retain the capacity to be surprised, but it seems useful (and inevitable) that our observations be guided and influenced by some initial hunches and frames of reference'.²⁷ And Mosher-Williams highlights the necessity of theory-informed research in social entrepreneurship: 'the field is coming to a point of inflection ... at which theory-driven rather than practice-driven typologies are becoming critical for advancing this important work'.²⁸

Regarding theoretical perspectives, the book first draws on public goods theory from the field of economic theories to identify the characteristics of public goods and to derive an understanding of the economic setting of social entrepreneurial action as well as the role of social entrepreneurial organizations in the provision of public goods. The resource dependency theory as a second theoretical perspective explains the behaviour of organizations as open systems that depend on their environment for critical resources. In combination with public goods theory, resource dependency theory provides the guiding light on exploring how social entrepreneurial organizations contribute to public good provision, and which strategies they apply. While resource dependency theory is 'extremely prevalent in examining the behavior of non-profit organizations'²⁹ and public goods theory has also been applied to non-profit organizations, these two theoretical perspectives have not as yet been applied thoroughly to the phenomenon of social entrepreneurship, which increases the relevance of this research contribution's analysis.³⁰

From the perspective of public goods theory and resource dependency theory, this book combines two research strategies to reach the scientific objective: factual-analytical research and empirical research.³¹ Factual-analytical research generally focuses on the investigation of complex coherences and the elaboration of foundations for action, drawing insights from plausibility considerations and existing empirical results.³² In this book, the factual-analytical research aims to identify different social entrepreneurial strategies regarding public good provision based on existing insights regarding social entrepreneurial organizations. A database gathering information on social entrepreneurial organizations by using case studies, press and document research, internet publications and expert consultations serves as a crucial tool to identify relevant patterns in strategies. Since social entrepreneurship is a global phenomenon, and creative solutions to societal problems occur in both developed and developing countries, this book adopts a global perspective and includes social entrepreneurial practices from all over the world.³³

Empirical research aims towards the systematic generation of insights through experience.³⁴ In this book, case studies are used as a qualitative empirical research method to illustrate business models of real social entrepreneurial organizations. These serve as holistic examples of possible configurations of the individual strategies conceptualized in the prior research step.³⁵ Promoting the use of empirical research, Siggelkow postulates: 'it is much harder to make a paper interesting whose findings or conclusions only address theory. A paper should allow a reader to see the world, and not just the literature, in a new way'.³⁶

Qualitative empirical research is particularly useful for analysing the field of social entrepreneurship, since research into this phenomenon is relatively new as are the proposed research questions, aiming at describing and understanding the phenomenon.³⁷ In addition, case studies are especially suitable for research fields that require a holistic research approach.³⁸

As a unit of analysis for both factual-analytical and empirical research, the business model concept serves both to map the different individual strategies along the business model dimensions and to analyse holistic configurations of social entrepreneurial organizations. The business model as a unit of analysis offers the advantage (for example, compared to the organization or the company as more traditional units of analysis) that the term has a wider meaning and accommodates the growing importance of networks and external value creation partners, which

is particularly relevant when analysing organizational phenomena in today's interactive world.

Course of investigation

Following this introduction, the terminological foundation for the analyses are laid down by exploring the social entrepreneurship phenomenon (Part II). Introducing social entrepreneurship's evolution and context, Chapter 2 cites some historic examples of social entrepreneurship, gives an overview of the driving forces of the phenomenon's development, and classifies it among the other major institutions that exist today. Chapter 3 focuses on the terminological clarification of social entrepreneurship, defining its constitutive terms 'entrepreneurship' and 'social', and analysing existing concepts and definitions. The interim summary following Chapter 3 sums up the major insights gained in Part II, and these form the basis of a working definition for this book of the term social entrepreneurship.

Part III gives the theoretical perspectives for the book. Public goods theory provides insights regarding the characteristics of public goods, and thus also on the economic setting in which social entrepreneurial organizations are active. Subsequently, social entrepreneurial organizations are analysed in the light of public goods theory, with the objective of gaining insights on their role in public good provision (Chapter 4). The resource dependency theory is introduced as a second, more organization-focused theoretical perspective, with the aim of providing guidance on the social entrepreneurial approach to public good provision (Chapter 5). The two theoretical perspectives are integrated in the interim summary to Part III, to form a conceptual guideline for the factual-analytical and empirical research.

Based on the terminological and theoretical foundations, strategies regarding public good provision by social entrepreneurial organizations are analysed in Part IV. First, the business model as unit of analysis is introduced in Chapter 6, and subsequently, the individual incentive strategies that social entrepreneurial organizations apply regarding public good provision are detailed (Chapter 7). Finally, the holistic application of strategies regarding public good provision is illustrated with the help of three case studies.

The book concludes with Part V, summing up the results of the analyses, and drawing implications for both research and practice for social entrepreneurial organizations and their supporters as well as for other potential providers of public goods.

Notes

1. Nicholls (2006), p. 2 *et seq.*
2. Mair *et al.* (2006), p. 1.
3. See Thompson (2002), p. 414 for an extract from a speech by Tony Blair, then Prime Minister of the UK, in January 1999.
4. Mair *et al.* (2006), p. 3; Nicholls (2006), p. 8 *et seq.*
5. Mosher-Williams (2006), p. 147. See also Mair *et al.* (2006), p. 1. Helm states that 'much of this research is anecdotal, or infatuated with best practices, some focuses on the theoretical underpinnings of social entrepreneurship', Helm (2004), p. 8.
6. Mair *et al.* (2006), p. 2 *et seq.*; Perrini and Vurro (2006), p. 62 *et seq.*
7. Mair and Schoen (2005), Abstract.
8. For more details on this stream of research, see Desa and Kotha (2006), p. 156; Perrini and Vurro (2006), p. 62 *et seq.*
9. Desa and Kotha (2006), p. 157; Perrini and Vurro (2006), p. 65 *et seq.*
10. Desa and Kotha (2006), p. 157; Perrini and Vurro (2006), p. 68 *et seq.*
11. Nicholls (2006), p. 5.
12. Wolk (2007), p. 166.
13. Evers and Schulze-Böing (2001), p. 133.
14. Martin (2004), p. 3.
15. Mosher-Williams (2006), p. 150.
16. Dees and Anderson (2006), p. 61.
17. Dees and Anderson (2006), p. 55.
18. Peters *et al.* (1999), p. 2.
19. For a detailed analysis and definition of economic activity, see Peters *et al.* (1999), p. 3.
20. Peters *et al.* (1999), p. 4.
21. Fallgatter (2002), p. 87 (four levels); Harms (2004), p. 63 *et seq.* (three levels). Mair and Schoen, and Perrini and Vurro also use this structure to classify existing research and literature on social entrepreneurship, Mair and Schoen (2005), p. 17; Perrini and Vurro (2006), p. 62.
22. Fallgatter (2002), p. 87.
23. Peters *et al.* (1999), p. 9.
24. Otherwise rules for activities would be designed without understanding the underlying circumstances; see Peters *et al.* (1999), p. 9.
25. This approach is backed by the Association for Research on Nonprofit Organizations and Voluntary Action (ARNOVA), whose criticism states that: 'discussions within the literature of Social Entrepreneurship/Enterprise approaches and achievements have been unbalanced – with the aspirational and prescriptive notions running ahead of grounded analysis', ARNOVA homepage. Available at: <http://www.arnova.org/?section=5&subsection=5> social; accessed 12 November 2007. Regarding research on social entrepreneurship, Scott states: 'There is ... a tendency to overgeneralize findings applicable in one setting to others', Scott (1981), p. 27.
26. Peters *et al.* (1999), p. 10 *et seq.*
27. Siggelkow (2007), p. 21; also Yin (2003), p. 28.
28. Mosher-Williams (2006), p. 147.
29. Helm (2004), p. 4.

30. Helm has used the resource dependency theory to build an analytical framework for research on social entrepreneurship, Helm (2004). However, he defines social entrepreneurship merely as non-profit behaviour and as 'ventures in nonprofit organizations', Helm (2004), p. 1.
31. Generally, research in business administration adopts one or more of the following research strategies: factual-analytical research, formal-analytical research and/or empirical research, Grochla (1976), p. 634.
32. Grochla (1976), p. 634.
33. Bornstein (2005), p. 11.
34. Grochla (1976), p. 634.
35. This approach follows the recommendation of Siggelkow to employ case studies as illustrations for conceptual analyses, Siggelkow (2007), p. 21 *et seq.*
36. Siggelkow (2007), p. 23.
37. Mair and Martí (2005), p. 13.
38. Meyer (2003), p. 475; Yin (2003), p. 2.

Part II

The Social Entrepreneurship Phenomenon

Introduction to Part II

The objective of this part of the book is to clarify the characteristics of social entrepreneurship. It serves to build the terminological basis for this contribution by classifying social entrepreneurship within its context and by reviewing existing definitions of the term. Since, to date, social entrepreneurship literature has provided no homogeneous definition of the term, the phenomenon, its origins and development as well as fundamental terms are explored thoroughly in order to generate a working definition of social entrepreneurship.

To arrive at an understanding of the conditions surrounding social entrepreneurship and its place in society, the evolution and context of the phenomenon are explored first, in Chapter 2. As the next step to building the basis for a working definition of social entrepreneurship, the definition of the constitutive terms of social entrepreneurship and its existing definitions in the literature are reviewed in Chapter 3. This part closes with an interim summary, which results in a working definition of social entrepreneurship for this book.

2

Evolution and Context

The aim of this chapter is to clarify how social entrepreneurship and its position in society has evolved. In the first section it provides an overview of the origins and development of the phenomenon of social entrepreneurship, and highlights the drivers that have made it so popular in recent years. To place social entrepreneurship within its context, in the second section the three sectors of society are characterized and the phenomenon positioned within them.

Origin and development

While social entrepreneurship is currently receiving increasing attention from politics, the media and society, it has existed for a long time.¹ But it is only recently that the phenomenon has been labelled social entrepreneurship, thus adding an entrepreneurial element to the innovation and transformation characteristic. William Drayton, the founder of Ashoka, the first organization explicitly to support social entrepreneurs, is often credited with creating the term social entrepreneurship.² *Historic examples* of social entrepreneurship demonstrate that the phenomenon is not new, but has existed previously at specific times in history. Currently, social entrepreneurship is experiencing a sharp increase in popularity: the growing number of acknowledged social entrepreneurs, the social impact they generate with their activities (often changing complete systems), and the great variety of different approaches are the result of a number of different factors, which can be summed up by *growing demand and lack of solutions*.³ In addition, the *conditions* that facilitate the emergence of social entrepreneurship have *improved*, developing into a social entrepreneurship 'eco-system'.

Historic examples

When analysing the evolution of social entrepreneurship, its roots can be found in the people who fulfilled functions similar to social entrepreneurs in past centuries. There are various international examples of social entrepreneurs in history.

Francis of Assisi, who founded various social organizations in the thirteenth century that caused structural changes in his surroundings, is considered to be one of the earliest social entrepreneurs.⁴ Other historic personalities who fulfilled functions of a social entrepreneur are William Lloyd Garrison, who campaigned against slavery and founded the Anti-Slavery Society in 1833, and Jane Addams, who founded a welfare centre for the poor in Chicago in the nineteenth century.⁵ Florence Nightingale, who revolutionized the nursing system, Susan Anthony, a women's rights advocate, and Mahatma Gandhi, who fought non-violently for human rights and India's independence, also share features of social entrepreneurs.⁶

Historically, social entrepreneurs seem to have appeared during times when social problems were not being solved by the state – for example, during the time of industrialization. Industrialization, which took place in Europe mainly during the nineteenth century, caused a major disruption in the evolution of humankind and its social structures.⁷ The effects of industrialization changed working and living conditions, and the labour exploitation of women and children produced a strong need for social action that was not fulfilled immediately by the state. Consequently, these emerging social needs were addressed by other institutions such as entrepreneurs, the Church, or the citizens themselves, with some personalities implementing innovative to revolutionary solutions to social problems.⁸ The following three historic examples of social entrepreneurs from Germany in the nineteenth century demonstrate solutions to the diverse social problems of that time.

- Adolf Kolping (1813–65) was originally a journeyman shoemaker and was familiar with the miserable life of journeymen, who accounted for two-thirds of industrial workers during the period of industrialization.⁹ After studying theology and becoming a priest, he founded a journeymen association in 1849 with the aim of providing apprentices with a substitute for family life, sociality, security and structure. In 1865, the year of Kolping's death, the organization had 418 local associations and 24,600 members.¹⁰ Today, the individual associations are organized into a union, which is internationally active in the areas of youth and adult education and humanitarian support.¹¹

- Pauline von Mallinckrodt (1817–81) addressed the issue of poor relief, focusing in particular on blind people.¹² At that time, existing initiatives for poor relief and nursing for the sick neglected the care of blind people.¹³ Having previously founded a variety of volunteer-based initiatives, von Mallinckrodt opened a home for the blind in 1847 after convincing both the state and private donors to contribute to it financially.¹⁴ As a parallel initiative, she founded a Catholic women's congregation with the aim of providing care and education to blind people in order to enable them eventually to earn their own living. In addition to educating the blind, the congregation also engaged in the education of young girls whose learning needs were ignored by the state at that time.¹⁵
- Therese Studer (1862–1931) was herself an industrial worker who fought for education and the rights of female industrial workers.¹⁶ According to her view, legal social regulations alone were not capable of implementing the legitimate demands of industrial workers. She believed self-help was the answer.¹⁷ To advance the economic and social interests of female workers, she founded a Catholic female workers' association in 1906 with the aim of unionizing female workers.¹⁸ As secretary of the confederation of female workers' associations in southern Germany, she was responsible for a sharp rise in the number of new local female workers' associations and for making the female workers' confederation as important as the male workers' confederation.¹⁹

These examples of important social entrepreneurs during the period of industrialization demonstrate how, in those days, social entrepreneurship could fill the gaps in social problem-solving. Such individuals revolutionized thinking and practices at that time, and thus changed society.

Growing demand and lack of solutions

Social entrepreneurship is gaining popularity currently because societies around the world are facing a number of growing social and environmental challenges that cannot be solved by using existing systems, structures and approaches: 'there's more and more environmental and social problems existing in all parts of the world ... And one of the groups that try to solve these problems are called social entrepreneurs'.²⁰

It can be observed that, while developed countries have solutions for certain social problems, the demand for social problem-solving is still growing. In developing countries, the continuing lack of solutions to social problems requires new action.

In developed countries, major social problems are expected to be solved by welfare systems. However, these seem to have reached their limits. Before the creation of welfare systems in European countries at the end of the nineteenth century, many social challenges – which evolved, for example, during industrialization – were addressed by the citizens themselves through the foundation of associations, charities and local initiatives.²¹ These civic activities were largely cut back or centralized during totalitarian regimes or the two World Wars in the twentieth century.²² The end of the Second World War and the return to democratic forms of government marked an era of increased need for action related to the revival and development of social structures that were able to solve the social problems of the time. As a consequence, the welfare systems designed for the post-war era were based on certain assumptions that marked the societal and demographic structures of the time, such as ‘full employment, stable families and low female employment’.²³

Current trends, such as globalization, international competition and social and demographic change, alter the underlying assumptions on which welfare systems were originally based.²⁴ The social problems needing to be solved changed as well: welfare systems now face new social challenges resulting from ageing populations because of demographic shifts, new family structures and roles, high unemployment, and the integration of immigrants from a large variety of different cultural and religious backgrounds, as described by Leadbeater: ‘New social problems of single parent households, drug dependency and long-term unemployment have emerged which the traditional welfare system is not designed to deal with. We need to innovate new responses to the new social and economic realities.’²⁵

As Leadbeater’s remark suggests, the existing welfare systems were originally based on different societal assumptions and designed to solve different social problems. Consequently, they cannot cope with the social challenges they currently face and ‘meet all the demands placed on [them]’.²⁶ As a result, welfare states attempt to reduce entitlements and cut costs to ease the burden on national economies.²⁷

At the same time, traditional organizations in the non-profit sector, which depend on grants and donations from the government, foundations or private individuals, experience restricted financial resources, together with increased efficiency requirements.²⁸ In addition, the approaches of many traditional non-profit institutions are increasingly called into question with the argument that they have a tendency ‘to create dependency at the same time as attempting to empower people’.²⁹

In developed countries, these changes affecting welfare systems and traditional non-profit organizations have led to a growing demand for alternative or complementary solutions to social problems, and innovative providers of former welfare and non-profit services.³⁰

In developing countries, obvious and fundamental social problems such as poverty, hunger, and a lack of health care and education escalate in the face of unstable governments or dictatorships, an increasing inequality between rich and poor, and environmental disadvantages and catastrophes.³¹ 'In less-developed, developing and emerging economies, SE arises out of a combination of distrust of the NGO, apathy within the private sector, and the impotence of the government to provide services to the people.'³²

Both developed and developing countries also face increasing pressure to react to the global environmental crisis.³³ While developed countries have certain welfare systems, developing countries often lack a social structure and solutions to social or environmental problems. National governments in numerous countries ignore those problems or fail to implement adequate solutions. The pressure increases on the international community of states to help with effective and sustainable solutions to the developing world's pains. One consequence of this pressure was the postulation of eight Millennium Development Goals (MDGs) by the United Nations in 2000, which target, for example, the eradication of poverty and hunger, the improvement of health (including the reduction of global diseases), and environmental sustainability by 2015, accompanied by an action plan and international commitment to achieve these goals.³⁴ In the light of the present lack of solutions to the social and ecological challenges in the developing world, the implementation of the MDGs calls for innovative, effective and sustainable models to overcome these challenges.

As has been demonstrated for both developed and developing countries, the growing demand for and lack of solutions to social, societal and ecological problems fosters the worldwide development of innovative approaches by social entrepreneurs.

Improving conditions

The increasing need for solutions to social problems and the hope that is placed on social entrepreneurial organizations in this regard becomes manifest in the improvement of political and technical conditions as well as in the support of practice and academic institutions around the world, which facilitate the operations of social entrepreneurial organizations.³⁵

An increasing number of democratic states provides the political environment needed for all types of private entrepreneurship.³⁶ Governments also support social entrepreneurship directly: for example, the British government fosters social entrepreneurship through the Office of the Third Sector, and by having a dedicated Minister for the Third Sector.³⁷ Their aim is to 'create an environment in the UK for social enterprises to thrive'.³⁸ In November 2006, Gordon Brown, then Chancellor of the Exchequer, launched a 'Social enterprise action plan', comprising four themes: creating a supporting environment; improving information and support; giving access to finance; and jointly developing policies.³⁹ A Millennium Commission was set up by the UK government around the start of the twenty-first century to encourage community projects and provide financial support via grants from the National Lottery.⁴⁰ Social entrepreneurs benefit from this support through financial awards distributed by UnLtd – The Foundation for Social Entrepreneurs, acting as a trustee for the Millennium Awards scheme.⁴¹

New technical opportunities offer operational advantages for social entrepreneurs with respect to global communications, networking, and information gathering and distribution. Some social entrepreneurial organizations have built their whole business models around the internet – for example, for trading between developed and developing countries.⁴²

Various organizations emerged with the intention of explicitly supporting social entrepreneurs. Ashoka – Innovators for the Public⁴³ and The Schwab Foundation for Social Entrepreneurship⁴⁴ not only provide financial support and networking opportunities to social entrepreneurial organizations but also the much needed attention to and acknowledgement of their initiatives.⁴⁵ Organizations such as these help to increase the visibility of social entrepreneurship.⁴⁶ Philanthropic venture funds such as BonVenture adapt the venture capital approach from business to social initiatives, to provide social entrepreneurs with private equity for start-up (seed capital) and growth from socially conscious investors.⁴⁷

Academia discovered social entrepreneurship as a rich field of interdisciplinary research, which has led to the establishment of various new research centres, such as the Center for the Advancement of Social Entrepreneurship (CASE) at Duke University's Fuqua School of Business, Durham, North Carolina, USA, the Canadian Centre for Social Entrepreneurship at the University of Alberta School of Business, Edmonton, Canada, or the Center for Social Innovation at the University of Heidelberg in Germany. These and many others contribute

to the practice of social entrepreneurship by structuring the field and providing concepts and clarifications of terms.

Together, these diverse institutions form the 'eco-system' for social entrepreneurship, allowing social entrepreneurial organizations to thrive, and facilitating the implementation of their solutions to social problems. It also helps to make their solutions popular and inspire even more people to solve problems with social entrepreneurial approaches.

Positioning among the three sectors of society

Today societies around the world can be structured into three sectors: the public sector, the private or commercial sector, and the non-profit, voluntary or civil society sector.⁴⁸ The splitting of society into these three sectors has evolved over time.⁴⁹ Social entrepreneurship is characterized as belonging mainly to the third sector, but integrating features from the other sectors as well. As a result, it can be delimited from existing organizations in all three sectors.

Evolution of the three sectors

The split of society into public and private sectors emerged down the centuries as a result of extensive social reforms.

Growing populations, urbanization, scientific and technical advancement, increasing welfare, and new philosophical and religious ideas led to changes in the old structures of seventeenth-century Europe and to the creation of an independent commercial sector. The liberalization of regulations imposed by the nobility, the monarchy and Churches allowed more people to engage in commercial activities and this resulted in the emergence of the private sector. Crucial elements of the private sector's evolution were competition and free markets. The economic growth that has taken place since the Industrial Revolution was driven by the commercial sector, and it enabled the state to systematically charge private wealth with taxes and to use those taxes to fulfil the social needs of its population.⁵⁰

The financing of public goods by taxes led to the evolution of the welfare state, represented by the public sector.⁵¹ The two sectors, public and private, have developed into large institutional complexes, each with very different institutional entities with considerable social and economic influence.⁵²

As a reaction to growing social needs, the citizens themselves also started their own community- or church-based organizations – a process that led to the evolution of the third or civil society sector: 'the civil

society sector has formed, by expanding the traditional charitable activities to the areas of citizen participation and the delivery of social, economic, cultural, educational, and scientific services'.⁵³

Similar to the private sector, the civil society sector was until recently strongly regulated. Recent changes in access to capital and barriers imposed by the state led to the growing size and significance of the civil society sector – an evolution similar to that of the development of the private sector much earlier.⁵⁴ The civil society sector is becoming a market economy for social ideas, characterized by a large institutional variety and dynamic entrepreneurial personalities. As in the private sector, competition in the civil society sector speeds up innovation and increases efficiency: 'the citizen sector became structurally entrepreneurial and competitive across the continents with a speed and energy that is probably historically unparalleled'.⁵⁵ The civil society sector's explosive growth over just a few decades attracted an equally fast-growing share of resources in societies.⁵⁶

The division of society into three sectors exists in both developed and developing countries, though the institutional composition of the three sectors, particularly the civil society sector, varies significantly among individual countries.⁵⁷

The civil society sector in most developed countries is characterized by large, non-profit institutions with strong economic and employment relevance and by more local initiatives and projects:⁵⁸ 'These have taken shape around less formalized social tasks and challenges such as urban decay, new social problems, concern for weak groups, unemployment, and social exclusion'.⁵⁹

In developing countries, the civil society sector is often characterized by the existence of domestic and international non-governmental organizations (NGOs). However, the organizational landscape of non-profit organizations in developing countries is much more diverse, including small village associations in African countries, religion-based caste associations in India, or charitable trusts in Arab countries.⁶⁰ The civil society sector in these countries is also marked by a 'generally higher level of politicization',⁶¹ leading to tension between state and non-profit organizations.

Positioning of social entrepreneurship

The civil society sector, which evolved in response to growing social needs and problems unable to be met or solved by states, has benefited from the emergence of social entrepreneurship as a global phenomenon, providing sustainable solutions to social needs in both developed

and developing countries: 'Over the last two decades, with the rise of the citizen sector, the popularity of the concept has exponentially increased.'⁶²

Social entrepreneurship is located mainly, but not exclusively, within the citizen sector. It rather 'implies an intersectorial dynamic'⁶³ by successfully combining various elements from different sectors as well as strongly collaborating with other organizations from all sectors.⁶⁴ The following statement by Light demonstrates this: 'there is growing evidence that important social change is occurring in the space between the private and the nonprofit sectors, represented by organizations like Grameen Bank and Habitat for Humanity, both of which use elements of the market (microfinance and small mortgages) to achieve results'.⁶⁵

This 'sector blurring' characteristic of social entrepreneurship has been explicitly acknowledged by various scholars:⁶⁶ '[Social entrepreneurial] initiatives break up boundary lines among organizational clusters, configuring themselves as hybrid organizational forms'.⁶⁷ Since social entrepreneurial organizations share characteristics with institutions from all three sectors, they cannot be classified into just one sector.

With institutions in the public sector, social entrepreneurial organizations share some areas they engage in, such as unemployment, education, and care for families, the elderly or sick people. Similar to public institutions, social entrepreneurial organizations engage in activities that have positive effects on society as a whole. With private sector organizations, social entrepreneurial organizations share the application of business techniques and the market mechanism to reach their objectives. They adopt professional management, strategy formulation, performance measurement, efficiency focus or reporting techniques from private sector organizations to increase their efficiency. With organizations from the civil society sector, social entrepreneurial organizations often share their mission for social value creation and the fact that they are deeply embedded in the communities in which they operate.

As a consequence of these similarities, it is often not easy to differentiate social entrepreneurial organizations from existing organizations in the three sectors. The following section highlights some differentiators.

Delimitation to other organizations

The sector-blurring characteristic of social entrepreneurship requires a clear differentiation of social entrepreneurial organizations from other, traditional organizations in the public, private and non-profit sectors, which seem to show similar characteristics compared to social entrepreneurship.

As Watson states: 'While many people and organizations are working to solve societal problems, they are not all social entrepreneurs.'⁶⁸

Public sector organizations deliver goods and services in the areas of social security, urban services, education or cultural programmes. They are funded, run and controlled by central government, regional or local authorities, or publicly-funded corporations. This differentiates them from social entrepreneurial organizations, which are owned and run by private individuals and are embedded in civil society: 'If you look at the public sector ... I think they see their role definitely as creating public goods, but they don't necessarily know the sector well enough in order to create the incentives the social entrepreneur would create.'⁶⁹

Private sector companies generally produce commercial (as opposed to social) products and services. Their ultimate objective is the generation of economic value and profits for their shareholders.⁷⁰ However, the trend towards corporate social responsibility leads to increased social activity in the private sector, which makes it more difficult to differentiate private sector companies from for-profit social entrepreneurial organizations. Perrini and Vurro point out that 'it is surely praiseworthy that more and more companies assign growing resources to philanthropy and social giving, this activity can be conducted in an entrepreneurial way but it is certainly not entrepreneurial per se'.⁷¹

The British cosmetics company, The Body Shop, for example, has five core values, including 'Activate self esteem' and 'Support community trade'.⁷² These core values emphasize its social orientation and show that the company values social activities as part of its regular business. As part of its community trade programme the company buys ingredients for its cosmetic products and accessories from local communities all over the world. Currently, more than half of The Body Shop's products contain community trade ingredients, supporting thirty-one different communities.⁷³ However, The Body Shop's corporate aim is to sell cosmetics and make a profit, despite being accompanied by an extensive corporate social responsibility programme and impressive social efforts. As a consequence, The Body Shop cannot be called a social entrepreneurial organization. A social entrepreneurial organization exists to tackle social problems within civil society, whereas a traditional private sector company tackles social problems alongside its original purpose, if at all:⁷⁴ 'Earned income ventures are socially entrepreneurial only when they have a social purpose beyond simply making money. If social entrepreneurship is to be distinctive in any way, it must be because social objectives matter in how the venture is organized and managed'.⁷⁵

Third-sector or civil society organizations are a heterogeneous group of organizations, comprising large traditional institutions, which often act as providers of state services, and smaller, regional or local initiatives based on charity and volunteers.⁷⁶ Social entrepreneurial organizations can be distinguished from this group of more traditional civil-society sector organizations.⁷⁷ Laville and Nyssens state that social entrepreneurial organizations 'place a higher value on their independency and on economic risk-taking related to an ongoing activity'.⁷⁸

Innovation is another characteristic of social entrepreneurial organizations which differentiates them from traditional non-profit organizations. While civil-society sector organizations often fulfil traditional roles defined by the welfare system, social entrepreneurial organizations revolutionize the system by implementing an innovative social product, service or process.⁷⁹ Social entrepreneurial organizations 'somehow change the system instead of just create a service provision'.⁸⁰ Traditional civil-society sector organizations and social entrepreneurial organizations also differ regarding their approach to solving social problems. While social entrepreneurial organizations use business methods and efficient organization structures to reach their objectives, traditional civil-society sector organizations often do not strive to improve efficiency and resist business methods, believing they might counter the organizations' social mission.

In sum, social entrepreneurship can be differentiated from existing organizations in the three sectors of society and consequently constitutes a separate type of organization integrating characteristics from all three sectors.

Notes

1. Nicholls (2006), p. 2 *et seq.*
2. Davis (2002), p. 6.
3. The intensity of the 'hype' regarding social entrepreneurship can be differentiated between continental Europe, where the concept is fairly new, and the UK and the USA, where the term was coined earlier; see expert interview with Oda Heister (7 October 2008).
4. Bornstein (2005), p. 12.
5. Barendsen and Gardner (2004), p. 43 *et seq.*
6. Ashoka (2007); Bornstein (2005), p. 61 *et seq.*; Nicholls (2006), p. 2.
7. See Wehler (2006) for a detailed illustration of the political, economic and social structural change during industrialization using the example of Germany.
8. For developments in Germany, see Lampert and Althammer (2001), p. 42 *et seq.*

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9. Göbels (1980), p. 475 *et seq.* The journeyman is a historic professional phenomenon specifically in Germany, where young men left their parents' homes in search of a senior craftsman who was willing to train them in a certain profession. These young men usually passed through several positions and geographic locations before becoming senior craftsmen themselves.
10. Göbels (1980), p. 476.
11. Kolpingwerk homepage. Available at: <http://www.kolping.de/>; accessed 20 February 2008.
12. Meiwes (2001), p. 11.
13. Meiwes (2001), p. 16.
14. Meiwes (2001), p. 18.
15. Meiwes (2001), p. 20.
16. Brenner (1994), p. 9 *et seq.*
17. Brenner (1994), p. 15 *et seq.*
18. Brenner (1994), p. 17.
19. Brenner (1994), p. 18 *et seq.*
20. Expert interview with Wolfgang Hafenmayer (29 September 2008).
21. Deutscher Bundestag (2002), p. 40.
22. Deutscher Bundestag (2002), p. 41.
23. Leadbeater (1997), p. 12.
24. Borzaga and Defourny (2001), p. 352; Leadbeater (1997), p. 12.
25. Leadbeater (1997), p. 12 *et seq.*
26. Thompson (2002), p. 412.
27. Leadbeater (1997), pp. 13 and 16.
28. Schöning (2003), p. 4.
29. Grenier (2002), n.p.
30. Borzaga and Defourny (2001), p. 353.
31. Nicholls (2006), p. 2.
32. Robinson (2006), p. 96. SE stands for social entrepreneurship; NGO stands for non-governmental organization.
33. Bornstein (2005), p. 18 *et seq.*; Nicholls (2006), p. 2.
34. United Nations Millennium Development Goals homepage. Available at: <http://www.un.org/millenniumgoals/>; accessed 15 May 2008.
35. As Heister states, 'the environment for social entrepreneurs becomes more friendly', Expert interview with Oda Heister (7 October 2008).
36. Bornstein (2005), p. 16; Nicholls (2006), p. 2.
37. Cabinet Office homepage. Available at: http://www.cabinetoffice.gov.uk/third_sector.aspx; accessed 7 November 2007.
38. As Nt 37.
39. As Nt 37.
40. Millennium Commission homepage. Available at: <http://www.millennium.gov.uk/about/who.html>; accessed 7 November 2007.
41. Millennium Commission homepage, section 'Millennium Awards for Individuals'. Available at: <http://www.millennium.gov.uk/lottery/individuals.html>; accessed 7 November 2007.
42. Examples include Bosnian Handicrafts or Novica United, which are detailed in Chapter 7.
43. Ashoka – Innovators for the Public homepage. Available at: <http://www.ashoka.org/>; accessed 7 November 2007.

44. The Schwab Foundation for Social Entrepreneurship homepage. Available at: <http://www.schwabfound.org/>; accessed 7 November 2007.
45. Barendsen and Gardner (2004), p. 44.
46. Expert interview Wolfgang Hafenmayer (29 September 2008).
47. BonVenture homepage. Available at: <http://www.bonventure.de/content/home/>; accessed 7 November 2007.
48. For a discussion of different terms for the third sector, see Salamon and Anheier (1997a), p. 12 *et seq.* and Wagle (1999), p. 527 *et seq.* Among others, the organization Ashoka argues for a positive labelling of the third sector, naming it the citizen sector rather than the non-profit or non-governmental sector; see the Ashoka homepage, section 'Citizen sector'. Available at: <http://www.ashoka.org/citizensector/>; accessed 7 November 2007.
49. Bornstein (2005), p. 344 *et seq.*
50. Bornstein (2005), p. 344 *et seq.*
51. For the concept of public goods, see Chapter 4.
52. Salamon and Anheier (1997c), p. 2.
53. Wagle (1999), p. 528 *et seq.*
54. See Salamon and Anheier (1997c), p. 3 for the exemplary importance of the non-profit sector in the USA.
55. Drayton (2006), p. 46.
56. The civil society sector's explosive growth over just a few decades attracted an equally fast-growing share of resources in societies. For examples from different countries documenting this evolution, see Drayton (2006), p. 47.
57. Wagle (1999), p. 526; Salamon and Anheier (1997c), p. 1 *et seq.*; Salamon and Anheier (1997d). Salamon and Anheier point out that the existence of the civil society sector is still in debate, possibly because of the lack of a globally consistent definition resulting from institutional diversity and its still minor importance in comparison with state and market; Salamon and Anheier (1997d), p. 29.
58. Evers and Schulze-Böing (2001), p. 121 *et seq.*
59. Evers and Schulze-Böing (2001), p. 122.
60. Salamon and Anheier (1997b), p. 321.
61. Salamon and Anheier (1997b), p. 322.
62. Davis (2002), p. 6.
63. Perrini and Vurro (2006), p. 59; also Leadbeater (1997), p. 8.
64. According to Grenier, social entrepreneurship 'is positioned largely within the voluntary sector, and overlapping with the public sector in terms of welfare service provision and policy implementation, and with the business sector in terms of values and approaches', Grenier (2002), n.p.
65. Light (2006a), n.p.
66. See, for example, Evers (2001), p. 296; Laville and Nyssens (2001), p. 325 *et seq.* Nicholls points out the differences in social entrepreneurship positioning among the three sectors in different countries, drawing reasons for his findings from the structural, historical and political backgrounds of the countries analysed; see Nicholls (2006), p. 4 *et seq.* However, reducing social entrepreneurship to the non-profit sector reduces the variety of hybrid forms that social entrepreneurial organizations can adopt, to the non-profit form alone; see, for example, Helm (2004), p. 1.
67. Perrini and Vurro (2006), p. 59.

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68. Watson (2004), p. 5.
69. Expert interview with Oda Heister (7 October 2008).
70. Dees and Anderson (2002a), p. 3.
71. Perrini and Vurro (2006), p. 59.
72. The Body Shop homepage. Available at: <http://www.thebodyshop.co.uk/page/home>; accessed 4 August 2007. Thompson refers to The Body Shop as an example of an organization with social ethos; see Thompson (2002), p. 427.
73. The Body Shop homepage, section 'Reports & Policy'. Available at: http://www.thebodyshop.co.uk/_en/_gb/services/pdfs/AboutUs/CTPrinciples.pdf?; accessed 4 August 2007.
74. Expert interview with Oda Heister (7 October 2008).
75. Dees (2003), n.p.
76. Bacchiega and Borzaga (2001), p. 301; Evers and Schulze-Böing (2001), p. 121 *et seq.* Examples of large, traditional third-sector organizations in Germany are Caritas, Diakonie and Deutsches Rotes Kreuz.
77. Bacchiega and Borzaga (2001), p. 273.
78. Laville and Nyssens (2001), p. 312.
79. Watson (2004), p. 5.
80. Expert interview with Oda Heister (7 October 2008).

3

Terminological Clarification

While social entrepreneurship as a solution to social problems has been discussed, analysed, and made public by politics, academia, the media and practitioners with rising intensity in recent years, and despite the phenomenon existing long before this focused attention, a clear and unique definition still does not exist. In contrast, as a research field, 'social entrepreneurship does not suffer from a lack of definitions'.¹

Social entrepreneurship's inherent heterogeneity, driven by its innovative approaches and sector-blurring characteristic, seems to make it difficult for a single, unifying understanding to emerge. Instead, a range of different terms and definitions related to social entrepreneurship currently exists. A steady supply of articles, conference proceedings and internet forum discussions are testament to how fiercely debated is the discussion regarding the definition of the term social entrepreneurship.²

Some authors argue in favour of a broader definition so as not to exclude any form of social engagement from potential (financial or non-financial) support.³ Others make a case for a more restrictive definition to enable researchers, investors and other interest groups to identify the phenomenon clearly.⁴ Discussions also revolve around the question of whether social entrepreneurship fits only already large or at least potentially scalable ventures, or whether local, small ventures should also be considered as matching social entrepreneurship. The relevance of earned income as a defining characteristic, and the non-profit or for-profit status as a consequence, is another often repeated element of discussions around the social entrepreneurship definition.⁵

This chapter aims to generate its own working definition for the phenomenon of social entrepreneurship in order both to contribute

to the clarification of the term and to develop a terminological basis for the theoretical and empirical analysis. This objective is approached from two different angles. First, the denotations and definitions of the constitutive terms that comprise social entrepreneurship are explored: the term 'entrepreneurship' itself is analysed, as well as the amplification 'social'. Second, the existing concepts, definitions and corresponding discussions of social entrepreneurship and related terms are reviewed, and common characteristics are extracted. The insights generated by these two approaches are compiled on the basis of the evolution and context of the phenomenon as explored earlier to form a working definition for social entrepreneurship in the interim summary.

Constitutive elements

According to Nicholls and Cho, defining social entrepreneurship 'must logically begin with a rigorous examination of its foundational concepts: "social" and "entrepreneurship", both individually and in relation to each other'.⁶

This advice is respected in this chapter by exploring the definition and denotation of the term entrepreneurship, and the meanings and conceptualizations of the term social. This analysis is followed by an integration of the two terms by juxtaposing social entrepreneurs and entrepreneurs in order to investigate their commonalities and differences.

Entrepreneurship

To a large extent, the difficulty of defining social entrepreneurship is rooted in the variety of definitions that exist for the term entrepreneurship. 'The term has been used to define a wide range of activities such as creation, founding, adapting, and managing a venture ... a consensus has not been reached about what entrepreneurship is.'⁷

The reason for this disagreement on the definition of entrepreneurship lies in the fact that, as a concept with various facets, entrepreneurship is not limited to one academic discipline. The phenomenon has been analysed from very different theoretical perspectives and methodologies, including economics, sociology, psychology, history and anthropology.⁸ A review of the contributions to the conceptualization of entrepreneurship, reaching back to the seventeenth century, demonstrates the heterogeneous understandings of entrepreneurship. The different perspectives on entrepreneurship form the core dimensions and thus the denotation of the term entrepreneurship today.

The main contributors to entrepreneurship

The term entrepreneurship emerged in the context of the French military in the seventeenth century and can be traced back to the French word 'entreprendre', which means to undertake something.⁹ In its origin, the term entrepreneurship was already linked to adventure, uncertainty and risk taking.

Richard Cantillon introduced the term entrepreneur into economics, describing an actor who sells goods and services at a higher price than the purchase price, and has to deal with the related uncertainty and risk.¹⁰

At the beginning of the nineteenth century, the economist Jean-Baptiste Say added the combination of production factors as an action performed by the entrepreneur. Shifting resources from areas of lower to areas of higher productivity differentiates the entrepreneur from the capitalist, who provides money for but does not have any involvement in production.¹¹ During the Industrial Revolution, the phenomenon of the entrepreneur combining resources to implement a business idea was an important factor of economic and social change.¹²

Joseph Schumpeter is considered to be the economist of the twentieth century linked most closely to the term entrepreneurship. Advancing the definition of Say, he associated entrepreneurship with creative destruction, new factor combinations and innovation. By destroying existing routines and structures and creating something new, the Schumpeterian entrepreneur is a driving force of change in the economy:¹³ 'By serving new markets or creating new ways of doing things, they move the economy forward.'¹⁴ Innovation and change are central to Schumpeter's definition of entrepreneurship.

Another important economist who advanced the field of entrepreneurship is Israel Kirzner. Kirzner considers the entrepreneur to be an 'arbitrageur', who is able to recognize imperfect knowledge about factor and product prices in a market, resulting in market disequilibrium.¹⁵ By tackling this opportunity, the entrepreneur is able to yield a profit until market equilibrium is restored in the long run.¹⁶ Kirzner emphasizes opportunity recognition as a core element of entrepreneurship, which is stimulated by the urge for profit.¹⁷

Contemporary contributors to entrepreneurship theory are management writer Peter Drucker, and Howard Stevenson, an entrepreneurship theorist at the Harvard Business School. According to Drucker, entrepreneurs put resources to new, wealth generating uses.¹⁸ Stevenson analysed the specifics of entrepreneurial management and amended Drucker's resource-orientated definition by defining entrepreneurship as 'the pursuit of opportunity without regard to resources currently controlled'.¹⁹

Core dimensions of entrepreneurship

The field of entrepreneurship theory has advanced following these fundamental directions, with each direction defining aspects of entrepreneurship from different perspectives.²⁰ The five main dimensions of entrepreneurship integrate the factors that emerged in the history of entrepreneurship theory and those that constitute the current understanding of entrepreneurship, as well as current discussions around certain characteristics:²¹ opportunity recognition, innovation and transformation, organization, leadership and management, and the personal qualities of the entrepreneur.²²

Opportunity recognition. Opportunity recognition is a core element of entrepreneurship theory. Recognizing an opportunity means that an entrepreneur not only spots the opportunity but also implements it. Researchers agree that 'entrepreneurial opportunity recognition and exploitation are constructs that fall squarely within the unique domain of entrepreneurship and should be the focus of research in the field'.²³ Recognizing and implementing opportunities also involves the ability to put formerly idle resource to use, to attract resources that are not controlled, and to move networks of people and organizations to action.

Innovation and transformation. Schumpeter and many other scientists consider innovation and transformation as constitutive elements of entrepreneurship.²⁴ According to Schumpeter, innovation is the implementation of new combinations (or more broadly, ideas), which can occur as the introduction of a new good or service (or quality), but also regarding expanding, duplicating or composing existing products, services or processes.²⁵ This focus on and definition of innovation caused some authors on entrepreneurship to argue that, for someone to be called an entrepreneur, he has to initiate something new.²⁶ In Schumpeter's sense, the entrepreneur uses innovation for the creative destruction of existing structures, sparking off change and transformation on both a small and large scale.²⁷ Ongoing scientific discussions evolve around the questions of whether only the pioneer of an innovation may be called an entrepreneur, to what degree the entrepreneur has to change structures to be called an entrepreneur, and if it is correct to confine the definition of entrepreneurship to innovative founders alone.²⁸

Organization. The organizational dimension of entrepreneurship deals with the aspect of ownership. Researchers discuss whether the creation of a new organization is a defining factor of entrepreneurship, or whether entrepreneurs can market their idea, for example via licensing

to other persons or institutions.²⁹ Related questions are: Is ownership of an organization a defining element of entrepreneurship? Can entrepreneurs reside within established organizations? And can the term entrepreneur be used equally for an individual, a team or a whole organization?

According to Schumpeter, ownership is not an essential element of entrepreneurship, and Casson asserts that entrepreneurship is not associated with a specific type of institution or organization.³⁰ However, entrepreneurship within organizations or the entrepreneurial behaviour of a whole organization has been widely labelled corporate entrepreneurship or intrapreneurship.³¹ The term indicates the connection to, but also the difference from 'pure' entrepreneurship, and can be interpreted as a specific form of entrepreneurship. Entrepreneurship per se appears to be closely connected to the implementation of a new idea beyond an existing organization – that is, involve the founding of a new organization.

Leadership and management. The question of whether entrepreneurship is linked to an existing organization is closely linked to the question of whether managers can be entrepreneurs and vice versa.

Regarding the function of entrepreneurs, discussions often revolve around leadership and management. While entrepreneurs are frequently considered to be *leaders*, the existing literature debates whether entrepreneurs are *managers*. Leadership qualities enable an entrepreneur to motivate, direct and lead other people and are as such considered to be inherent to entrepreneurship.³² The management function subsumes activities in a business such as planning, organizing, budgeting, staffing, supervising, providing direction, co-ordinating and controlling.³³

The roles of entrepreneurs and managers can be clearly separated, arguing that 'one is no longer an entrepreneur once the innovative/creative activity is completed'.³⁴ Risk-bearing is considered to be another differentiator between entrepreneurs and managers.³⁵ The overlaps between the concepts of entrepreneurship, management and leadership are identified and differentiated in more detail below.

An entrepreneur has a specific role but can, in addition, assume the functions of a manager – for example, during start-up or on an interim basis – and needs the skills of a manager, such as negotiation skills, a knowledge of cost accounting, finance, organization and personnel management.³⁶ A manager by definition fulfils managerial activities, but an ideal manager also needs some entrepreneurial skills – for example, to implement innovation and change.³⁷ However, being employed by an

organization, a manager cannot be defined as an entrepreneur, because, for an employee, the element of risk is missing or relatively low.³⁸

Baumol differentiates entrepreneurs and managers by the innovator role of the entrepreneur, who is constantly searching for new ideas for the future, whereas it is the function of the manager to ensure the efficiency of today's processes.³⁹

De raises the element of profit as another interesting differentiation between entrepreneurs and managers: while a manager, as an employee, receives a (fixed) salary in return for his work, the entrepreneur receives a (uncertain) profit for taking on risk, closely linked to his own action and control.⁴⁰

However, a manager can act entrepreneurially on some dimensions when stimulated by the work environment or his own personality traits.⁴¹ Elements that foster an entrepreneurial atmosphere within a company are the delegation of decision power and responsibility, in combination with performance-based remuneration. To differentiate entrepreneurs and managers, Jacobsen points to the differences in their value systems and in the way they apply their knowledge and skills: entrepreneurs are often intuitive and rely on subjective beliefs, while managers rather base their decisions on rationality and objective facts.⁴²

To sum up the discussion, entrepreneurs can also be managers, while managers at the most share some specific characteristics with entrepreneurs. Both managers and entrepreneurs ideally have leadership skills, which are needed for both roles.

Casson reflects the differences in the understanding of the entrepreneurial function:

The entrepreneurial function can be performed by very different kinds of people under different economic systems. In principle, the entrepreneur could be a planner in a socialist economy, or even a priest or king in a traditional society. In practice, though, entrepreneurship is closely identified with private enterprise in a market economy.⁴³

Personal qualities of the entrepreneur. The personal qualities of entrepreneurs have been subject to extensive research in entrepreneurship literature. Some personality characteristics have been identified that entrepreneurs seem to share.⁴⁴ Among the traits most authors agree upon are the exceptional belief in himself and his abilities, vision, energy, singlemindedness and perseverance.⁴⁵ Entrepreneurs are also often attributed courage, creativity and drive for achievement, which support

their willingness to take risks:⁴⁶ 'Much of the entrepreneurial literature has included risk taking as a major characteristic of the entrepreneur.'⁴⁷ There are different types of risk: financial risk, and risk regarding the loss of personal or organizational reputation.⁴⁸

Other research efforts within this dimension of entrepreneurship focus on the entrepreneurs' background, experience and personal motivation. Generally, the discussion of the personal traits of entrepreneurs reveals the importance of the individual driving the entrepreneurship process.

When summing up the presented discussions and integrating the different core aspects of entrepreneurship, a working definition of entrepreneurship emerges that can be used as a basis for analysing the social entrepreneurship phenomenon:

Entrepreneurship is the process of recognizing an opportunity by shifting resources from an area of lower to an area of higher productivity, involving some element of innovation and risk, and being driven by the objective of creating value and reaching a personal reward. This process is driven by an individual or a small team around a leading individual with certain enabling personal traits, who attracts necessary resources and implements the idea beyond an existing organization.

The social mission

Having explored the entrepreneurial basis of the term 'social entrepreneurship', the social part of the term also needs to be clarified:⁴⁹

social entrepreneurship can only be considered a discrete focus of inquiry on the basis of the unique features of its social dimension. Research that neglects this substantive dimension leaves the most important aspect of the field unexplored.⁵⁰

Accordingly, this section clarifies, first, the general denotation associated with the term 'social', before deriving its meaning in the context of social entrepreneurship.

General denotation of the term 'social'

The adjective 'social' originated from the Latin word 'socius', meaning 'companion, ally, associate'.⁵¹ From this origin, several differing meanings developed, with three main connotations. First, social can relate to human relations, referring to human society, interaction of an individual and a group, or pleasant companionship with other individuals. Second, the word relates to the status, rank or class a person occupies or

belongs to in society. Third, it is related to ‘the welfare of human beings as members of society’;⁵² that is, the term defines someone or something intent on the collective good or benefit. Welfare itself is defined as ‘the state of doing well especially in respect to good fortune, happiness, well-being, or prosperity’.⁵³ It also relates to the means employed to create or restore welfare.⁵⁴

This means that activities, initiatives or organizations that are referred to as social have the aim of creating or restoring welfare for human beings in society. Social needs – that is, the needs for welfare creation or restoration – of a society reflect the aggregate of ‘personal and cultural values, and individual views of what constitutes a “better world”’.⁵⁵ Collectively formed interests and needs of society become the aims of the social activity.⁵⁶ As a result, ‘Social value means different things to different people.’⁵⁷ The collectively generated grasp of the social needs of a society is likely to change in the course of time.⁵⁸

Having a social objective results in some typical organizational characteristics. Social organizations generally belong to the sphere of civil society rather than to the state.⁵⁹ A characteristic of social initiatives is the separation of capital ownership and the power of decision.⁶⁰ Social activities also usually involve a large number and variety of stakeholders, including members, clients, employees, financial supporters (such as sponsors and donors), government and special interest groups, in a participatory and active way.⁶¹ The concentration on social aims implies that, for this type of organization, ‘profit is not the driving objective’.⁶²

In sum, being a social activity, initiative, project or organization means in this book to create or restore welfare for human beings in the context of society, meaning that their impact benefits either the society or community in total, or persons lacking individual welfare, which also results in an indirect benefit for society.

Social in the context of social entrepreneurship

To gain a sense of the meaning of ‘social’ in social entrepreneurship, the value social entrepreneurs generate is explored in more detail: ‘Social entrepreneurs focus their entrepreneurial talent on solving social problems [such as] why children are not learning, why technology is not accessed equally, why pollution is increasing, etc.’⁶³ Generally, social entrepreneurial organizations create social impact at each step of the social value chain.⁶⁴ The social value chain is a concept that illustrates the relationship between areas of social value generation where social entrepreneurs are active. Figure 3.1 gives an overview of the social value chain and details of social entrepreneurial value creation for each step.

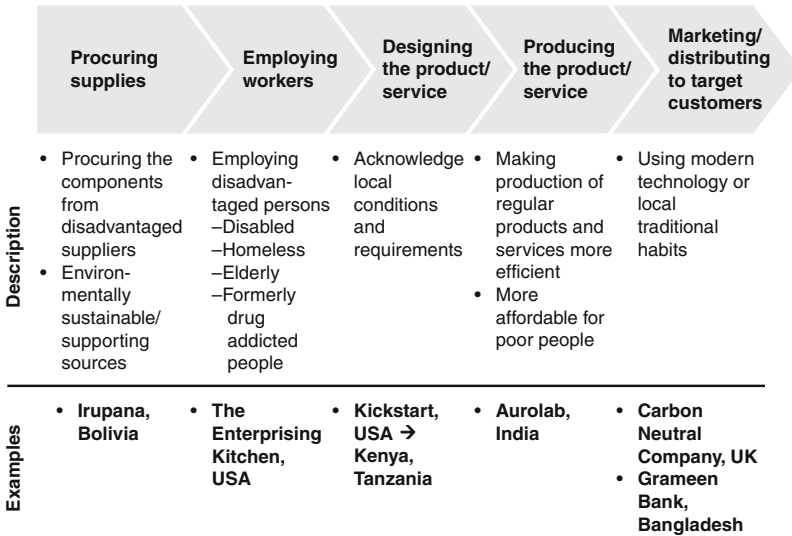


Figure 3.1 The social value chain⁶⁵

Procuring supplies. Social entrepreneurial organizations can create social value by procuring the components of their products from disadvantaged suppliers or from environmentally sustainable or even supporting sources. This activity is widely known as ‘fair trade’ which is applied in the area of food (for example, coffee) and regionally produced products. Irupana Andean Organic Food, a fair trade company active in Bolivia, seeks, for example, to restore or maintain the cultivation of traditional organic Bolivian food, such as quinoa and amaranth, by procuring the raw ingredients from small local peasants for the production and distribution of Andean food.⁶⁶

Employing workers. Another form of creating social value along the value chain is by employing disadvantaged people, such as those who are disabled, homeless, elderly or formerly drug-addicted, in the social entrepreneurial organization. By giving them meaningful work and training (often including a salary, housing, psychological care or a combination of these), social entrepreneurs aim to (re-)integrate these people into society and give them development perspectives. An example for this type of value-creating activity is the non-profit organization ‘The Enterprising Kitchen’ in Chicago/USA.⁶⁷ The social entrepreneurial organization temporarily employs unemployed or underemployed women, and offers

'intensive workforce preparation and skills development including: paid employment, work and life skills training, individualized career planning, high school equivalency preparation, technology training, financial planning and a variety of other support services'.⁶⁸ The women are employed to produce and sell natural soaps and wellness products for six to twelve months, with the aim of restoring their self-sufficiency and economic independence.

Designing the product/service. Social entrepreneurs often create social value by designing products or services that solve specific problems. For the design of these products and services, social entrepreneurs are generally inspired by the particular local conditions and requirements, which existing products and services often do not consider. The US-based social entrepreneurial organization Kickstart develops agricultural technologies for small-scale farmers and entrepreneurs in Africa, enabling them to buy and finance machinery themselves, make their businesses profitable and break out of poverty.⁶⁹ When developing such products, Kickstart takes into account the geological conditions, the farmers' requirements and their ability to pay.

Producing the product/service. The method of producing a product or service can also create social value. Making the production of regular products and services more efficient and thus reducing costs makes them more affordable for poor people. Aurolab, an Indian manufacturer of ophthalmic consumables, was able to cut down drastically the costs for intraocular lenses, enabling the organization to sell them for US\$2–4 rather than US\$150 – the price in the developed world.⁷⁰ This price makes sight-restoring operations affordable for the poor and gives them an opportunity to lead a normal life and earn their own living.

Marketing/distributing to target customers. Some social entrepreneurial organizations create social value through the way they market or distribute their products or services to their target customers, using modern technology or local traditional techniques. The UK-based Carbon Neutral Company, for example, enables consumers to calculate their carbon footprint on the internet and then offers them ways to reduce or offset their consumption.⁷¹ The Grameen Bank in Bangladesh, founded by Nobel Peace Prize Laureate, Muhammad Yunus, pioneered the microcredit movement through its innovative distribution system.⁷² Yunus's system of lending to peer groups who evaluate, monitor and support each other created access to credit for poor people without securities.⁷³

These examples of value creation along the social value chain demonstrate the variety of fields in which social entrepreneurial organizations are active, and what social can mean in the context of social entrepreneurial value creation. It also demonstrates the geographical breadth of the phenomenon of social entrepreneurship: social entrepreneurs are active in both developed and developing countries. Naturally, the level at which they solve problems and the challenges they face differ based on the development level of the country in which they operate.⁷⁴

A comparison of entrepreneurship and social entrepreneurship

Having explored the meanings of both the terms entrepreneurship and social, this section analyses their integration into the phenomenon of social entrepreneurship, assessing what social entrepreneurs have in common with and what differentiates them from commercial or business entrepreneurs. Alvord *et al.* assert that social entrepreneurship is basically entrepreneurship 'applied to the context of social problem-solving'.⁷⁵ This implies that social entrepreneurship and commercial entrepreneurship share fundamental characteristics. But what sounds like a simple addition of the word social to the term entrepreneurship leads in fact to a number of differences, and changes some of the characteristics of entrepreneurship.

In order to clarify whether social entrepreneurs are entrepreneurs at all, the defining dimensions of entrepreneurship can be used as test criteria to analyse the phenomenon of social entrepreneurship.

Several authors on social entrepreneurship have focused their research on the *opportunity recognition* element of the entrepreneurial process, thereby highlighting its importance for social entrepreneurship. Watson acknowledges the social entrepreneur's ability to recognize opportunities not identified by others.⁷⁶ Guclu *et al.* define opportunity recognition in social entrepreneurship as a two-step process of generating an idea and developing it into an opportunity: 'For social entrepreneurs, an "attractive" opportunity is one that has sufficient potential for positive social impact to justify the investment of time, energy, and money required to pursue it seriously.'⁷⁷

Thus opportunity recognition seems to be a characteristic shared by commercial and social entrepreneurs alike:

Both types of entrepreneur recognize when a part of society is stuck and provide new ways to get it unstuck. Each type of entrepreneur envisages a systemic change, identifies the jujitsu points that will allow him or her to tip the whole society onto this new path, and then persists and persists until the job is done.⁷⁸

However, the type of opportunity differs between the two. Robinson asserts that 'social entrepreneurial opportunities are a special case of opportunities'⁷⁹ because they originate from the social sector market. Hockerts specifies three different sources of opportunities in social entrepreneurship: activism, self-help and philanthropy.⁸⁰ In sum, opportunity recognition seems to have the same importance for both commercial and social entrepreneurs but (because of its strong link to the context of social entrepreneurship) with differences regarding the opportunity-creating stimuli.

Innovation and transformation are similarly important characteristics for both social and commercial entrepreneurs. Social entrepreneurs are often considered as change agents in a social context, implementing innovative solutions to social problems. Alvord *et al.* name three types of social entrepreneurial innovations: transformational (building local capacity); economic (enhancing productivity by providing tools or resources); and political (building local movements):⁸¹ 'At a higher level innovation was understood as a way to transform communities and society as a whole.'⁸² Leadbeater even reasons that social entrepreneurs have to be innovative, whereas commercial entrepreneurs do not necessarily have to be.⁸³ In parallel to the discussion on entrepreneurship, there is also a debate in social entrepreneurship about the nature and degree of innovation and (potential) transformation necessary to qualify as a social entrepreneur.⁸⁴

Equally, there are different understandings of the *organizational aspects* of social entrepreneurship. As in the entrepreneurship literature, authors on social entrepreneurship debate whether social entrepreneurship is linked to the establishment of an independent organization or whether it can occur within an existing organization, and whether a social entrepreneur is an individual or a group of people. Grenier argues that 'It is also associated with notions of individualism, individual initiative, and a shift away from "dependency" on existing forms of welfare, whether provided by the state, the market or charity.'⁸⁵

Authors and experts also disagree whether the size of social entrepreneurial organizations matters for definition.⁸⁶ A clear differentiator between entrepreneurship and social entrepreneurship in the organizational field is the targeted duration of life of the respective organization. Commercial entrepreneurs strategically plan and operate on the basis of the going-concern principle, trying continuously to find new application areas for their products or services, or to develop new products and services, with the ultimate objective of staying in business, and ideally growing. A social entrepreneur's objective, in contrast, is the elimination

of the reason for their organization to exist – that is, the complete solution of the social problem addressed. Another differentiation can be found in the way of choosing a legal form for the organization. While commercial entrepreneurs choose ‘for-profit’ legal forms to generate profits (for themselves or their shareholders), social entrepreneurs can be both for-profit and non-profit. If social entrepreneurs select a for-profit legal form, their choice is based on other reasons than purely making a profit: they promote innovation and efficiency, gain access to financial markets, attract a skilled workforce, or appear at the same professional level as customers, partner organizations and so on from the corporate world.⁸⁷

Similar to the discussion on entrepreneurship, social entrepreneurs are attributed with the skills of *leadership and management*, accompanied by the additional skills that are needed for the social characteristics:

A purely moneymaking venture can be managed using straight business principles. It makes no difference if the owner intends to use the cash generated by the venture to buy a bigger sailboat or to serve the homeless. True social ventures often require a more complex skill set than straight business ventures.⁸⁸

According to Grenier, social entrepreneurs have two different leadership roles: on the one hand they lead people, and on the other they serve as role models, providing leadership for a whole field or industry.⁸⁹ ‘The quality that all social entrepreneurs have in abundance is leadership. They are very good at setting a mission for an organisation and mobilising people around it.’⁹⁰

However, there are also differing opinions on the question of whether managers of social organizations are social entrepreneurs.⁹¹ This contribution shares the opinion of Hartigan and Billimoria, who state that ‘There is a marked difference between a social entrepreneur and a manager of a social enterprise. While the latter is essential for the smooth running of the operation, the former is a mover and shaker, the motor of social transformation.’⁹²

As in the entrepreneurship literature, similar attempts have been made to find typical *personal qualities* of social entrepreneurs. Generally, many social entrepreneurs share common traits with commercial entrepreneurs such as vision, drive, an innovative and risk-taking attitude, leadership, single-mindedness, a practical approach and ambition.⁹³ But in contrast to their commercial counterparts, ‘social entrepreneurs are unusual in terms of their compelling personal histories, their distinctive

profile or beliefs, and their impressive accomplishments in the face of [the] odds.⁹⁴ Their entrepreneurial activity is driven by socio-moral motivation and focuses on accomplishing a social mission, rather than pursuing profit (either individual or for stakeholders).⁹⁵ Social entrepreneurs draw their motivation mainly from the ‘satisfaction of contributing directly to social welfare’,⁹⁶ while, for commercial entrepreneurs, the economic rewards usually play an important role as an incentive.

The addition of the word social to entrepreneurship not only changes some aspects in the defining dimensions of entrepreneurship, but also adds to it a social mission. Moreover, these social objectives are given priority above other organizational objectives.⁹⁷ The social mission of social entrepreneurship originates from the different contexts in which it occurs, and these differ in various aspects from the context of commercial entrepreneurship. Among the most obvious differences are the relationship to multiple stakeholders, such as customers, public, private and non-profit sector actors, and value creation partners as well as the nature, availability, access and importance of resources.⁹⁸ The social mission also influences the outcome of the social entrepreneurial organization: ‘Having a social purpose involves a commitment to creating value for a community or society rather than just wealth for the owners or personal satisfaction for customers.’⁹⁹

The definition of entrepreneurship in general is not necessarily restricted to financial objectives.¹⁰⁰ However, commercial entrepreneurship has the main aim of creating financial value and only indirect social value – for example, by offering jobs, paying taxes and acting in a socially responsible way.

Social entrepreneurial organizations typically aim at creating both social and financial or economic value. This approach is often referred to as achieving a ‘double bottom line’ or creating ‘blended value’.¹⁰¹ However, social value creation as a constituting characteristic of a social entrepreneurial organization has a superior position – that is, financial value in a social entrepreneurial organization is never created at the expense of social value.¹⁰² As a result, ‘social objectives clearly distinguish social entrepreneurship from its private cousin’.¹⁰³

Figure 3.2 delineates the continuum of objectives of organizations between purely financial and purely charitable objectives.

However, measuring social impact or value creation is considered to be difficult compared to measuring the financial outcomes, because of its more qualitative (and highly subjective) nature and complex effects: ‘Social benefits are often intangible, hard to quantify,

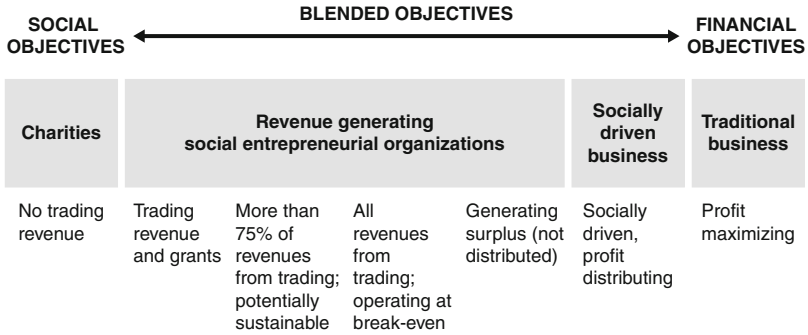


Figure 3.2 The continuum of organizational objectives¹⁰⁴

difficult to attribute to a specific organization, best evaluated in the future and open to dispute.¹⁰⁵ Thus to measure all aspects of social entrepreneurial value creation, it is not sufficient to use only the metrics of its commercial counterpart, which mainly capture financial or economic value creation. As Nicholls affirms: ‘measuring social impact and social value creation demands different metrics from conventional business’.¹⁰⁶

By testing the core elements of entrepreneurship on social entrepreneurship, it can be demonstrated that social entrepreneurs indeed share those fundamental characteristics and therefore are entrepreneurs, but with a social objective: ‘In sum, social entrepreneurship extends the definition of entrepreneurship by its emphasis on ethical integrity and maximizing social value rather than private value or profit.’¹⁰⁷

Existing concepts

As social entrepreneurship receives more and more attention, a large variety of (sometimes conflicting) definitions and related terms emerges. In this section, four general meanings of social entrepreneurship resulting from a literature review are described, in order to avoid a mix of terms throughout this book. To relate the existing concepts and definitions to each other, the two schools of thought on social entrepreneurship as the general concepts are detailed, to give structure to the field. After having structured the field, the existing definitions are analysed and the most common characteristics of social entrepreneurship extracted.

Different meanings

A review of the literature on social activities labelled social entrepreneurship reveals that the term can have several distinctive meanings according to different authors:¹⁰⁸ 'The field ... continues to mix and match a range of terms to describe social entrepreneurship, including non-profit ventures, social enterprise, social purpose endeavour, corporate social responsibility, and social innovation.'¹⁰⁹

Generally speaking, four different understandings of the term social entrepreneurship exist, creating confusion about what social entrepreneurship really is. First, some authors relate social entrepreneurship to *rendering the management of public or non-profit entities more efficient*, by introducing management tools and techniques used in the business sector into the public and non-profit sectors.¹¹⁰ An example for this understanding would be a non-profit organization starting to measure, track and ultimately report its impact according to its mission. According to Perrini and Vurro: 'The adoption of managerial techniques on the part of non-profits is not enough to call them social entrepreneurial actors.'¹¹¹

Light points out that 'Social entrepreneurship should not be seen as a funding strategy, and it should not be tied to the idea of business ventures ... At its heart, entrepreneurship is about establishing new and better ways to create value.'¹¹²

A second understanding of social entrepreneurship proclaimed by some authors is the *increasing social orientation of for-profit companies*.¹¹³ This behaviour is also defined by the expression 'corporate social responsibility' or 'corporate social entrepreneurship' as a more distinct form.¹¹⁴ According to this understanding, social entrepreneurship constitutes or is part of the social engagement of companies that serves their for-profit value addition.¹¹⁵

While the first meaning of social entrepreneurship relates to non-profit organizations becoming more entrepreneurial, the second meaning relates to for-profit companies becoming more social. Since both meanings essentially relate to the occurrence of social entrepreneurship in established organizations, both can be grouped under the expression *social intrapreneurship*.¹¹⁶

The third, very popular, meaning of social entrepreneurship relates to the *non-profit sector adopting more entrepreneurial approaches* in terms of generating their own revenues to support their social mission.¹¹⁷ A separate profit-generating entity, which supports the non-profit operations with its revenue and reduces the dependency of donations and government grants, is also often called social enterprise.¹¹⁸ The profit-generating entity

is largely unrelated to the social mission of the non-profit organization and supporting the mission only indirectly through its revenue stream.¹¹⁹ In some cases, though, the profit-generating entity can be mission-related. The Latin American Youth Center, for example, operates a Ben & Jerry's franchise store to employ and train at-risk youths by selling ice cream.¹²⁰ This not only generates revenue, but also directly supports its mission. Dees argues:

Despite efforts to spread an innovation-based definition, far too many people still think of social entrepreneurship in terms of non-profits generating earned income. This is a dangerously narrow view. It shifts attention away from the ultimate goal of any self-respecting social entrepreneur, namely social impact, and focuses it on one particular method of generating resources.¹²¹

The fourth understanding of social entrepreneurship relates to organizations that are in fact mission-driven or mission-centric. This means that their *operation results directly from their social mission*. Social entrepreneurship in this fourth meaning denotes a business whose objective is to solve a social problem or satisfy a social need, and employing innovative approaches to reach its social impact. Figure 3.3 gives an overview of the four different meanings associated with the term social entrepreneurship.

Drawing on the characteristics of entrepreneurship,¹²³ it becomes clear that the first three meanings, in contrast to the fourth understanding of social entrepreneurship, lack the risk-taking element because they relate to activities within an existing organization. As a consequence,

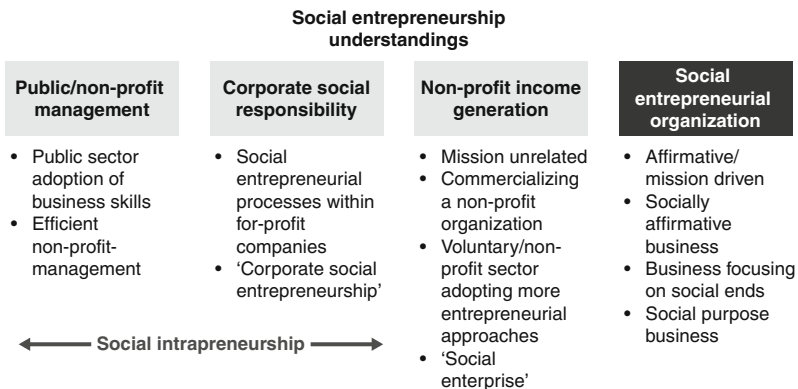


Figure 3.3 The different meanings of social entrepreneurship¹²²

the terms public/non-profit management efficiency enhancement, corporate social responsible action and non-profit income generation would reflect the actual meanings of the three activities much better than social entrepreneurship, for which title only the fourth activity qualifies – the social entrepreneurial organization.

Nevertheless, the term social enterprise has been used extensively for several years now for the profit-generating (mission unrelated) entity of a non-profit organization.¹²⁴ Some authors, who published contributions around the fourth meaning of social entrepreneurship, also use the term social enterprise to describe the (mission driven) social entrepreneurship organization.¹²⁵ However, it seems that ‘social entrepreneurship is not the same as social enterprise’.¹²⁶ Dees calls for a clear differentiation between mission unrelated and mission driven social enterprises:

If the only way a venture serves your mission is by generating funds, it may be business entrepreneurship, but it is not social entrepreneurship. If I start a bakery to make money that will be used to support my sailing hobby, we do not call the bakery a ‘sailing venture’. Likewise using the proceeds of the bakery for a social purpose does not make it into a ‘social’ venture. It is a social venture only if social considerations are integrated into its objectives and management.¹²⁷

To avoid confusion about these two different meanings of ‘social enterprise’, this book uses ‘social entrepreneurship’ in its fourth meaning and labels the respective organization a ‘social entrepreneurial organization’.

Two schools of thought

In an attempt to unify the different meanings of social entrepreneurship and their origins, Dees and Anderson proposed to define social entrepreneurship at the intersection of ‘two main schools of thought about the essential nature of “social entrepreneurship”’.¹²⁸ These two schools result from two different practice streams: one is concerned with the generation of earned income as a funding solution to a social mission (the social enterprise school); the other focuses on the actual approach to the best way to solve a social problem (the social innovation school).¹²⁹

According to Dees and Anderson, the social enterprise school of thought emerged from non-profit organizations looking for new ways to fund their operations in addition to donations and grants as well as funds from business executives promoting social needs as profitable

opportunities for for-profit companies.¹³⁰ Both have their roots in entrepreneurship theory and are based on the view of an entrepreneur as someone who starts, organizes and operates a venture. It converged in the understanding of social entrepreneurs as people 'who organize and operate businesses that support a 'social' objective, even if they do it only by making money to subsidize more direct, social-purpose activities'.¹³¹ Inherent to this school of thought, and also differentiating it from non-profit finance, is the experimentation to solve social problems with market-based approaches and the resulting sector-bending characteristic.¹³²

The social innovation school of thought also finds its conceptual foundation in entrepreneurship theory, but focuses more on the innovation orientated contributions by Schumpeter.¹³³ 'According to this view, social entrepreneurs are individuals who reform or revolutionize the patterns of producing social value, shifting resources into areas of higher yield for society.'¹³⁴ This perspective focuses more on the outcome aspect than on the income aspect of social entrepreneurship.

Dees and Anderson argue that the two schools, examined separately, have both social and academic limitations. The social enterprise school of thought lacks an important entrepreneurial characteristic without some innovative element.¹³⁵ At the same time, the social innovation school of thought is enhanced by the sector-bending element of social enterprise. Thus Dees and Anderson conclude that 'the study of social entrepreneurship should focus on "enterprising social innovation". We should focus on social entrepreneurs who carry out innovations that blend methods from the worlds of business and philanthropy to create social value'.¹³⁶

Definition overview and analysis

With the rapid advancement of the field of social entrepreneurship, both academically and practically and as a reaction to the lack of a unifying definition, stakeholders in the field have created sub-terms such as 'social business entrepreneur',¹³⁷ 'social enterprising innovation',¹³⁸ 'social purpose business venture',¹³⁹ 'technology social venture'¹⁴⁰ and various other terms to express their individual meaning of social entrepreneurship. The purpose of this section is to review the existing definitions relating to social entrepreneurship and the social entrepreneur, and to extract the characteristics cited most frequently. Definitions provided by the most important contributors and institutions in social entrepreneurship academia and practice are taken into account in order to gain an overview of the current status of the definition of social entrepreneurship and the social entrepreneur.¹⁴¹

Social entrepreneurship

Reviewing important definitions of the term ‘social entrepreneurship’ reveals a high degree of heterogeneity regarding general understanding, depth and details. However, several definition elements can be identified as frequently recurring – these seem to be agreed-upon characteristics. Table 3.1 provides an overview of the definitions analysed.

Social entrepreneurship is often basically defined as an approach, process or activity, thus giving the term a dynamic and active denotation. Obviously, creating social value and impact, finding solutions to social problems or having social goals is one of the main characteristics of social entrepreneurship and is accordingly mentioned in most definitions. Some definitions detail the term ‘social’ or mention only specific areas of social action – for example, ‘benefit of a specific disadvantaged group’,¹⁴³ or ‘solutions to the problems of social exclusion and unemployment’¹⁴⁴. In addition to social value creation, several definitions point to the double bottom line, referring to the fact that various social entrepreneurial organizations aim at creating a social as well as a financial impact. Another obvious characteristic of social entrepreneurship, also indicated by the term itself, seems to be the use of business or entrepreneurial techniques and skills to create social value.

But the review of existing definitions also reveals some further characteristics of social entrepreneurship that go beyond the constituent parts of the term. Innovation appears to be one of the most important elements that underpins many of its definitions; most reviewed definitions mention innovative, new or pattern-breaking approaches or solutions as a salient feature of social entrepreneurship. A large number of the reviewed definitions also verbalize the heterogeneity of social entrepreneurship in terms of various organizational forms employed as well as sectors and disciplines crossed: for example, ‘a wide range of business and organisational models, both non- and for-profit’,¹⁴⁵ ‘an approach that cuts across sectors and disciplines’.¹⁴⁶

The following definitions of social entrepreneurship by an academic author (Austin), an academic institution (The Center for the Advancement of Social Entrepreneurship (CASE), Fuqua School of Business, Duke University, Durham, North Carolina, USA) and a practising institution (The Schwab Foundation) represent most of the identified characteristics.

Austin highlights the social-value-creating and sector-blurring characteristics of social entrepreneurship: ‘Social entrepreneurship is an innovative, social value creating activity that can occur within or across the nonprofit, business, and public sectors.’¹⁴⁷

Table 3.1 Social entrepreneurship – definition overview¹⁴²

SOCIAL ENTREPRENEURSHIP			
Definition elements			
Approach			3
Process			3
Activity			2
Practices/use/creation/art			4
Social value creation/social impact			10
Double bottom line			5
Sustainability/lasting impact			3
Large scale/scalability			0
Vision/personal values			2
Opportunity/identification of social need or problem			4
	Austin (2006)	x	
	Cho (2006)		
	Hibbert et al. (2001)	x	
	Mair/Noboa (2006)	x	
	Mort et al. (2002)		
	Perrini/Vurro (2006)	x	
	Robinson (2006)	x	
	CASE, Fuqua School of Business, Duke University	x	
	Skoll Center, Said Business School, Oxford	x	
	OECD		
	Social entrepreneurs.de	x	
	The Institute for Social Entrepreneurs		
	The Schwab Foundation	x	

(continued)

Table 3.1 Continued

SOCIAL ENTREPRENEURSHIP Definition elements	Austin (2006)	Hibbert <i>et al.</i> (2001)	Mair/Noboa (2006)	Mort <i>et al.</i> (2002)	Perrini/Vurro (2006)	Robinson (2006)	CASE, Fuqua School of Business, Duke University	Skoll Center, Said Business School, Oxford	OECD	Social entrepreneurs.de	The Institute for Social Entrepreneurs	The Schwab Foundation	2
													0
Resource securing/motivation/attraction			x				x						
Overcome obstacles/challenges/take risk													
Use of business/entrepreneurial techniques		x		x	x	x	x	x	x	x	x		7
Pioneer/leader/path-breaker							x						1
Change/transformation								x					1
Innovation/pattern breaking/new	x		x	x	x		x	x	x			x	8
Across sectors/disciplines/organizational forms	x		x			x	x	x			x	x	7
Controlling/measurement of performance						x	x	x				x	3

CASE at Duke University is one of the most respected academic research institutes in the field of social entrepreneurship. Here, social entrepreneurship is considered as a process:

Social entrepreneurship is the process of recognizing and resourcefully pursuing opportunities to create social value. Social entrepreneurs are innovative, resourceful, and results oriented. They draw upon the best thinking in both the business and nonprofit worlds to develop strategies that maximize their social impact. These entrepreneurial leaders operate in all kinds of organizations: large and small; new and old; religious and secular; nonprofit, for-profit, and hybrid.¹⁴⁸

The Schwab Foundation for Social Entrepreneurship defines social entrepreneurship very comprehensively, in part because it uses the definition to select outstanding entrepreneurs it intends to support:

Social entrepreneurship is

- about applying practical, innovative and sustainable approaches to benefit society in general....
- a term that captures a unique approach to economic and social problems, an approach that cuts across sectors and disciplines.
- grounded in certain values and processes that are common to each social entrepreneur, independent of whether his/her area of focus has been education, health, welfare reform, human rights, workers' rights, environment, economic development, agriculture, etc., or whether the organizations they set up are non-profit or for-profit entities.¹⁴⁹

As detailed above, the terms social entrepreneurship and social enterprise are sometimes used interchangeably when describing the same phenomenon. Thus those definitions for social enterprise that refer to the fourth understanding of social entrepreneurship were reviewed in parallel. According to the analysis results, social enterprises are often referred to as organizations, businesses or business ventures. Often mentioned definition elements reflect those detailed in the definitions of social entrepreneurship.

Social entrepreneur

Since some authors use the term 'social entrepreneur' rather than 'social entrepreneurship', such definitions were also reviewed in order to provide a complete picture. Table 3.2 provides an overview of the definitions analysed.

Table 3.2 Social entrepreneur – definition overview¹⁵⁰

SOCIAL ENTREPRENEUR					
Definition elements					
Social value creation/ social impact		x	x	x	8
Double bottom line					0
Sustainability/ lasting impact		x		x	3
Large scale/ scalability				x	2
Vision/personal values				x	2
Opportunity/ identification of social need or problem		x			5
	Bornstein (1998)			x	
	Dees (2001)	x			
	LaBarre/Fishman (2001)	x			
	Light (2006)	x	x		
	Morse/Dudley (2002)	x			
	Perrini/Vurro (2006)				
	Seelos/Ganly/Mair (2006)	x			
	Thompson/Alvy/Lees (2001)	x			
	Ashoka – Innovators for the Public	x			
	The Schwab Foundation			x	
	The Skoll Foundation	x		x	
	Linklaters			x	
	Rubicon Programs Inc.			x	

Resource securing/ motivation/ attraction	X				X	X	X	X	X	X	X	X	X	X	X	X	X	X	5
Overcome obstacles/ challenges/take risk	X																		1
Use of business/ entrepreneurial techniques	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	5
Pioneer/leader/ path-breaker	X									X									1
Change/ transformation	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	5
Innovation/ pattern breaking/new	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	8
Across sectors/ disciplines/ organizational forms						X	X												2
Controlling/ measurement of performance	X									X									2

The elements 'social value creation', 'entrepreneurial and business techniques' and 'innovation/pattern-breaking/new' are of similar importance as in the 'social entrepreneurship' definition review. However, three other elements show increased significance in the definitions of 'social entrepreneur'. First, opportunity recognition or the identification of a social need or problem appears to be an important defining element. Second, many definitions emphasize the extraordinary ability of social entrepreneurs to mobilize and attract resources, particularly if they currently do not have access to them. Third, the role of social entrepreneurs as change agents bringing about social transformation is mentioned as a key characteristic in many definitions.

The following definitions by an often cited academic author (Gregory Dees) and by a social entrepreneurial organization (Rubicon Programs Inc.) include the most important identified characteristics of social entrepreneurs.

Dees' comprehensive definition is one of the most cited about social entrepreneurship:

Social entrepreneurs play the role of change agents in the social sector, by:

- Adopting a mission to create and sustain social value (not just private value),
- Recognizing and relentlessly pursuing new opportunities to serve that mission,
- Engaging in a process of continuous innovation, adaptation, and learning,
- Acting boldly without being limited by resources currently in hand, and
- Exhibiting heightened accountability to the constituencies served and for the outcomes created.¹⁵¹

Rubicon Programs Inc. is a social entrepreneurial organization that seeks to empower socially disadvantaged people by employing them in one of its business units. The organization considers itself a social entrepreneur, with the definition: 'Social entrepreneurs employ "entrepreneurial skills," such as finding opportunities, inventing new approaches, securing and focusing resources and managing risk, in the service of creating a social value.'¹⁵²

Notes

1. Light (2006b), p. 18; see also Expert interviews with Wolfgang Hafenmayer (29 September 2008) and Oda Heister (07 October 2008).
2. Nicholls (2006), p. 7 *et seq.* and the literature indicated there. For an internet forum example for the discussion on social entrepreneurship definition, see the Social Edge homepage. Available at: <http://www.socialedge.org/discussions/social-entrepreneurship/defining-social-entrepreneurship/>; accessed 15 August 2007.
3. For example, Cho (2006), p. 36 *et seq.*; Light (2006a); Light (2006b).
4. For example, Harding (2004), p. 40; Martin and Osberg (2007). Helm highlights the consequences of various terms and definitions: 'The confusion resulting from definitional ambiguity and arbitrary titling creates difficulty in studying what is social entrepreneurship', Helm (2004), p. 3.
5. For example, Dees (2003); Dees and Anderson (2006), p. 55.
6. Nicholls and Cho (2006), p. 100.
7. Cunningham and Lischeron (1991), p. 46.
8. Fueglistaller *et al.* (2004), p. 5 *et seq.*
9. Malek and Ibach (2004), p. 106. The term 'entrepreneur' was first used for the leader of a military expedition and later broadened to include contractors building infrastructure for military purposes; Cunningham and Lischeron (1991), p. 50.
10. Malek and Ibach (2004), p. 106.
11. Fueglistaller *et al.* (2004), p. 6; Malek and Ibach (2004), p. 106.
12. Fueglistaller *et al.* (2004), p. 6.
13. Bornstein (2005), p. 10; Malek and Ibach (2004), p. 107; Schumpeter (1952), p. 110 *et seq.*
14. Dees (2001), p. 1.
15. Fallgatter (2002), p. 266 *et seq.*
16. Kirzner (1988), p. 178 *et seq.*
17. Kirzner (1988), p. 18 and p. 22.
18. Drucker (1987), p. 12.
19. Stevenson (1999), p. 10.
20. For example, Cunningham and Lischeron (1991) summarize the different streams in entrepreneurship thinking as the 'six schools of thought about entrepreneurship': they point out that entrepreneurship is often closely linked with certain personal qualities, either based on 'great person' (1) or 'psychological' (2) characteristics; they acknowledge the importance of opportunity recognition (3); understanding of the entrepreneur as manager and leader, integrating the management (4) and the leadership (5) schools of entrepreneurship; and they also relate to the intrapreneurship stream (6), thereby acknowledging the reassessing and adapting role of an entrepreneur.
21. De points out that action-orientated (innovation, transformation, opportunity recognition) and attitude-orientated (personal traits, skills) definitions of entrepreneurship have to be integrated to understand fully the different aspects of entrepreneurship, De (2005), p. 17.
22. The sequence of dimensions resembles the entrepreneurship process from opportunity recognition and implementation to the person of the entrepreneur.

23. Mort *et al.* (2002), p. 78.
24. Fueglistaller *et al.* (2004), p. 9.
25. Schumpeter (1952), p. 100 *et seq.* Schumpeter emphasizes the implementation aspect of innovation as opposed to invention: creative ideas are put into practice by an entrepreneur.
26. Fueglistaller *et al.* (2004), p. 8; Tan *et al.* (2005), p. 8.
27. Grenier (2003b), n.p.
28. De (2005), p. 21.
29. Fueglistaller *et al.* (2004), p. 7.
30. Casson (2003), p. 21; Schumpeter (1952), p. 112.
31. Aaltio (2005), p. 283 *et seq.*
32. Cunningham and Lischeron (1991), p. 52.
33. Cunningham and Lischeron (1991), p. 51.
34. Cunningham and Lischeron (1991), p. 49.
35. Cunningham and Lischeron (1991), p. 49.
36. Jacobsen (2003), p. 35.
37. Jacobsen (2003), p. 35.
38. According to Kirzner, an employee is not an entrepreneur; Kirzner (1988), p. 18.
39. Baumol (1993), p. 2 *et seq.*
40. De also highlights that the link of risk to action and control excludes gamblers as well as pure financial investors from being called entrepreneurs, since they are not actively engaged in the venture and do not exercise control; see De (2005), p. 19 *et seq.* The difference between an entrepreneur and a capitalist is also discussed in detail by Kirzner (1988), p. 51 *et seq.*
41. Drucker, for example, postulates entrepreneurial action in existing firms; Drucker (1987), p. 162 *et seq.*
42. Jacobsen (2003), p. 35.
43. Casson (2003), p. 21.
44. However, Light, for example, points out that research on personality traits as success factors for entrepreneurship has not yielded any representative results that can be transferred to all entrepreneurs; Light (2006a), p. 48.
45. Cunningham and Lischeron (1991), p. 48.
46. Cunningham and Lischeron (1991), p. 48; De (2005), p. 17 *et seq.*
47. Cunningham and Lischeron (1991), p. 49.
48. Grenier (2002), n.p.
49. Cho (2006), p. 35; also Young (2006), p. 59. According to Cho, existing definitions of social entrepreneurship are tautological and monological, meaning that they lack both a clear definition of what is meant by 'social' and a dialogical view on the process of social entrepreneurship; Cho (2006), p. 35 *et seq.*
50. Nicholls and Cho (2006), p. 105.
51. Merriam-Webster Dictionary. Available at: <http://www.merriam-webster.com/dictionary/social>; accessed 4 September 2007.
52. Merriam-Webster Dictionary. Available at: <http://www.merriam-webster.com/dictionary/social>; accessed 4 September 2007. All definitions mentioned in this source are the following: 1. 'involving allies or confederates'; 2. 'marked by or passed in pleasant companionship with one's friends or associates'; 3. 'of or relating to human society, the interaction of the individual and the group, or the welfare of human beings as members of society';

4. 'tending to form cooperative and interdependent relationships with others of one's kind' (also animals and plants); 5. 'of, relating to, or based on rank or status in a particular society'; 6. 'being such in social situations'.
53. Merriam-Webster Dictionary. Available at: <http://www.merriam-webster.com/dictionary/welfare>; accessed 4 September 2007.
54. Merriam-Webster Dictionary. Available at: <http://www.merriam-webster.com/dictionary/welfare>; accessed 4 September 2007.
55. Seelos and Mair (2004b), p. 4.
56. Cho (2006), p. 39.
57. Mair and Schoen (2005), p. 3.
58. Leppert (2008), p. 18.
59. Leadbeater (1997), p. 11.
60. Nicholls (2006), p. 15.
61. Mort *et al.* (2002), p. 80. For the concept of the stakeholder, Freeman (1984); Mitchell *et al.* (1997).
62. Thompson (2002), p. 415.
63. Drayton (2002b), p. 4.
64. Nicholls (2006), p. 19.
65. Own illustration adapted from Dees and Anderson (2002a), p. 4; Dees and Anderson (2002b), p. 2.
66. Irupana Andean Organic Food homepage. Available at: <http://www.irupana.org/html/index.html>; accessed 10 September 2007.
67. The Enterprising Kitchen homepage. Available at: <http://www.theenterprisingkitchen.org/index.html>; accessed 10 September 2007.
68. The Enterprising Kitchen homepage. Available at: <http://www.theenterprisingkitchen.org/aboutus.html>; accessed 10 September 2007.
69. Kickstart homepage. Available at: <http://www.kickstart.org/>; accessed: 10 September 2007.
70. Aurolab homepage. Available at: <http://www.aurolab.com>; accessed 10 September 2007; The Schwab Foundation for Social Entrepreneurship (n.d.-e), n.p.
71. The Carbon Neutral Company homepage. Available at: <http://www.carbon-neutral.com/>; accessed 10 September 2007.
72. The Grameen Bank homepage. Available at: <http://www.grameen-info.org/>; accessed 10 September 2007.
73. Dees and Anderson (2002b), p. 3.
74. Bornstein (2005), p. 11.
75. Alvord *et al.* (2002), p. 136.
76. Watson (2004), p. 8.
77. Guclu *et al.* (2002), p. 1.
78. Drayton (2002b), p. 4.
79. Robinson (2006), p. 99.
80. Hockerts (2006).
81. Alvord *et al.* (2002), p. 142 *et seq.*
82. Grenier (2002), n.p.
83. Leadbeater (1997), p. 12.
84. Watson refers to a personal communication with Gregory Dees, where the latter stated that entrepreneurship per se 'is a matter of degree' and that it can include several forms of innovation; for example, that 'Bringing an existing product to a new market is ... a form of innovation'; Watson (2004), p. 9.

85. Grenier (2002), n.p.
86. Thompson (2002), p. 415.
87. Dees and Anderson (2002a), p. 6 *et seq.*
88. Dees (2003), n.p.
89. Grenier (2002), n.p.
90. Leadbeater (1997), p. 78.
91. Some authors include efficient management of social organizations in their definition of social entrepreneurship; others argue that managers of social organizations cannot be social entrepreneurs. See 'Different meanings', above, and the different understandings of social entrepreneurship detailed there.
92. Hartigan and Billimoria (2005), n.p. This opinion is also shared by Heister: she differentiates between the social entrepreneur and the manager of a social entrepreneurial organization, who should ideally be two different people; see expert interview with Oda Heister (07 October 2008).
93. Davis (2002), p. 4; Linklaters (2006), p. 1; Nicholls (2006), p. 20; Watson (2004), p. 7.
94. Light (2006b), p. 17.
95. Leadbeater (1997), p. 11; Nicholls (2006), p. 20.
96. Spear (2006), p. 405.
97. Nicholls (2006), p. 13.
98. Grenier (2003b), n.p.
99. Dees and Anderson (2002b), p. 1.
100. Beyes and Jäger (2005), p. 28. According to Yunus, entrepreneurs have more motivations than profit maximization alone; Yunus (2006), p. 39 *et seq.*
101. For example, Emerson (2003); Robinson (2006), p. 95.
102. Linklaters (2006), p. 1.
103. Cho (2006), p. 39. Similarly, 'Whereas business entrepreneurs create businesses, social entrepreneurs create change'; Barendsen and Gardner (2004), p. 43.
104. Own illustration adapted from John (2006), p. 13. For different examples of social entrepreneurial organizations covering varying degrees of financial objectives, see Elkington and Hartigan (2008), p. 29 *et seq.*
105. Dees and Anderson (2002a), p. 8.
106. Nicholls (2006), p. 19.
107. Davis (2002), p. 7.
108. For example, Weerawardena and Mort list several understandings and related authors on social entrepreneurship, Weerawardena and Mort (2006), p. 22. For the differences regarding the definition of social entrepreneurship between world regions, see Kerlin (2006).
109. Light (2006b), p. 14. In another article, Light's criticism regarding the lack of definition is even harsher: 'Some use the term social entrepreneurship to describe any form of moneymaking enterprise with a social mission. Others use it to describe any type of nonprofit organization that is new to them. Still others use the term to make a new case for an old idea'; Light (2006a), p. 47.
110. For example, the definition of social entrepreneurship by the Canadian Center for Social Entrepreneurship – University of Alberta School of Business, cited in Seelos and Mair (2004b), p. 2. Eikenberry and Drupal Kliver (2004) and Lee (2002) also understand social entrepreneurship to be a management technique for non-profit organizations.

111. Perrini and Vurro (2006), p. 59.
112. Light (2006b), p. 31.
113. Austin (2006), p. 29; Caloia (2003); Dees (2001), p. 1; Seelos and Mair (2004b), p. 3.
114. Austin (2006), p. 29.
115. For a definition and different aspects of corporate citizenship and corporate social responsibility, see Habisch *et al.* (2007).
116. The term 'social intrapreneurship' is employed, for example, by Mair and Martí (2005), n.p.; Seelos and Mair (2004b), p. 7; Watson (2004), p. 6.
117. For example, Dees (2001), p. 1; Dees (2003), n.p.; Mort *et al.* (2002), p. 79; Seelos and Mair (2004b), p. 3.
118. For example, Davis (2002), p. 6; Grenier (2002), n.p.; Kerlin (2006), p. 106.
119. Several authors differentiate operations of an organization with a social mission according to their relevance to the social mission: in mission-centric or mission-driven, mission-related or affirmative, and unrelated to the mission; see, for example, Alter (2006b); Pomerantz (2003).
120. Yamada (2003).
121. Dees (2003), n.p.
122. Own illustration.
123. As detailed in 'Core dimensions of entrepreneurship', above.
124. Kerlin (2006), p. 106.
125. For a discussion of the linguistic differences between 'social entrepreneurship' and 'social enterprise', see Grenier (2002), n.p. Other authors try to avoid any misunderstanding between the two terms and introduce new terms such as 'social entrepreneurial organization', see, for example, Mair and Schoen (2005).
126. Grenier (2003b), n.p.
127. Dees (2003), n.p.
128. Dees and Anderson (2006), p. 41.
129. See for the following, Dees and Anderson (2006), p. 41 *et seqq.* Alvord *et al.* (2002) agree in the main arguments with the framework proposed by Dees and Anderson.
130. See also Alvord *et al.* (2002), p. 136.
131. Dees and Anderson (2006), p. 41.
132. Dees and Anderson (2006), p. 44.
133. See also Alvord *et al.* (2002), p. 137.
134. Dees and Anderson (2006), p. 44.
135. 'we have a rather large and rich literature on "commercialization" in the nonprofit sector already ... without some element of innovation, social enterprise is and should be a sub-topic in a broader theory of nonprofit finance'; Dees and Anderson (2006), p. 47.
136. Dees and Anderson (2006), p. 50. Alvord *et al.* (2002) similarly point out that 'Sustainable social transformations include both the innovations for social impact and the concern for ongoing streams of resources that characterize the other two perspectives on social entrepreneurship'; Alvord *et al.* (2002), p. 137.
137. Yunus (2006).
138. Dees and Anderson (2006).
139. Hockerts (2006).

140. Desa and Kotha (2006).
141. The definition analysis spans academic literature, definitions published by academic institutions and practising institutions (such as organizations supporting social entrepreneurs) as well as definitions postulated by social entrepreneurs themselves.
142. Own illustration based on the analysis of definitions from the following sources: Austin (2006), p. 22; Cho (2006), p. 36; Hibbert *et al.* (2001), p. 288; Mair and Noboa (2006), p. 122; Mort *et al.* (2002), p. 82; Perrini and Vurro (2006), p. 78; Robinson (2006), p. 95; CASE homepage, section 'What is Social Entrepreneurship?'. Available at: <http://www.caseatduke.org/about/whatisocialentrepreneurship/>; accessed 26 April 2007; Skoll Centre for Social Entrepreneurship homepage. Available at: <http://www.sbs.ox.ac.uk/skoll/introduction/Introduction.htm>; accessed: 26 April 2007; Noya and Lecamp (1999), p. 10; Socialentrepreneurs.de homepage, section 'Social Entrepreneurs'. Available at: <http://www.socialentrepreneurs.de/20367.html>; accessed 26 April 2007; The Institute for Social Entrepreneurs homepage, section 'Social Enterprise Terminology'. Available at: http://www.socialent.org/Social_Enterprise_Terminology.htm; accessed 26 April 2007; The Schwab Foundation for Social Entrepreneurship homepage. Available at: <http://www.schwabfound.org/whatis.htm>; accessed 26 April 2007.
143. Hibbert *et al.* (2001), p. 288.
144. Noya and Lecamp (1999), p. 10.
145. Skoll Centre for Social Entrepreneurship homepage; as Nt 142 above.
146. The Schwab Foundation for Social Entrepreneurship homepage; As Nt 142 above.
147. Austin (2006), p. 22.
148. CASE homepage, section 'What is Social Entrepreneurship?'; As Nt 142 above.
149. Schwab Foundation for Social Entrepreneurship homepage; As Nt 142 above.
150. Own illustration based on the analysis of definitions from the following sources: Bornstein (1998), p. 36; Dees (2001), p. 4; Light (2006b), p. 30; Perrini and Vurro (2006), p. 69; Seelos *et al.* (2006), p. 241; Thompson (2002), p. 415; Ashoka homepage. Available at: http://www.ashoka.org/social_entrepreneur; accessed 17 August 2007; Schwab Foundation homepage. Available at: <http://www.schwabfound.org/sf/SocialEntrepreneurs/Whatisa-socialentrepreneur/index.htm>; accessed 17 August 2007; Skoll Foundation homepage. Available at: <http://www.skollfoundation.org/aboutsocialentrepreneurship/whatis.asp>; accessed 17 August 2007; Linklaters (2006), p. 1; Rubicon Programs Inc. homepage. Available at: http://www.rubiconprograms.org/about_social.html; accessed 17 August 2007; Seelos and Mair (2004b), p. 2 *et seq.*
151. Dees (2001), p. 4.
152. Rubicon Programs Inc. homepage. See note 150.

Part II Interim Summary and Working Definition

The aim of this part was to clarify the characteristics of social entrepreneurship as the research object of this contribution, and to build a terminological basis for the book by generating a working definition of the term. As a first step to approach the phenomenon of social entrepreneurship, its evolution and context were explored. These were demonstrated with the help of historic examples showing that social entrepreneurship is not a new phenomenon but has existed throughout history. Growing demand and a lack of adequate solutions to social problems drive the current popularity of social entrepreneurship. Additionally, conditions have improved for social entrepreneurial organizations, making it easier for them to operate and be acknowledged. The evolution of the three sectors of society was analysed first, to position social entrepreneurship among them. Subsequently, the first characteristics of social entrepreneurial organizations were elaborated by analysing their similarities and their differences compared to traditional institutions in the public, private and civil society sectors. Having classified social entrepreneurship through its evolution and position in society, its definition was approached more explicitly. First, the two constitutive terms 'entrepreneurship' and 'social' were analysed more deeply to understand the basis of the term social entrepreneurship. While the term entrepreneurship itself is not clearly defined, a comprehensive review of entrepreneurship theory revealed five defining dimensions of entrepreneurship: opportunity recognition, innovation and transformation, organization, leadership and management, and personal qualities of the entrepreneur. The discussion of these five dimensions allowed the derivation of a working definition of entrepreneurship:

Entrepreneurship is the process of recognizing an opportunity by shifting resources from an area of lower to an area of higher productivity, involving

some element of innovation and risk and being driven by the objective of creating value and reaching a personal reward. This process is driven by an individual or a small team around a leading individual with certain enabling personal traits, who attracts necessary resources and implements the idea beyond an existing organization.

The term 'social' was defined as creating or restoring welfare for human beings in the context of society. To make this definition more tangible, the social value creation of social entrepreneurial organizations along the social value chain was highlighted with the help of examples.

After having clarified the meaning of both entrepreneurship and social in this contribution, the commonalities and differences between the two terms were identified, which led to the conclusion that social entrepreneurs indeed are entrepreneurs, but their social objective leads to differences in some of the defining dimensions.

The review of existing concepts and definitions of social entrepreneurship was a second step to reaching a working definition of social entrepreneurship for this book. It can be demonstrated that social entrepreneurship has a variety of different meanings to different authors. This insight allowed the author to clarify what is meant by social entrepreneurship in this contribution: an organization whose operation results directly from its social mission. The detailed analysis of the existing definitions by academics, supporting institutions, and social entrepreneurs themselves, of 'social entrepreneurship' and 'social entrepreneur' allowed for the identification of certain characteristics that seem to be acknowledged by the majority.

The insights on social entrepreneurship generated in this part are integrated to form a working definition of social entrepreneurship. As indicated above, several authors promote the creation of a clear-cut definition of social entrepreneurship to further develop the field, both in research and in practice. Salamon and Anheier point to the 'weakness of the *concepts* that have so far been used to comprehend and define it [social entrepreneurship]. Such concepts are absolutely critical in the development of any field of study or in comprehending any social reality'.¹ Following this rationale, this book attempts to build a clear-cut definition of social entrepreneurship, one that facilitates the identification of social entrepreneurs. In the following paragraph the main defining dimensions of social entrepreneurship are discussed in detail before they are integrated into a working definition of social entrepreneurship.

In this book, social entrepreneurship is defined as the process of creating and implementing an *entrepreneurial solution* to a *social problem* and fulfilling unmet social needs, thereby creating social value and impact.

Social problems are situations or conditions that endanger or hinder the welfare of human beings in society; social needs arise from the desire to restore or create this welfare. Such needs arise from the collectively formed interests and needs of society's citizens and can thus change over time.

The *entrepreneurial approach* to the solution of social problems shows significant similarities to entrepreneurship in the private sector, but the priority is a social objective rather than a profit motive. The ultimate objective of social entrepreneurship is to find a final answer to a social problem; and once the problem is eradicated, the organization has no further reason to exist. The process of social entrepreneurship is driven by a social entrepreneur – an individual or a small team around an individual – recognizes an opportunity and creates a new social entrepreneurial organization that innovatively addresses this opportunity, often transforming the whole or parts of existing systems and structures, by employing business techniques and the market mechanism of supply and demand as well as mobilizing and combining unused resources to create a social impact. Social entrepreneurial organizations are independent of political or religious influence and do not depend on single large stakeholders. Instead they exist, or exhibit the effort to exist, based on their own operations.

The innovative element of social entrepreneurship is understood in a broad sense: a solution can already exist; it is innovative, however, when it is implemented in a new region or country, or to deal with a different social problem. Since they are innovators, social entrepreneurs are also agents of change, fostering social transformation on both a local and a global scale, whether in their direct community or towards whole social systems.

Social entrepreneurship can occur as a locally limited or globally expanding phenomenon; a social entrepreneurial organization can be small and local as well as large-scale and international.

Social entrepreneurial organizations can be for-profit or non-profit. However, social value creation is always given priority over economic value generation. The choice of the legal form is not driven by profit-making objectives, but it is based on how the intended social impact can best be achieved.

In sum, social entrepreneurship can be defined as follows:

- Social entrepreneurship is the process of creating and implementing an entrepreneurial solution to a social problem. A social problem is a situation or condition that endangers or hinders the welfare of human beings in society.

- The ultimate objective of social entrepreneurship is the final solution of a social problem and thus the elimination of the need for the organization to exist.
- The process of social entrepreneurship is driven by a social entrepreneur, who recognizes an opportunity and creates a new social entrepreneurial organization that innovatively addresses this opportunity, often transforming the whole or parts of existing systems and structures, by taking risks, employing business techniques and the market mechanism of supply and demand as well as mobilizing and combining unused resources to create a social impact.
- Social entrepreneurial organizations are independent of political or religious influence and do not depend on single large stakeholders, but are, or exhibit the effort to become, self-sustaining through their own operations.

Note

1. Salamon and Anheier (1997c), p. 3.

Part III

Theoretical Perspectives

Introduction to Part III

After having provided a basis for understanding social entrepreneurship by generating a working definition in Part II of this book, Part III approaches the phenomenon from the perspective of selected theories. The aim of this part is to give direction in the form of a theoretical background to the explorative factual-analytical and empirical research. Public goods theory, as the first theoretical perspective, clarifies the characteristics of public goods and the resulting challenge of market failure as a basis from which to identify the role of social entrepreneurial organizations in public good provision (Chapter 4). Resource dependency theory as the second theoretical perspective explains the behaviour of social entrepreneurial organizations as organizations dependent on their environment and provides a perspective on exploring how social entrepreneurial organizations fulfil their role in public goods provision (Chapter 5). The interim summary integrates the two theoretical approaches to provide direction for the explorative factual-analytical and empirical research (Interim Summary).

4

The Challenge of Public Goods Provision

Public goods theory provides insights regarding the economic setting in which social entrepreneurial organizations operate, and permits the identification of social entrepreneurial organizations' roles in public goods provision at the macroeconomic level. In this chapter, the fundamentals of public goods theory are first described, then, based on these insights, the role of social entrepreneurial organizations and the challenges linked to their roles are identified.

Public goods theory

The theory of public goods¹ originated in 1954–5 with 'The Pure Theory of Public Expenditure' – the work of Paul A. Samuelson, a future Nobel Prize laureate for Economics; while Harold Demsetz and Cliff Walsh detailed these original thoughts in the 1970s and 1980s.² Their definition proposed two central characteristics of public goods: non-excludability and non-rivalness. The Scottish philosopher, economist and historian, David Hume, established another line of discussion, describing the state as a collective provider of public goods as a consequence of market failure; the works on public finance of Richard A. Musgrave and the public choice school of James M. Buchanan tie in with this line of research.³ In this section, non-excludability and non-rivalness are explained as the characteristics of public goods. These characteristics are based on their externalities, which evoke the failure of markets for public goods as a consequence of free-riding and hidden preferences. As a consequence of market failure, the state is often engaged in the provision of public goods. Finally, the role of social capital as a specific public good is highlighted.

Characteristics of public goods

Public goods are defined by the two core characteristics of non-excludability and non-rivalness in consumption.⁴ *Non-excludability* means that no individual can be economically or technically excluded from consuming the good.⁵ The defining characteristic of *non-rivalness in consumption* was coined by Richard Musgrave, another important contributor to public goods theory, and means that the good can be used collectively by various users without constraining any individual from benefiting from the good.⁶ The non-rival consumption characteristic is also made explicit in Samuelson's definition of public goods:

collective consumption goods ...which all enjoy in common in the sense that each individual's consumption of such a good leads to no subtraction from any other individual's consumption of that good.⁷

The two characteristics result from the fact that public goods have external effects or externalities: 'An externality exists whenever one individual's actions affect the utility of another individual.'⁸

Externalities can have a positive or negative impact on others, either benefiting or harming them. Often, these characteristics apply to goods and services that affect society as a whole, such as peace, a clean environment or national security:⁹ 'Nearly every concern of economic policy, from environmental considerations to research and development, involves externality problems.'¹⁰ As a result of externalities, everybody consumes the same amount of the product. People cannot buy, for example, different amounts of national security.¹¹

Public goods are often of a more abstract nature than being specific products. This might lead to the following scenarios:

These goods are often more evident when undersupplied. For example, conflict is more noticeable than peace, which is often taken for granted. Similarly, people realize that they are 'part of the market' much more when a stock market crashes and the value of their investments tumbles. Or they recognize the close links between general health conditions when a flu epidemic strikes.¹²

Rosen and Windisch even cite sincerity, societal stability or the distribution of income as examples of public goods. If every citizen did business with sincerity, all members of society would benefit from the resulting decrease in information and transaction costs.¹³

The two criteria differentiating private and public goods – ‘exclusivity of access’ and ‘rivalness in consumption’ – can serve to develop a typology of goods which allows the classification of public goods within the spectrum of all goods. Only those goods that are characterized by non-exclusive access and non-rival consumption can be defined as *public goods*.

The ambiguity of ownership and usage rights of public goods differentiates them from *private goods*, which are characterized by completely exclusive access and rival consumption.¹⁴ As soon as public goods become rationalized – that is, the number of users is controlled or restricted, while still maintaining non-rivalry in consumption for those people with access to the good – they are defined as *club goods*. Their characteristics allow for a price to be charged – for example, entrance or membership fees – thus distributing the cost of supplying the good over several users.¹⁵ Typical club goods include public swimming pools or museums, tennis courts and golf courses. If a good is characterized by non-excludable access but rivalness in consumption, it can be classified as a *collective good* or collective resource base. An example of collective goods are fishing grounds, offering access to anyone, but providing only a limited amount of fish. The phenomenon of over-utilization of collective goods is known as ‘the tragedy of the commons’.¹⁶

In reality, the transitions between the different types of goods are blurred. Pure public goods – that is, goods with both characteristics – are rare.¹⁷ Normally, goods are mixed, meaning that they display characteristics of both public and private goods. A vaccination against a contagious disease, for example, is useful both for the person receiving it (private good) and for the public in preventing an epidemic (public good).¹⁸

In addition, the classification of a good as a public good is dynamic, depending on market conditions and level of technical development.¹⁹ For certain public goods, increased collective usage leads to a decline in quality and thus to a rise in consumption rivalness, which can be illustrated with the example of traffic jams in crowded streets. When the public good ‘street’ is used excessively, it becomes an impure public good, or collective good, since the characteristic of non-rivalness in consumption is no longer fulfilled.

Market failure, free-riding and hidden preferences

While private goods can be offered on markets, the provision of public goods suffers from market failure. This phenomenon is caused by the different incentive effects of private and public goods.²⁰ The

externalities and characteristic of non-excludability of public goods means that every person has an identical benefit from the public good once it has been provided. Thus everybody is stimulated to contribute as little as possible and benefit from the product as a free rider. Free riders would not pay for using the good as they can benefit from it even if they do not pay for it. Because it is impossible to exclude free riders from the consumption of a public good no one is willing to pay for the good. An example is the construction of a dike to protect people against storm tides. Once constructed, every inhabitant will benefit from the dike, no matter whether he contributed to its construction costs or not. Thus people have an incentive to hide their preference for having a dike and to avoid contributing to its construction, hoping that they can benefit from it in any case, since others might finance it. Musgrave describes the results of the non-excludability characteristic of public goods: '[Social] wants cannot be satisfied through the mechanisms of the market because their enjoyment cannot be made subject to price payments.'²¹

Consequently, rational benefit maximizing individuals will not reveal their true preferences or their willingness to pay voluntarily for public goods.²²

Because of the option of free riding, potential consumers are motivated to hide or diminish their true consumption preferences regarding public goods.²³ Thus provision of these goods through market mechanisms fails because of the lack of incentives to reveal preferences and contribute to the production of the good. While a certain level of demand exists for these kinds of goods, the market mechanism fails because people would rather consume the product or service as a free rider than to pay for it.²⁴ As a result of market failure, resources cannot be allocated to the provision of public goods.²⁵ Since their production costs cannot be recovered through payment for consumption, public goods are usually provided either by the state or not at all.

As a consequence of the maximization of individual benefit and the resulting market failure, people cannot benefit from the positive effects of public goods, even though they have a certain demand for them. As Kaul and Mendoza state: 'A decent life depends on having such goods in the public domain, available for all people to consume.'²⁶

This dilemma situation resembles the prisoner's dilemma, familiar from game theory.²⁷ This serves as a useful analysis tool to illustrate the mechanisms of market failure for public goods.²⁸ A dilemma structure is defined as a situation in which conflicts of interest inhibit the realization of common interests.²⁹ The conflicts of interest are based on

specific incentive conditions: on the one hand the actor can suspect that his contribution to realize the common interest is being exploited by the other actors, while on the other, the same actor can have an incentive to exploit the contributions of his interaction partners.³⁰ The anticipation of each actor regarding the behaviour of the other actors plays a vital part in the decision process.³¹ The prisoner's dilemma as a specific dilemma structure refers to situations in which actors follow their incentives and precisely this behaviour makes them miss the possible benefits of co-operation.³²

The game-theoretical setting of the prisoner's dilemma can be transferred to the analysis of public good contributions.³³ It involves two individuals who vote independently about the provision of a public good – whether it should be provided in a fixed quantity or not at all. Before voting, the two individuals agree on the fraction of the cost each of them is willing to take on based on the possible results of their vote. One possible agreement could envisage the two individuals sharing the cost of providing the public good evenly at 50 per cent when they both vote for the provision. If one individual votes against the provision of the public good, the other individual bears the cost of providing it alone; and if both vote against the provision, the public good will not be provided and no costs will be incurred by either of the individuals. Comparing the cost fractions with the individual willingness to pay for the fixed amount of public good, the individuals can define their individual payoffs (which is positive if the individual willingness to pay is higher than the cost fraction incurred, and negative in the opposite case). While the individuals agreed on the cost fraction to incur, they do not know their counterpart's individual willingness to pay. The following example illustrates the dilemma unfolding through this setting: the cost of provision of a fixed amount of a certain public good is ten monetary units. The two individuals A and B have differing willingnesses to pay for this amount of the public good: A would be willing to pay 9 monetary units and B would be willing to pay 6 monetary units. Assuming the cost fraction agreement detailed above, Figure 4.1 displays the payoffs realizable for the two individuals through each of the voting alternatives.

If A voted for the provision of the public good and B voted against it, A would have to bear the whole cost of providing the good on his own (ten monetary units). Consequently, A's payoff would be -1 monetary unit (the difference between the willingness to pay and the actual cost incurred), while B's payoff would be 6 (since no cost is incurred). Assuming rationality, benefit maximization and independent

		INDIVIDUAL B	
		Pro	Against
INDIVIDUAL A	Pro	4, 1	9, -1
	Against	-4, 0	0, 0

Figure 4.1 Game theory payoff matrix for public goods provision³⁴

decision-making, the two individuals will always vote against the provision of a public good because this decision maximizes their individual payoff. As a result, the equilibrium of this dilemma structure is in the lower-right quadrant and the public good will not be provided.

The dilemma arises because the equilibrium is not Pareto optimal since there are other options available that would make an individual better off without leaving the other individual in an inferior situation.³⁵ This optimal allocation (upper left quadrant) cannot be reached by individual rational behaviour because the individuals do not have an incentive to reveal their true willingnesses to pay. As can be demonstrated by this game-theoretical analysis, markets fail to provide a Pareto optimal allocation of public goods because of the incentive structures of the individuals concerned.³⁶

The state as provider of public goods

As a result of the market's failure to provide public goods, decisions on the provision of some of these goods are made based on a process of collective decision-making and financed by the raising of taxes or other forms of compulsory levy.³⁷ Hence it is the state that mainly provides certain public goods, financing their production by raising taxes and levies from its citizens, and evolving into so-called welfare states in some developed countries.³⁸ This image of the state corresponds with

the opinion of Adam Smith, who stated that public goods should be provided by public authorities.³⁹

The state is also involved in the provision of merit goods. Merit goods hold a specific role in the classification of goods. In his definition of public wants, Musgrave differentiates between 'social wants', which display the characteristics of public goods as described above, and 'merit wants'.⁴⁰ Merit goods benefit the whole society through positive externalities, but these effects are only released through the consumption by individuals (for example, education). Merit goods can also be private or club goods; consequently, their characteristic of excludability allows charges to be levied for consumption. Thus merit goods can be provided through the market mechanism according to the extent of individual demand. However, merit goods are also affected by suboptimal provision caused by market ineffectiveness. Since the private benefit from a merit good is lower than the public benefit because of positive externalities, individual demand (reflecting only private benefits) is satisfied through the market mechanism, but still results in underproduction of merit goods at the societal level. While merit goods can be provided through the market mechanism, they are 'considered so meritorious that their satisfaction is provided for through the public budget, over and above what is provided for through the market and paid for by private customers'.⁴¹ To increase the positive externalities for society, the state increases individual demand beyond the normal market mechanism through the provision of free or subsidized merit goods.⁴²

The state's involvement in providing public and merit goods can occur in different forms. Since the responsibility for the provision of public goods can be separated from production, the state faces a make-or-buy decision: the state can provide those goods by producing them itself, or provide them by contracting out production to a third party.⁴³ In addition to providing public goods directly, the state also creates normative structures that enable the provision of public goods through society itself. Often, this functions through the institutional transformation of a public good into a private good, as it does, for example, through the protection of intellectual property by a patent.⁴⁴ However, because of budget restrictions, states cannot provide all public goods desired by their citizens and all merit goods beneficial for the whole society. This is true for both developed and – on a significantly lower level – developing countries.⁴⁵

The challenges of public goods provision grow with the effects of globalization. Public goods, traditionally provided for by national states,

increasingly become global public goods: 'A growing number of national public goods have gone global.'⁴⁶ Global public goods have external effects that reach beyond national borders, such as the greenhouse effect, or the crisis of international financial markets.⁴⁷ The Millennium Development Goals, mentioned earlier, also provide examples of global public goods: the eradication of poverty, the improvement of health including the reduction of global diseases, or environmental sustainability.⁴⁸ While public goods are provided based on national normative structures, these structures are only just beginning to develop on a global scale.⁴⁹ Examples of international normative structures are the agreement on fishing quota for each state, or the possibility of emissions trading (treating pollution rights as private goods) as a result of the Kyoto conference. Thus the need for global public goods is met even less frequently.⁵⁰

Habisch pushes for reassessing traditional roles within public goods provision, highlighting that until now the social sphere has been left to the state and delegated to the institutions of social welfare.⁵¹ Because of the budget restrictions and challenges related to public goods provision described above, states increasingly leave part of the public and merit good production to the civil society sector organizations and thus encourage innovative methods for providing public and merit goods effectively and efficiently: 'In many countries (both developed and developing) there has been a systematic retreat of government from the provision of public goods (as defined by Samuelson 1954) in the face of new political ideologies that stress citizen self-sufficiency and that give primacy to market driven models of welfare.'⁵²

Social capital as a specific public good

As the importance of civil society increases, social capital as a specific form of public good has gained greater attention. Social capital may be defined as

the stock of active connections among people, the trust, mutual understanding and shared values and behaviors that bind the members of human networks and communities and make cooperative action possible.⁵³

Social capital is often linked to terms such as trust, sympathy, forgiveness, solidarity and personal networks.⁵⁴ Adler and Kwon summarize these terms as the goodwill existing in social relations, and highlight the relevance of goodwill as a valuable action-facilitating resource.⁵⁵ Habisch defines social capital as a structure of relations, constituted by

formal and informal institutions, which enables a society permanently to overcome social interaction problems, and as such supports the stabilization of the benefits of social co-operation.⁵⁶ Following along in this vein, social capital is often linked to civil society related terms such as civic spirit and 'the readiness to associate and to build and maintain communities'⁵⁷ and 'shared understandings and equity participation in decision making'.⁵⁸

The term social capital was coined by several scholars working independently of each other in different scientific areas.⁵⁹ Two of the most prominent authors on social capital are Robert D. Putnam and James S. Coleman. Putnam's approach to social capital became the most popular, and well-known beyond academic discourse.⁶⁰ He published the bestselling book *Bowling Alone: The Collapse and Revival of American Community*, in which he highlights the decline of civic engagement and consequently social capital in the USA.⁶¹ Putnam defines social capital primarily on the societal level: 'By "social capital" I mean features of social life – networks, norms, and trust – that enable participants to act together more effectively to pursue shared objectives . . . Social capital, in short, refers to social connections and the attendant norms and trust.'⁶²

Social capital facilitates co-ordinated or collective actions through the reduction of transaction costs, thus improving society's efficiency.⁶³ Putnam and Goss differentiate between four dimensions of social capital: formal versus informal (regarding the organizational structure); high density versus low density (regarding the quality and intensity of relations); internal versus external (regarding the benefit for individuals and organizations versus the whole society); bridging versus bonding (regarding social capital created through relations among either heterogeneous or homogenous groups of people).⁶⁴

Coleman takes a more individual focused approach to social capital. According to his view:

Social capital is defined by its function. It is not a single entity, but a variety of different entities having two characteristics in common: They all consist of some aspect of a social structure, and they facilitate certain actions of individuals who are within the structure ...social capital inheres in the structure of relations between persons and among persons.⁶⁵

He considers social capital as a resource for individuals to realize their interests.⁶⁶ According to his analysis, social capital can occur in six different forms.

Social capital exists in the form of *obligations and expectations*, relating to the function of reciprocity. If person A does person B a favour, while anticipating reciprocal action by B in the future, then A builds up an expectation while B has an obligation to meet it. Coleman underlines the importance of trustworthiness and of the extent of obligations held.⁶⁷ Social capital also exists in the form of *information potential*, which can be activated through retrieving the knowledge that resides in social relations.⁶⁸ *Norms and effective sanctions* is another form of social capital, especially 'important in overcoming the public-good problem that exists in conjoint collectivities'.⁶⁹ Social capital in the form of *authority relations* occurs when control rights are accumulated on a single person, who then represents a common authority capable of solving common problems (and, for example, overcome free-rider problems).⁷⁰ *Existing social capital* in social organizations can be *appropriated to new purposes* and is thus another form of social capital.⁷¹ While social capital is often only a by-product of other activities and therefore rarely directly invested into, there are some forms of *social capital resulting from investment*. Often this takes place in business organizations, where social capital needs to be built up as a major precondition for an effective organization and therefore requires upfront and continuous investment. Voluntary organizations producing public goods create social capital in two ways: first, the social capital inherent in the existing organization can be used for other purposes; and second, the production of a public good, also being used by third parties, generates social capital.⁷²

In addition to the different dimensions and forms of social capital, Habisch identifies several functions of social capital.⁷³ First, social capital facilitates *information transfer* through preselecting and preparing information (which happens, for example, through the formation of special-interest groups such as parent/child groups or immigrant groups).⁷⁴ Social capital also provides an *insurance function*, taking over the place of the family as the original insurance institution for existential life risks.⁷⁵ Habisch highlights the *education function* of social capital, hinting at the connection with the acquisition of 'human capital in the creation of social capital'.⁷⁶ Habisch also credits social capital with an *identification and mobilization function*, explaining that social capital leads to better identification with a community or region and facilitates the mobilization of collective action.⁷⁷

As can be deduced from the above definitions and analyses, social capital can be beneficial on both an internal (condition) and an external (result) dimension. The internal dimension of social capital refers to

it being used as a resource by individuals and organizations, while the external dimension relates to the fact that social capital is not only useful for individuals and organizations as separable entities, but also for society as a whole. The latter dimension is the focus of this section.⁷⁸

Social capital can be beneficial to society in several ways. It can be understood both as a solution to the dilemma of collective action – that is, the provision of public goods – and, because of its characteristics, as a public good itself.⁷⁹ As mentioned earlier, the dilemma of collective action is a result of the problem of free-riding – that is, individuals can enjoy the benefits of certain goods or services produced by others without having contributed to their production, which leads to underinvestment in these goods and services. Social capital contributes to solving this dilemma by establishing networks with stable structures, repeated co-operation, and resulting norms and cultural patterns.⁸⁰ These norms can develop the necessary sanctioning mechanisms for free riders and thus motivate them to contribute to the public good. Existing social capital thus contributes to solving the collective goods problem. However, since the development, enforcement and sanctioning of norms is itself a collective good, a second-order collective goods problem arises.⁸¹ This means that some forms of social capital have the characteristics of public goods, since the consumption of them is neither rival nor can other beneficiaries be excluded from the positive effects of social relations.⁸²

Social entrepreneurial organizations as catalysts of public goods provision

In the previous section it was demonstrated that the free-rider effect of public goods leads to an undersupply or excessive use of those goods rather than a Pareto optimal allocation.⁸³ As a consequence of market failure for these goods, the state often takes on the responsibility for providing public goods by raising taxes from its citizens or creating normative structures that enable the provision of the necessary public goods. As was indicated in the Introduction (Part I) authors on social entrepreneurship ascribe a contribution to public goods provision to social entrepreneurial organizations. Building on the foundations of public goods theory, the objective of this section is to analyse the role of social entrepreneurial organizations in the provision of public goods: 'To study the function of a social practice or institution is to analyze the contribution which that practice or institution makes to the continuation of that society as a whole.'⁸⁴

As a first step, the types of market failures addressed by social entrepreneurial organizations are identified. Subsequently, the characteristics of the goods and services provided by social entrepreneurial organizations are analysed in detail, and finally, the vital role of social capital is detailed, both as a result of and a condition for social entrepreneurial action.

Types of market failures addressed

The provision of public goods is associated with the challenge of market failure, which is a result of the specific characteristics of public goods and the related behaviour of citizens. According to public goods theory, the characteristics of public goods reduce the willingness to pay for their provision among citizens, leading to a lack of resources for their production and thus to market failure. Analysing social entrepreneurial organizations reveals that they are involved in the provision of goods and services that experience market failure for different reasons.

Social entrepreneurs often encourage citizens, who are able but normally unwilling to pay for public goods, to contribute to their production. The Carbon Neutral Company, for example, offers to offset the carbon emissions of individual and corporate customers, calculating the exact costs to offset the amount of carbon dioxide caused by a certain flight, the distance travelled in a car or a general way of living. Contributing the respective sum to The Carbon Neutral Company's carbon offset projects, people can neutralize their individual damage to the environment and contribute to a healthier environment and atmosphere. This setting represents the public goods dilemma described above, of actors who are able, but generally unwilling to pay because of the specific incentive structure.

In other settings, social entrepreneurial organizations operate in areas where people would be willing to pay – that is, have an incentive to pay for a certain product or service, but are not able to pay the full price because they simply cannot afford it. The Institute for One World Health, for example, develops medicines for infectious diseases in the developing world, taking on the initiation costs and selling the medicines at a price that covers production since patients in these countries cannot afford to pay for medicines originating in the developed world. Advances in medicines that cure Third-World diseases contribute to a reduction in global epidemics and thus also improve the general health status of the population in developing countries.

From these examples it can be deduced that the public goods theory and the resulting market failure are based on the assumption that people can in fact pay for the provision of public and merit goods. However,

the Pareto efficient provision of public and merit goods fails in both developed and developing countries: in developed countries people are *unwilling* to pay (because of the mechanisms described above), while in developing countries, people are *unable* to pay enough to allow for a Pareto optimal provision of public and merit goods. In sum, it appears that social entrepreneurial organizations are able to find solutions to both causes of market failure.

Characteristics of goods provided

Highlighting the strategic arena of social entrepreneurial activity, Nicholls defines the context of social entrepreneurship as 'public welfare; environmentalism; development and aid'.⁸⁵ According to Smallbone, social entrepreneurial objectives include providing 'goods and services which the market or public sector is either unwilling or unable to provide';⁸⁶ for example, developing skills, creating employment and fostering the integration of the socially excluded: 'Typically the provision of goods and services by social entrepreneurs aims at fulfilling unmet social needs or unmet demands for public goods and services, resulting from either social opportunities not addressed by any of the three sectors, or from social market failure.'⁸⁷ These citations suggest that social entrepreneurial organizations provide public goods, address market failures and fulfil social needs.

However, taking a closer look at the specific products and services that social entrepreneurial organizations provide, most of them appear to have the characteristics of private goods. Social entrepreneurial organizations may provide education and job training to underprivileged young people, give microcredit to poor women, make solar-powered technological products available to poor rural families, employ homeless, disabled or marginalized people, or cure poor people of blindness. These products and services are rivals in consumption and their access is exclusive. But while these goods and services primarily have the character of private goods, they encompass strong positive externalities for society. Thus the goods and services provided by social entrepreneurs are 'characterised by an individual demand associated with a perceived social utility'.⁸⁸ When analysing the benefits of products and services provided by social entrepreneurial organizations beyond individual benefits, it becomes evident that they can be attributed to society and exhibit the characteristics of public goods: education, employment, reduction of poverty, improved health, a healthier environment, or a rising standard of living. Social entrepreneurs produce private goods with positive externalities occurring 'along the way to the finished product'.⁸⁹

The example of Aravind Eyecare hospitals demonstrates, how eye surgery for both poor and rich Indians as a private good leads to increased visual health among the entire population. Additional benefits are the empowerment and poverty reduction of formerly visually impaired people through their regained ability to work.⁹⁰ Another example is KickStart, an organization that provides low-cost technological farming tools to African entrepreneurs. Its work results in communities with reduced poverty and increased welfare.⁹¹ Certain social entrepreneurs contribute to public goods through the provision of club goods. Access to these goods can be limited to a few people – as they are with private goods – but people are not rivals in the consumption of the goods. Examples include the kindergarten concept of Kinderzentren Kunterbunt in Germany, or the community San Patrignano in Italy, for the rehabilitation of drug abusers.⁹² Social entrepreneurs also contribute to the provision of merit goods such as education, developing mechanisms to stimulate demand for these goods in order to increase public benefit from the individual consumption of them. Science-Lab is an example in this area, providing a concept for the scientific education for young children, thereby stimulating children's interest in natural sciences and having a positive effect on the society's overall education level.⁹³

Considering these examples, it seems that through providing products and services with an individual benefit on one level, social entrepreneurial organizations catalyze the provision of public goods on a second level. Thus they do not produce public goods directly but act as catalyzts for their provision through the production of more private goods and services.

Social capital and social entrepreneurship

For social entrepreneurial organizations, social capital is both a result of their activity and a necessary condition for their operation as catalyzts for the provision of public goods:

Social entrepreneurs set in motion a virtuous circle of social capital accumulation. They use networks of support to gain access to buildings and money, to recruit key staff and create an organisation capable of growing. The dividends of this process are rarely financial. The main dividend is itself social: a stronger community, more able to look after itself, with stronger bonds of trust and cooperation.⁹⁴

Leadbeater's contribution illustrates the various functions that social capital fulfils in the context of social entrepreneurship: social capital is depicted as a result of the social entrepreneurial value creation process,

both as a direct aim of the value creating activity (the 'main dividend is itself social') and as an indirect result of the way social entrepreneurial organizations operate (they 'work by bringing people together'), and it is needed as a prerequisite to operate (they 'use networks of support'). Social entrepreneurial organizations not only catalyze the provision of social capital, they also need it as a condition of their operations; social entrepreneurial organizations rely to a great extent on the existence and use of social capital. This resource-related function of social capital is highlighted in detail in the subsection in Chapter 5 headed 'Social capital'. This subsection focuses on the result-related function of social capital in the context of social entrepreneurship, which is analysed in more detail below.

Creating social capital is 'at the heart' of social entrepreneurship.⁹⁵ Social entrepreneurial organizations contribute to the creation of social capital in various ways. According to Evers and Schulze-Böing, 'the potential for mobilising social capital – represented by the degree of trust, associability and sense of mutual cooperation in a civic and democratic society – is a key feature of social enterprises.'⁹⁶ Leadbeater even assumes that 'in many ways the most important form of capital that a social entrepreneur creates is social capital'.⁹⁷

Social entrepreneurial organizations create social capital both directly through catalyzing its provision as a public good and indirectly through the nature of their operations. Certain social entrepreneurs pursue the objective of creating social capital directly by providing public goods with the characteristics of social capital, such as social (re-)integration. Since social entrepreneurial organizations cross sector boundaries – that is, they establish links between state, private business and voluntary engagement – and address social problems in a holistic way – that is, by including a range of stakeholders in their business model – they establish a significant variety of social relations and indirectly add value to existing social capital. They create social capital as a by-product of their operations. This view is reflected in the contribution of Evers and Schulze-Böing, who determined that social entrepreneurs create social capital both by acting as an intermediary combining resources from various sources and by integrating different objectives around the provision of a public good in a single organization.⁹⁸

Notes

1. Goods and services with the characteristics of public goods are also described by the terms 'collective goods', see Heertje and Wenzel (1997), p. 387; 'social wants', see Musgrave (1959), p. 8; and 'collective consumption goods', see Samuelson (1988), p. 29.

2. Jansen and Priddat (2007), p. 17; Pickhardt (2003), p. 15.
3. Jansen and Priddat (2007), p. 17 *et seq.* As a result of different lines of research, the term public goods developed several different meanings: goods with the characteristics of non-excludability and non-rivalrous consumption; goods provided by public authorities; and goods procured by public authorities but produced by private organizations, Machlup (1984), p. 129 *et seq.* This book uses the first meaning, since the other two meanings represent only consequences of the characteristics of public goods.
4. Cowen (1988), p. 3. Some authors argue for considering only the non-rivalness characteristic for a definition of public goods, Rosen and Windisch (1997), p. 129 *et seq.*, and the literature indicated there.
5. Rosen and Windisch (1997), p. 128 *et seq.*
6. Musgrave (1969), p. 43; Brümmerhoff (1996), p. 77. Rosen and Windisch cite the examples of bread as a private good to demonstrate rivalness in consumption of private goods, and a warning beacon as a public good, which – once in operation – does not require additional resources to guide additional ships, Rosen and Windisch (1997), pp. 111, 127. Formally expressed non-rivalness in consumption means that the marginal costs of consumption by another individual are zero, Heertje and Wenzel (1997), p. 387. The terms ‘consumption externality’ or ‘joint consumption’ are also used to describe this phenomenon, Pickhardt (2003), p. 62 *et seq.*
7. Samuelson (1988), p. 29.
8. Cowen (1988), p. 2.
9. Musgrave (1959), p. 9.
10. Cowen (1988), p. 4.
11. Varian (1999), p. 594.
12. Kaul and Mendoza (2003), p. 85 *et seq.*
13. Rosen and Windisch (1997), p. 129. For details on transaction cost theory, see Coase (1988); Williamson (1993); Wolf (2003), p. 267 *et seq.*
14. Jansen and Priddat (2007), p. 20. Jansen and Priddat refer to the non-excludability characteristic as the legal dimension of public goods, whereas the non-rivalness in consumption characteristic constitutes the economic dimension, Jansen and Priddat (2007), p. 21.
15. Rosen and Windisch (1997), p. 129. Rosen and Windisch also highlight local public goods, which are available only in a certain region or community as important examples of club goods, Rosen and Windisch (1997), p. 129.
16. Jansen and Priddat (2007), p. 17.
17. The same is true for private goods, some of which also entail certain positive or negative externalities, such as the planting of flowers in a private garden or listening to loud music.
18. Brümmerhoff (1996), p. 86.
19. Rosen and Windisch (1997), p. 128.
20. Homann and Blome-Drees (1992), p. 73.
21. Musgrave (1959), p. 9. Musgrave differentiates between two types of public wants (as opposed to private wants): social wants, which relate to the consumption of public goods and their characteristics, and merit wants, which could be provided through the market mechanism. While social wants are provided by the state as a result of technical problems, merit wants are provided to correct the consumers’ individual choice; Musgrave (1959), p. 8 *et seq.*

22. Samuelson (1988), p. 32.
23. Rosen and Windisch (1997), p. 111.
24. Cowen (1988), p. 3. The market mechanism works only for private goods, leading to a Pareto efficient allocation of private goods based on individual consumption decisions, Varian (1999), p. 606.
25. Stähler (2001), p. 190.
26. Kaul and Mendoza (2003), p. 79.
27. Homann and Blome-Drees (1992), p. 74.
28. For example, Buchanan used game theoretical settings to analyse the problem of free-riding, Buchanan (1999), p. 74 *et seq.* For an overview of game theory, see Varian (1999), p. 466 *et seq.* In contrast to other authors, Varian argues that although free-riding is very similar, it is not the same as the prisoner's dilemma, Varian (1999), p. 599.
29. Homann and Suchanek (2000), p. 35.
30. Homann and Suchanek (2000), p. 35 *et seq.*
31. Homann and Suchanek (2000), p. 36.
32. Homann and Suchanek (2000), p. 36.
33. The following example is drawn from Pickhardt (2003), p. 31 *et seq.*
34. Pickhardt (2003), p. 33.
35. The Pareto principle serves as a measure to evaluate the efficiency of markets in allocating factors and goods. An allocation is Pareto optimal if no individual can be made better off without degrading another individual at the same time, Heertje and Wenzel (1997), p. 386.
36. However, eliminating some of the assumptions of this example (for example, allowing for communication between the individuals), it has been demonstrated empirically that people contribute voluntarily to the provision of public goods, which can even result in a Pareto optimal provision of these goods, Pickhardt (2003), p. 35.
37. Stähler (2001), p. 90.
38. Cowen (1988), p. 4.
39. Stähler (2001), p. 90.
40. Musgrave (1959), p. 13.
41. Musgrave (1959), p. 13.
42. Heertje and Wenzel (1997), p. 390. The state takes the opposite action regarding so-called demerit goods (such as alcohol and tobacco), discouraging their consumption by imposing specific taxes on such goods, Heertje and Wenzel (1997), p. 390. Some goods exhibit different characteristics in different segments or contexts: education for adults can be offered on the market, while elementary education suffers from market failure and thus is often provided as a merit good by the state.
43. Rosen and Windisch (1997), p. 130.
44. Homann and Blome-Drees (1992), p. 75.
45. See details in Chapter 2, in the section entitled 'Growing demand and lack of solutions', where the debate is illustrated as part of the drivers for social entrepreneurship.
46. Kaul and Mendoza (2003), p. 96.
47. Martens and Hain (2002), p. 7 and Kaul and Mendoza (2003), p. 95.
48. See United Nations Millennium Goals homepage. Available at: <http://www.un.org/millenniumgoals/index.html>; accessed 15 May 2008.

49. An example for an emerging global normative or governance structure is the 'United Nations Global Compact', a corporate citizenship initiative based on a set of principles regarding human rights, labour and anti-corruption to which businesses around the world commit and align their strategies and operations, See United Nations Global Compact homepage. Available at: <http://www.unglobalcompact.org/index.html>; accessed 15 May 2008.
50. Martens and Hain (2002), p. 7.
51. Schwertfeger (2007), p. 1.
52. Nicholls (2006), p. 1.
53. Kent and Anderson (2002), p. 2.
54. For example, Adler and Kwon (2002), p. 17; Evers (2001), p. 297; Kent and Anderson (2002), p. 2.
55. Adler and Kwon (2002), p. 17.
56. Habisch (1999a), p. 473.
57. Evers (2001), p. 297.
58. Kent and Anderson (2002), p. 2.
59. Haug (1997), p. 9; Putnam and Goss (2001), p. 17.
60. Zimmer and Freise (2006), p. 5.
61. Putnam (2000).
62. Putnam (1995), p. 664 *et seq.*
63. Haug (1997), p. 5; Zimmer and Freise (2006), p. 6.
64. Putnam and Goss (2001), p. 25 *et seq.*
65. Coleman (1990), p. 302.
66. Coleman (1990), pp. 300, 305.
67. Coleman (1990), p. 306.
68. Coleman (1990), p. 310.
69. Coleman (1990), p. 311. The relationship between social capital and public goods is analysed later in this section.
70. Coleman (1990), p. 311.
71. Coleman (1990), p. 311 *et seq.*
72. Coleman (1990), p. 312 *et seq.*
73. See the detailed description in Habisch (1999a), p. 480 *et seq.*
74. Habisch (1999b), p. 97.
75. Habisch (1999b), p. 97 *et seq.*
76. Habisch (1999b), p. 98.
77. Habisch (1999b), p. 98.
78. The internal or resource perspective of social capital is considered as part of the resource need of social entrepreneurial organizations in Chapter 5, in the section headed 'Resource needs and related dependencies'.
79. Haug (1997), p. 5. While the first understanding is a result of Putnam's definition, the latter follows Coleman. For an analysis of the benefits and risks of social capital, see Adler and Kwon (2002), p. 28.
80. Haug (1997), p. 24.
81. Haug (1997), p. 24.
82. For social capital as a public good, also Laville and Nyssens (2001), p. 317.
83. Heertje and Wenzel (1997), p. 387.
84. Giddens (1993), p. 711.
85. Nicholls (2006), p. 14.
86. Smallbone *et al.* (2001), p. 18.

87. Nicholls (2006), p. 15. 'they are taking on issues and populations that governments either can't or won't tackle', Barendsen and Gardner (2004), p. 50.
88. Borzaga and Solari (2001), p. 334.
89. Mosher-Williams (2006), p. 148.
90. See Aravind homepage. Available at: <http://www.aravind.org/>; accessed 21 June 2008.
91. See KickStart homepage, Available at: <http://www.kickstart.org/home/>; accessed 21 June 2008.
92. See Kinderzentren Kunterbunt homepage. Available at: <http://www.kinderzentren.de/>; accessed 21 June 2008; and San Patrignano homepage. Available at: <http://www.sanpatrignano.org/>; accessed 21 June 2008.
93. Science-Lab homepage. Available at: <http://www.science-lab.de/>; accessed 21 June 2008.
94. Leadbeater (1997), p. 25.
95. Kent and Anderson (2002), p. 1.
96. Evers and Schulze-Böing (2001), p. 123.
97. Leadbeater (1997), p. 24.
98. Evers and Schulze-Böing (2001), p. 123.

5

The Resource Dependency of Organizations

Having become acquainted with the economic setting in which social entrepreneurial organizations operate, and having identified their role as catalyzers in public goods provision, This chapter aims to provide a theoretical background to the organizational behaviour; in other words, the strategies of social entrepreneurial organizations in reaction to the challenges faced when catalyzing the provision of public goods. The resource dependency theory gives indications regarding the behaviour of organizations facing resource restrictions. This represents a useful perspective for organizations whose objective it is to catalyze public good provision: they have to find a way to attract resources to the provision of goods and services where markets normally fail.

In this chapter, first, the foundations of resource dependency theory are introduced by detailing the key elements of the concept. The issue of sustainability in the social entrepreneurial context, resource needs and resulting dependencies of social entrepreneurial, as well as the types of incentives social entrepreneurs use to reduce dependencies are then analysed.

Resource dependency theory

The resource dependency theory marked significant progress within the organization/environment discussion in the 1970s by replacing the structural determinism of contingency theory with an interactive perspective, integrating organizational actors with the system and institutional environment.¹ The theory was developed based on a variety of different hypotheses. The way the resource dependency theory uses the insights from existing theories becomes obvious through detailing its elements and core statements. Dependency, uncertainty and

power are the vital concepts of resource dependency theory. Finally, the concept of incentives inherent in resource dependency theory is detailed.

Development and theoretical relations

The resource dependency model was developed initially by Aldrich and Pfeffer, and Pfeffer and Salancik conceptualized the resource dependency theory and elaborated the approach in their book, *The External Control of Organizations: A Resource Dependency Perspective*.² Their considerations are based on the general system-theoretical thought that organizations, departments or individual actors are not capable themselves of providing all the resources needed for their survival and are thus dependent on external resources and a continuous transaction process with other actors in their environment.³

One important driver for the development of the resource dependency theory was that during the 1950s and 1960s organizational research was dominated by an individual-rational perspective, while the institutional and political character of organizations and the influence of the environment were neglected. Thus, resource dependency theory aimed at moving the environment into focus when analysing and explaining organizations and their behaviour.⁴

Rather than building on its own theoretical assumptions, resource dependency theory integrates a number of general ideas that describe important organizational phenomena.⁵ Fundamentally, resource dependency theory is based on the open systems theory. It shares the assumption that organizations are engaged in a continuous exchange process with their environments: they depend to varying degrees on inputs from their environment, which they transform internally before delivering goods or services as outputs.⁶ The integration of uncertainty reduction as a central motive of organization theory was influenced by the work of Cyert and March (1963).⁷ The dependency-exchange approach – Hasenfeld (1972) and Jacobs (1974); and aspects of the political-economy model of organizations – Wamsley and Zald (1973), and Benson (1975) also influenced the development of resource dependency theory.⁸ The concept of power and dependency in bilateral relationships found access to resource dependency theory through the work of Emerson (1962) and Blau (1964).⁹ Thompson's theory of interorganizational dependency (1967) inspired the development of strategies to reduce dependency for organizations.¹⁰ The theory of strategic choice, developed by Chandler (1962) and Child (1972), provided the assumption of alternatives in strategic decisions.¹¹

Core statements

Scientific interest in the resource dependency theory revolves around the question of how organizations ensure their survival in complex and uncertain environments, and thus seek to analyse and explain the design and behaviour of organizations.¹² The resource dependency theory defines *survival of the system* as the objective of the organization and postulates that 'To survive, organizations require resources.'¹³

The resource dependency theory adopts an external perspective on organizations. According to Pfeffer and Salancik, 'to understand the behavior of an organization you must understand the context of that behavior – that is, the ecology of the organization ... Organizations are inescapably bound up with the conditions of their environment.'¹⁴ According to resource dependency theory, the environment provides the resources needed by organizations.¹⁵ The environment consists of identifiable institutions as sources of resources (companies, authorities, labour unions and so on); and as such, the system–environment relationship becomes an interorganizational one, with resources coming from other institutions.¹⁶ In order to survive, the organization needs to transact with its environment, acquiring and maintaining resources.¹⁷ This transaction becomes necessary, since 'no organization is completely self-contained. Organizations are embedded in an environment comprised of other organizations for the many resources they themselves require.'¹⁸

The importance of the environment as a supplier of resources for the organization as postulated by the resource dependency theory strongly evokes connections to entrepreneurship theory. Research on entrepreneurship and the formation of organizations has identified the importance of networks in the entrepreneurial process and thus corresponds to the postulations of resource dependency theory. In accordance with entrepreneurship theory and Stevenson's understanding of entrepreneurship as 'the pursuit of opportunity without regard to the resources currently controlled',¹⁹ young organizations in particular seem to rely on very limited owned resources, focusing instead on acquiring external resources.²⁰

In this respect, networks are of great importance. Existing relationships with family members, relatives and friends usually form the basis of the entrepreneurial acquisition of external resources.²¹ The longer an organization exists, the less important these social networks become compared with economic networks as well as networks built and maintained for organization-related reasons.²² Through networks, organizations gain access to capital, know-how, material resources, contacts, and other

additional resources they would not otherwise be able to retrieve.²³ Entrepreneurship literature differentiates between different network types and functions; for example, depending on the life cycle situation of the organization and the related resource need: examples include support networks, innovation networks and organization networks.²⁴ The importance of networks, and thus the environment, builds a strong connection between entrepreneurship theory and resource dependency theory.²⁵

The definition of resource in resource dependency theory is very broad:

Resources can be almost anything that is perceived as valuable – from building contracts to press exposure to control over systems and analysis.²⁶

Consequently, raw materials, outside capital, personnel, technological innovations, sales revenues, and research and development are all called resources according to resource dependency theory. Even legitimization by stakeholders, those individuals or groups of individuals who can influence the aims of an organization or supply the necessary resources, can be considered a resource.²⁷

Since no organization is able to generate all resources or perform all activities independently that are needed to deliver a certain product or service, organizations always depend to a certain degree on their environment regarding resources.²⁸

The central thesis of the resource dependency theory postulates that the dependency on critically important resources in the environment influences the behaviour of organizations and, as a consequence, organizations' decisions and activities can be explained based on the respective dependency situation:²⁹

'Who or what determines what organizations do? The resource dependency model argues that much of what organizations do is determined by outsiders – by those parties who control the flow of critical resources upon which the organization depends.'³⁰ Consequently, Hermesch refers to the design and behaviour of the focal organization as the dependent variable of resource dependency theory, and to dependency and uncertainty resulting from the environmental conditions of the focal organization as the independent variables.³¹

Dependency, uncertainty and power

Pfeffer and Salancik define dependency as 'the product of the importance of a given input or output to the organization and the extent

to which it is controlled by a relatively few organizations'.³² Their definition includes the two main factors to determine dependency of an organization: the resource importance and the concentration of resource control. As a third factor, Pfeffer and Salancik mention the factor discretion over resource allocation and use.

Resource importance is constituted by two dimensions: the 'relative magnitude of exchange' and the 'criticality of the input or output to the organization'.³³ The first dimension is determined by the number of different inputs required or the number of different outputs produced by the organization. The smaller the number, the higher the dependency on input providers or customers, and thus the relative magnitude of exchange.³⁴ Critical resources are those resources whose absence would endanger the operational capability of the organization.³⁵ Since environmental conditions influence the criticality of a resource, this status can change over time for the focal organization.³⁶ *Concentration of resource control* as the second factor of resource dependency increases when an organization relies only on one or a limited number of resource suppliers, and additional resource suppliers are not available or accessible.³⁷ The capability to decide or the level of control on the allocation or use of a certain resource marks the third factor of resource dependency: the *discretion over resource allocation and use*. Four bases for resource control can be distinguished: possession, access, actual use, and the ability for rule-making or regulation of resource allocation and use.³⁸ However, external organizations' or actors' discretion over resource allocation and use increases the focal organization's dependency only if the second factor, concentration of resource control, is high.³⁹

In sum, a resource has to be both important to the organization and controlled by few other organizations to cause the dependency of the focal organization on these organizations. Figure 5.1 gives an overview of the determinants of resource dependency.

The challenge of dependency on the environment for resources is complicated by the fact that the environment itself and conditions for resource provision are changing constantly and are thus uncertain.⁴¹ According to Pfeffer and Salancik, 'Uncertainty refers to the degree to which future states of the world cannot be anticipated and accurately predicted.'⁴²

The level of uncertainty is determined by the external environment of the focal organization, differentiated into three interdependent levels.⁴³ The first level is described by the *structural characteristics of the environment*, which are the degree of concentration of resource control, the degree of resource scarcity and the degree of interconnectedness between organizations.⁴⁴ The specification of these characteristics at

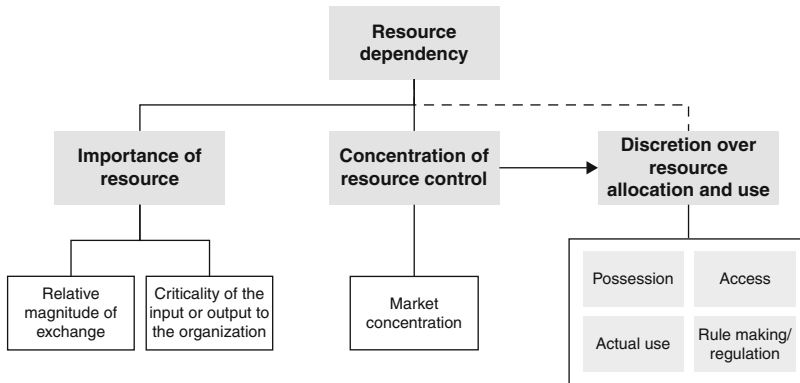


Figure 5.1 Determinants of resource dependency⁴⁰

the first level of the environment determines the *relations between actors* at the second level, conflicts and mutual dependency: the higher the degree of the characteristics, the stronger are conflict and mutual dependency at the second level. The result of both conflict and mutual dependency is represented by the *uncertainty of the focal organization* at the third level of the environment. Uncertainty is generated by the subjective perception and interpretation of the environment by the focal organization, and thus might be the result of misperceptions and misinterpretations: ‘Organizations may misread interdependency, misinterpret demand, remain committed to past practices, or fail to see the various conflicts in demands.’⁴⁵ The concept of uncertainty is summarized in Figure 5.2.

The concept of dependency on external resources, which are acquired through an exchange relationship, is closely linked to the concept of power.⁴⁷ According to Emerson, whose concept of power-dependency relations found its way into the resource dependency theory, ‘power is a property of the social relation; it is not an attribute of the actor’.⁴⁸ As soon as the exchange of inputs and outputs between organizations A and B becomes not equally important for both of them, an asymmetry occurs in the exchange relationship between the two organizations. This asymmetric relationship leads to power advantages for one organization over the other.⁴⁹ Hence the difference in dependency between the actors defines the level of power of one actor over the other.⁵⁰ The power of organization A over organization B is defined by the dependency situation of organization B: What importance does the resource have for B? How urgently is it needed? What does the dependency

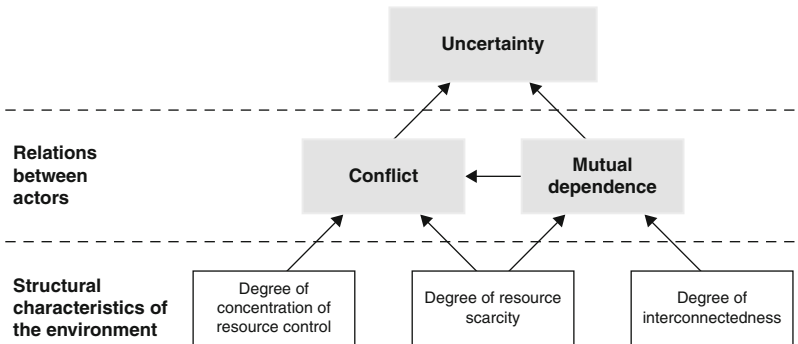


Figure 5.2 Determinants of uncertainty⁴⁶

situation of organization A look like? Are there any sourcing alternatives?⁵¹ Consequently, the higher the dependency of B on A, the more power A has over B.⁵²

Incentives

It has been noted already that the resource dependency theory considers the survival of the organization as its aim. In order to survive, the organization seeks to reduce the uncertainty and dependency regarding the inflow of vital resources not available inside the organization but controlled externally.⁵³ If the dependency on a resource is high and accompanied by power asymmetry, the organization is strongly motivated to stabilize the exchange relationship.⁵⁴ Consequently, organizations make strategic decisions to react by adapting to or dealing actively with their environmental conditions.⁵⁵ Organizational leaders 'manage their environments as well as their organizations, and the former activity may be as important, or even more important, than the latter'.⁵⁶

This understanding demonstrates the complexity of the organization–environment relationship. Instead of assuming a simple determination of the organization by its environment (as in contingency theory), resource dependency theory adopts an interactive perspective and concedes that organizations are capable of influencing their environment. Some of the theories reflected in the resource dependency theory indicate how organizations can stabilize their exchange relationships.

As was indicated in the section entitled 'Development and theoretical relations', resource dependency theory reflects the insights of exchange theory as established by Emerson and Blau: organizations procure resources from their environment in exchange for benefits

granted to the resource provider; customers receive products or services from the organizations in exchange for payments and so on. As such, the paradigm of the market with its principle of *quid pro quo* is central to resource dependency theory.⁵⁷ These elements of exchange theory can also be linked to the inducement contribution theory developed by March and Simon which is also inherent in resource dependency theory.⁵⁸ The inducement contribution theory relates originally to work motivation. According to the theory, an organization must establish and ensure a balance between inducement (compensation, reputation) and contribution (job performance) in order to survive. The requirement for a balance between inducements and contributions can be extended to all individuals contributing to the organization and thus forming a co-operative system. An assumption of the theory is that individuals will continue to contribute to the organization as long as they perceive the inducements to be higher than their contributions.⁵⁹

In resource dependency literature, the concept of incentives is used to explain the so-called internal perspective of the resource dependency theory, referring to the relationship between employees, departments and the whole organization.⁶⁰ This book, however, takes a different approach and extends the inducement contribution theory with its concept of incentives to all stakeholders of the organization.⁶¹ The theory is understood as the basis for the organization's strategic decisions and hence crucial for its survival.

The ability of an organization to survive is characterized by its effectiveness. Pfeffer and Salancik postulate: 'Our position is that organizations survive to the extent that they are effective. Their effectiveness derives from the management of demands, particularly the demands of interest groups upon which the organizations depend for resources and support.'⁶² Hence they operationalize the objective of organizational survival by the criterion's effectiveness, which serves as an external measure of success evaluation regarding the creation of acceptable results and activities from the perspective of stakeholders.⁶³ 'The effectiveness of an organization is its ability to create acceptable outcomes and actions ... Organizational effectiveness is an *external* standard of how well an organization is meeting the demands of the various groups and organizations that are concerned with its activities.'⁶⁴

These remarks on effectiveness reveal the importance of managing the demands of stakeholders for an organization's survival. Satisfying these demands means providing incentives to stakeholders which they perceive subjectively to be higher than their contribution to the organization. Consequently, Pfeffer and Salancik view organizations as coalitions

'maintained by providing inducements (satisfaction) to participants who support the organization'.⁶⁵

The contributions made by participants can again be an incentive for other stakeholders. By referring to Simon and March, Pfeffer and Salancik assume:

The organization was the framework, the setting, in which these exchanges of inducements and contributions occurred. Participants would enter and leave the organization depending upon both their assessment of the relative value to be gained by continuing the exchange and the organization's assessment – the assessment of others in the coalition – of the same issue. An organization according to this perspective, is viable as long as its available inducements are sufficient to elicit the necessary contributions – in other words, to maintain a viable coalition of support.⁶⁶

As a result, the creation of incentives serves as the basis for all strategies aiming to reduce dependency and uncertainty, since only subjectively attractive incentives secure the stakeholders' contributions and participation.

Social entrepreneurial organizations as resource dependent organizations

The aim of this chapter is to apply the insights gained from resource dependency theory to the behaviour of social entrepreneurial organizations. Applying resource dependency theory to social entrepreneurial organizations is particularly fruitful when looking at resource constraints faced by these organizations as catalyzts for the provision of public goods. As a first step, the aim of organizations as postulated by the resource dependency theory – the survival of the organization – is discussed in connection with the concept of sustainability for social entrepreneurial organizations. Subsequently, the resource needs regarding the different types of capital of social entrepreneurial organizations are highlighted, as well as the related dependencies emerging from the resource need. Accordingly, the concept of incentives is applied to social entrepreneurial organizations as a means of stabilizing their exchange relationships. In combination with the insights gained from public goods theory, these analyses provide the basis for the explorative empirical research on social entrepreneurial business models detailed in Part IV.

Resource dependency and sustainability

The resource dependency theory postulates survival as the aim of organizations. When applying the resource dependency theory to social entrepreneurship, it first has to be clarified whether this aim is applicable to social entrepreneurial organizations.

When discussing the survival or longer-term existence of social entrepreneurial organizations, two terms are often mentioned, both in the literature and in practice: sustainability and self-sufficiency. Consequently, a deeper analysis of these two terms serves as an approach to specify the aim of survival for social entrepreneurship.

In its basic meaning, *sustainability* describes the capability of a given status or process to be maintained or prolonged indefinitely at a certain level.⁶⁷ The term has developed from its original meaning to become a multifaceted concept applied in areas as diverse as politics, ecology, economy, organizations, individual lifestyle and so on.⁶⁸ The concept of sustainability can be differentiated into three dimensions: economic, ecological, and social (three pillars of sustainability).⁶⁹ Economic sustainability is defined as the 'maintenance of capital or keeping capital intact',⁷⁰ an image that can also be transferred to the two other dimensions of sustainability.

Self-sufficiency refers to a status of autonomy – meaning the ability 'to maintain oneself or itself without outside aid' or 'providing for one's own needs'.⁷¹ The two concepts of sustainability and self-sufficiency share the aim of existence, with the first term referring to indefinite existence, and the second to existence without the help of others. Both conditions are often proclaimed to be desirable for social entrepreneurial organizations. But their meaning in the social entrepreneurship context needs to be clarified.

Screening the existing literature on social entrepreneurship reveals the current understanding of sustainability in the social entrepreneurship context. Many authors seem to link the long-term existence of the organization to sustainability. Weerawardena and Mort, drawing insights from case study interviews, identify sustainability as 'the key to the long-term survival and growth' of social entrepreneurial organizations.⁷² A social entrepreneur, Fisher from KickStart, uses the term sustainability to describe a project successful in the long run versus projects only successful on a short-term basis.⁷³ Watson understands the sustainable solutions created by social entrepreneurs as long-term solutions, and mentions the financial bottom line in relation to sustainability.⁷⁴ The relationship between sustainability and financial means is also mentioned by other authors. Boschee and McClurg argue that

'only earned income will ever allow a nonprofit to become sustainable or self-sufficient'.⁷⁵

Dees and Anderson, in contrast, observe that the for-profit structure of a social entrepreneurial organization does not guarantee its financial sustainability.⁷⁶ Seelos and Mair assume that social entrepreneurial organizations can achieve sustainability as well as self-sufficiency by means of economic value generation.⁷⁷ Schöning mentions securing financing as a means for social entrepreneurs to sustain their operations.⁷⁸ According to the social entrepreneur Fisher, sustainability is the direct opposite of dependency, which he believes is created through charity.⁷⁹

Some authors on social entrepreneurship integrate the two concepts sustainability and self-sufficiency into 'self-sustainability', referring to the long-term autonomous existence of the social entrepreneurial organization: Schöning assumes that 'One characteristic of a social entrepreneur is that they strive to become as self-sustaining as possible.'⁸⁰ Mosher-Williams defines the status of self-sustainability of social entrepreneurial organizations as 'independent of all philanthropic or government support'.⁸¹

The use of the sustainability concept in the existing literature reveals two associated areas of meaning of the term in the context of social entrepreneurship: the long-term existence of the organization and the use of economic or, more specifically, financial resources to create sustainability. Both associated areas of meaning are rather vague and disputable.

The first meaning evolves around the capability of the organization to exist long-term and reflects the original meaning of sustainability. This meaning can also be derived from resource dependency theory, defining the survival of the organization as the aim of its behaviour. However, it remains questionable as to whether the organization's long-term existence is and should be an objective for a social entrepreneurial solution to a social problem, or if the real objective of such an organization is rather to solve the social problem and disappear. These two seemingly disparate aims might be consolidated for social entrepreneurial organizations: they want to exist as long as the solution to a social problem requires the organizational infrastructure. As soon as the problem is solved or shifted to other, more efficient, institutional arrangements, the organization itself can cease to exist: 'On the funding side, social entrepreneurs look for innovative ways to assure that their ventures will have access to resources as long as they are creating social value.'⁸² The described process, however, usually takes place within an extended time frame. Consequently, the concept of sustainability can be operationalized for social entrepreneurship as the ability to maintain the organization as

long as it is needed to solve the social problem it addresses. On a different level, the strategies employed by social entrepreneurial organizations can also be characterized as sustainable from two perspectives. From the process perspective, a strategy with the objective of solving a social problem is sustainable when it can be executed as long as the social problem exists; that is, until the social problem is solved. This perspective coincides with the sustainability of the organization. From the outcome perspective, a social entrepreneurial strategy is sustainable when it improves the situation of its target group permanently and holistically rather than only temporarily and partially.

The use of economic or specifically financial resources to create sustainability is the second associated meaning resulting from screening social entrepreneurship literature. This raises the question of how sustainability can be ensured. The ability to create sustainability by economic or financial means is doubted, as the following extract referring to earned income as a means of ensuring sustainability illustrates: ‘the term earned income itself is value laden, seemingly implying that the donations, grants, and government support that social sector leaders work so hard to attract and use for important social services are not “earned” ... But it is not clear that earned income is intrinsically more reliable than all other sources’.⁸³

It is questionable whether sustainability – that is, maintaining the organization until the problem is solved – can be achieved through the availability of economic or financial resources alone. Naturally, financial resources are an important factor for maintaining an organization or strategy, since they can be transformed quite simply into most other types of resource. The *acquisition* of financial resources is the challenge and is thus the aspect in question. If the social entrepreneurial organization is able to establish a market mechanism – that is, it gets paid for its goods and services as a result of an existing demand – it can count on a quite stable flow of financial resources. Otherwise it has to raise funds from private or institutional donors, private business or the state, which leads to certain dependencies. The same applies to in-kind donations and volunteer staff. Either way, a social entrepreneurial organization is confronted by various dependencies.

The resource dependency theory also provides clarification of the concept of self-sufficiency of social entrepreneurial organizations. According to the theory, no organization can be completely self-sufficient because it will always depend on outside resources to a certain degree. An organization can only aim to reduce its dependencies and increase its self-sufficiency.

Having specified the concept of survival or sustainability for social entrepreneurial organizations, it becomes obvious that survival and sustainability are of high importance for social entrepreneurial organizations and the strategies they apply. As a result, the resource dependency theory is adequate for analysing social entrepreneurial strategies to catalyze public goods.

Resource needs and related dependencies

As catalyzers for public goods provision, social entrepreneurial organizations attract a large variety of different resources which differ in type, access and dependencies from those available to mainstream business entrepreneurs. If applicable, the non-profit status of social entrepreneurial organizations allows them to access even more sources of critical resources, but it also brings with it various dependencies: 'Employing novel types of resources and combining them in new ways, SE is a rich field for the discovery of inspired models of value creation.'⁸⁴ However, the social objectives also pose challenges for strategic decisions and measurement regarding resources: 'It is extremely hard to make strategic decisions about resource allocation or practical cost/quality tradeoffs when the social impact of these decisions is nearly impossible to measure in an efficient, timely and reliable fashion.'⁸⁵

It is important to note that social entrepreneurs need to attract many more types of resources than merely financial support.⁸⁶ Consequently, this section divides the different resources needed by social entrepreneurs to catalyze public good provision into three types of capital: human capital; economic capital, including financial and physical capital; and social capital.

Human capital

For a social entrepreneurial organization, the people who run the organization and devote their time, energy, and spirit to it represent the most important resource. Through the networks to which they belong, people are the enabling factors for accessing or acquiring economic and social capital. As such, the people working for a social entrepreneurial organization do not only provide labour but also supply a variety of other resources: 'People are most important since they bring with them a wide array of intangible resources, such as skills, knowledge, contacts, credentials, passions, and reputations.'⁸⁷

Naturally, the first human resource available to the social entrepreneurial organization is the social entrepreneur. The social entrepreneur, as founder of the organization, is the driving force behind the

implementation of social value generation and decisive for its initial success. Above all, the social entrepreneur brings with him the vision of the social entrepreneurial organization's mission and the tireless energy and motivation to turn it into practice. Usually the social entrepreneur has already created a large network of contacts relevant to the social entrepreneurial organization, particularly regarding the acquisition of external resources that are crucial to the start-up and growth of the organization.

Depending on the resource needs of the social entrepreneurial organization the social entrepreneur recruits additional human resources. There are several different options for the social entrepreneurial organization to employ staff. It can hire either volunteers or paid employees, with salaries ranging between below-market and competitive market remuneration, as well as a workforce made up of a mix of these variations.⁸⁸ Along with these general employment options, additional investments into human capital have to be taken into account, such as training and staff management.⁸⁹ Each option of employing staff brings specific benefits as well as challenges.

The advantage of employing volunteers is obvious: the social entrepreneur does not need to pay them a salary. However, it can be a challenge to attract and recruit people with the relevant skills and educational levels for the specific purposes of the social entrepreneurial organization at the right time.⁹⁰ Volunteers are mainly motivated by the satisfaction derived from contributing to the organization's social mission and usually not bound by a contract. Thus it can be inferred that they have to be managed differently compared to a permanently employed paid workforce.

Financial compensation below or at market level provides an additional incentive to work for a social entrepreneurial organization. A for-profit structure often allows a social entrepreneurial organization to pay competitive salaries and improve its reputation, thereby attracting skilled personnel.⁹¹

Guclu *et al.* present the example of a social entrepreneurial organization that explicitly uses paid workforce to achieve its mission: 'Mentors typically volunteer their time, but Friends of the Children has challenged that model, arguing that the use of paid mentors for at-risk kids leads to better social outcomes. Social entrepreneurs must keep operational effectiveness in mind while developing a viable resource strategy.'⁹² The challenge of the paid workforce option is to select applicants who are not only motivated by a salary but also have a passion for the social mission. Regarding this aspect, 'below market compensation

also helps screen out candidates who are not fully committed to the social mission'.⁹³

In a social entrepreneurial organization, below market compensation can still be an incentive for human resources, since it is an addition to the satisfaction they draw from the job itself.⁹⁴

'market wages may not be required because of the personal satisfaction that people often get from working for a cause that is deeply meaningful to them'.⁹⁵ Experts observe a shortage of highly qualified human resources for social entrepreneurial organizations and the lack of a job market for civil society sector jobs.⁹⁶

Human capital brings about a variety of dependencies for social entrepreneurial organizations. One of the most typical challenges that arises is the dependency on the founder or social entrepreneur of the organization.⁹⁷ Usually, the network the social entrepreneurial organization relies on for resource acquisition centres on the social entrepreneur himself and is built around his contacts. Naturally, the social entrepreneurial organization incurs dependencies on its workforce, be it volunteers or paid staff. The more specific the human capital, the greater the number of other resources to which it gives unique access (for example, networks), the more important are the human resources and the higher the dependencies on each employee for the social entrepreneurial organization.

Economic capital

The economic capital that social entrepreneurs employ in their organizations comprises two different types: financial and physical.

Social entrepreneurial organizations need *financial capital* to set up and grow, as well as simply to run their operations. Generally, financial capital for social entrepreneurial organizations is seen in a large variety of different forms. The forms available to a specific social entrepreneurial organization depend on its legal structure as well as its current situation and needs.⁹⁸ Figure 5.3 provides an overview of selected types of financial capital available to social entrepreneurs.

The financial capital of organizations can typically be differentiated into internal financing and external financing, with internal financing coming from capital generated through the organization's operations, and external financing through externally provided capital.¹⁰⁰ This basic structure is also used to classify the sources of financial capital for social entrepreneurial organizations. Regarding internal financing, some types of social entrepreneurial operations allow for the generation of *earned income* – for example, through the sale of goods or services, membership fees, transaction fees, commissions, advertising revenue, subscriber

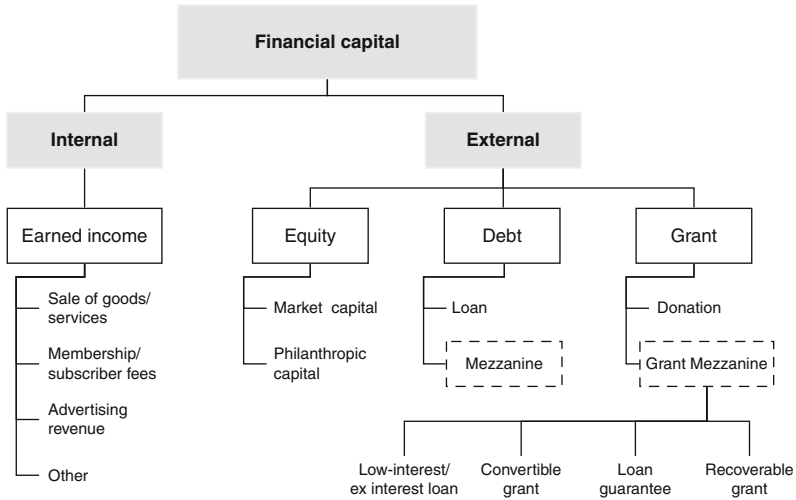


Figure 5.3 Selected forms of financial capital⁹⁹

fees, sponsoring income and so on. This income can arise on a regular or a one-off basis. External financing can be further divided into equity financing, debt financing and grant financing.¹⁰¹ Regarding *equity financing*, social entrepreneurial organizations might have access to market-priced venture capital and private capital as well as to philanthropic venture capital.¹⁰² Venture philanthropy funds transfer the venture capital approach from the private sector to the funding of social entrepreneurial organizations, with the aim of maximizing social rather than financial returns.¹⁰³ Some social entrepreneurial organizations might have access to *debt financing*, with its market-based forms of loans and mezzanine financing. However, market-priced financial capital is usually only accessible for for-profit social entrepreneurial organizations:

For-profit social ventures, if sufficiently profitable, can tap into private capital markets for investment funds. Some of them will also draw on private revenue sources to fund at least a portion of their activities. By occupying niches and serving markets for which the profit potential is high, they can free public and philanthropic resources to focus on those niches, segments, and programs that need subsidies.¹⁰⁴

It is most likely that social entrepreneurial organizations still rely on *grant financing* to varying degrees: ‘Most social entrepreneurs depend

on the financial assistance of individuals and on private and government foundations to fulfil the needs of their organizations.¹⁰⁵ Given an adequate legal structure (that is, non-profit), the social entrepreneurial organization can receive donations from either private individuals, for-profit (for example, companies) or non-profit organizations (for example, foundations). Similar to donations, the state can support social entrepreneurial organizations with subsidies. Donations do not require any reward or repayment, but often cause hidden costs through extensive applications and reports.¹⁰⁶ In addition to pure donations, a number of grant mezzanine forms exist: low-interest/ex interest loans, convertible grants (loans that are converted into grants after reaching defined objectives), loan guarantees, or recoverable grants (loans that are converted into grants if not reaching defined objectives).¹⁰⁷

In addition to financial capital, social entrepreneurial organizations need *physical capital*: 'Things [that] allow people to put their intangible resources to effective use and can include everything from office space to patents.'¹⁰⁸ Generally, social entrepreneurial organizations are more 'human-focused', as most projects do not have a large need for infrastructure resources.¹⁰⁹ Regarding the procurement of physical capital, social entrepreneurs can also use a variety of forms, which are illustrated in Figure 5.4.

Of course, social entrepreneurs can buy the physical capital they need on the market at market prices. They can also negotiate for reductions or special offers to buy at below market rates as a non-profit organization. An alternative to buying products, especially when talking about capital-intensive goods, is to rent or lease them: 'When risk is high, renting or leasing is typically the optimal option.'¹¹¹ Apart from buying, renting or leasing, social entrepreneurial organizations can attract in-kind donations to support their operations.

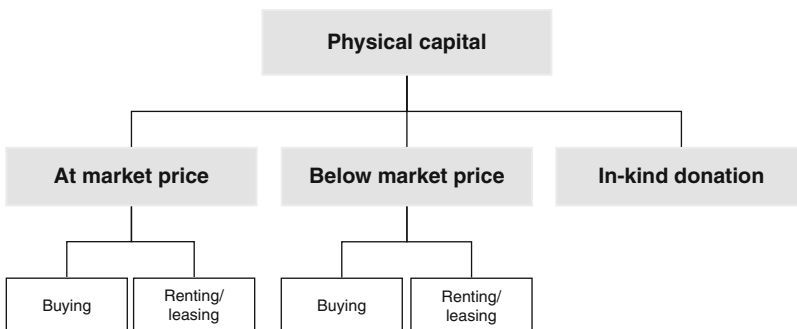


Figure 5.4 Main forms of physical capital¹¹⁰

While the variety of economic capital sources is an advantage for social entrepreneurs, some of them can lead to a number of challenges.

Regarding physical capital, social entrepreneurs also have to take into account that benefiting from prices below the market or accepting in-kind donations can mean having to accept trade-offs regarding quality or other features of the resources provided.¹¹² And with regard to earned income as a source of financial capital, social entrepreneurs must be careful not to become distracted from their social mission when simultaneously pursuing financial objectives. Most importantly, the social mission has to dominate financial objectives. According to Dees:

Earned income is only a means to a social end, and it is not always the best means. It can even be detrimental – taking valuable talent and energy away from activities more central to delivering on the organization's social mission. Though it is very popular right now, it is just one funding strategy among many and must be assessed on a case-by-case basis.¹¹³

On the side of financial capital, social entrepreneurs also have to deal with the challenges created by the current structure of donors and philanthropic institutions. While social entrepreneurs require substantial financial funding during a longer time frame to set-up and grow their organizations, the operations of governments, foundations and other providers of philanthropic capital are still largely tailored towards project-based funding that is limited in duration.¹¹⁴ In addition to this structural precondition, providers of philanthropic capital often consider the creation of an institution as an undesirable 'overhead' cost to a social initiative.¹¹⁵ Instead of devoting time and energy to improving the organization's effectiveness and efficiency, the social entrepreneur is often caught up with fundraising. As Drayton, founder of Ashoka and social entrepreneur himself, said:

The citizen sector's most valuable resource, its cutting edge entrepreneurs, spend over 70 per cent of their time and energy chasing small fractions of what they need. Their institutions suffer both from the loss of so much of their entrepreneur's energy and spirit and from these financial institutions' resistance to investing in institutions.¹¹⁶

Donors also prefer to support infrastructure (such as buildings) rather than salaries for highly-qualified employees, which is particularly challenging for social entrepreneurs who need to attract talent for their

people-focused operations.¹¹⁷ It can also be observed that philanthropic capital is given more to innovations than invested into existing organizations needing to scale up. Successful social entrepreneurial organizations that want to expand usually set up additional branches, which require the establishment of an additional organizational layer (such as regional offices) to ensure efficient operation. However, social entrepreneurs are often confronted with difficulties in finding funding for these operations, since donors prefer to support 'direct' operations.¹¹⁸ Often, social entrepreneurial organizations are funded by local philanthropists, who do not agree to support operations in another community. As a result, an expanding social entrepreneurial organization is forced to engage in local fundraising activities in each new branch, which requires local contacts and is time-consuming:¹¹⁹ 'There's nobody who gives money for organizational structure. So, in the end, the incentive in [the] market at the moment is that you have 20 organizations doing the same thing in different regions – although it would be more efficient to have one organization with 20 branches doing the same thing.'¹²⁰

In addition, social entrepreneurs often tackle social problems holistically across the different categories of needs and disciplines, while providers of capital are structured to fund projects in specific sectors only:

In the citizen sector ... institutional financial services remain overwhelmingly in the hands of stove-piped governments and foundations ... There is a serious misalignment between the needs of social entrepreneurs on one hand and the structurally-rooted behavior patterns of both foundations and government grant-makers on the other.¹²¹

Social entrepreneurs also have to cope with increasing competition for donor money in the non-profit sector.¹²² Access to economic capital leads to several dependencies for social entrepreneurs. Generally, they have to be aware of distractions from their original social objective by the different objectives of donors or capital providers: 'Social entrepreneurs must be vigilant about selecting cash income streams that do not pull the venture away from its core mission.'¹²³

The danger of distraction from the original social mission can occur for all kinds of philanthropic capital or grant financing, in-kind donations or physical capital offered below market price. Social entrepreneurs automatically enter into a certain level of dependency when accepting resources from any of these sources. Hence they have to check whether the philanthropists and donors link any conditions to the provision of

these resources that might not be aligned with the social mission of the social entrepreneurial organization: 'Third-party payers have incentives that are not aligned with the firm's social mission or the interests of the firm's intended beneficiaries.'¹²⁴ Thus social entrepreneurs have to consider whether there are 'too many strings attached'.¹²⁵

Social capital

In addition to the two forms of capital detailed above, social entrepreneurs rely on social capital as a resource. The concept of social capital in general and as a resource for whole societies and communities was introduced in Chapter 4, in the subsection entitled 'Social capital as a specific public good'. However, it can also be employed as a resource for organizations or individuals; that is, the internal dimension of social capital.

The concept of social capital from a resource perspective covers all intangible resources important to the social entrepreneurial organization beyond economic and human capital.¹²⁶ It encompasses 'non-market and non-state resources';¹²⁷ that is, intangible resources that are neither provided through a market mechanism nor by the state to the social entrepreneurial organization, such as 'readiness for civic commitment and partnership building',¹²⁸ informal contacts to local political and business players, and a foundation of trust.¹²⁹

Pierre Bourdieu and Henk Flap are two important authors on social capital who define the term as a resource for individuals and organizations. Bourdieu defines social capital as the collectivity of current and potential resources related to the access to a network of more or less institutionalized relations of mutual knowing or acknowledging – in short, resources based on the affiliation to a group.¹³⁰

Flap emphasizes the purpose of social capital as a resource: 'Someone's social relations can be interpreted as his social capital since they are instrumental for his goal attainment.'¹³¹ According to Flap, the more social capital a person or organization accumulates, the better their objectives can be attained. Thus individuals or organizations will invest in social capital in expectation of the potential returns from social relations.¹³²

The social capital that social entrepreneurial organizations use as resources originates from the organization's connections to its environment: 'Social capital's *sources* lie – as do other resources' – in the social structure within which the actor is located ... social capital is the resource available to actors as a function of their location in the structure of their social relations.'¹³³

Granovetter highlights the importance of local 'embeddedness' of organizations: according to his popular contribution to the *American Journal of Sociology*, 'Economic action and social structure: the problem of embeddedness', the focal organization's behaviour is highly influenced by its local environment, to which it is linked by various social relations.¹³⁴ The image of local embeddedness can also be transferred to social entrepreneurial organizations:¹³⁵ their local inter-connectedness with local public authorities, private companies, the community, their direct and indirect customers and other stakeholders constitutes a major prerequisite and thus an important resource for their success in creating social value. To create social capital as a public good, they themselves need some level of social capital as a resource:

The potential for the creation and maintenance of social enterprises depends very much on the local environment and the extent to which social capital can be found there – represented by the attitudes of the citizens and groups as well as of civic organisations, the nature of the business sector and the political and administrative organisations.¹³⁶

Specifically, social entrepreneurial organizations need social capital in order to reduce transaction costs with stakeholders, particularly those resulting from a low level of trust, and to reduce production costs by gaining access to volunteers, donations and partnerships.¹³⁷

Similar to the other resource types, social capital needs investment in order to become useful for the social entrepreneurial organization. Social entrepreneurial organizations have to invest in their social relations by transacting continuously with others. This consumes time and thus, directly or indirectly, financial resources.¹³⁸ As a result, similar transformation processes apply to social capital as to the other types of resources.¹³⁹ Social entrepreneurial organizations need to invest human and economic capital in social capital, and consequently can use the accumulated social capital in order to achieve certain advantages and benefits that serve their aim of creating social value:¹⁴⁰

like all other forms of capital, social capital is a long-lived asset into which other resources can be invested, with the expectation of a future (albeit uncertain) flow of benefits. Through investment in building their network of external relations, both individual and collective actors can augment their social capital and thereby gain benefits in the form of superior access to information, power, and solidarity; and by investing in the development of their internal relations,

collective actors can strengthen their collective identity and augment their capacity for collective action.¹⁴¹

Social capital often has a complementary relation to human capital. Coleman visualizes this relation with a network structure, defining the nodes as human capital and the relations between them as social capital. In an example, he demonstrates that an increase in human capital of person B requires human capital (that is, knowledge and skills) in person A and social capital (that is, trust) in the link between the two people.¹⁴²

Social capital, as distinct from human and economic capital, shows certain specific characteristics that also affect social entrepreneurs' dependency and their power situation. According to Burt, social capital differs from human and economic capital in the fact that it is owned by the two parties of a relationship simultaneously and neither of the two can use it without the other. As a consequence, social capital diminishes for both when one party withdraws from the relationship.¹⁴³ This fact can lead to dependency situations for social entrepreneurs as soon as a social relationship with a third party becomes more important for the social entrepreneurial organization (for example, as access to another resource) than it is for the third party. In contrast, the more social capital is used – that is, the more intense the social relations become – the more social capital is accumulated.

Types of incentives used by social entrepreneurial organizations

The resource dependency theory envisions exchange relationships being stabilized through possible stakeholder incentives. Social entrepreneurial organizations, as catalyzts of public goods provision, face the dilemma of market failure caused by wrong incentive structures and the need to attract resources to the provision of public goods and to deal with the related dependencies. To stabilize exchange relationships and reach sustainability for both the solution of the social problem addressed and the organization itself as long as this institutional arrangement is needed, the use of incentives appears to be a fruitful perspective for social entrepreneurial organizations. An overview of the different incentives is given below.

Dees and Anderson hint at the fact that social entrepreneurial organizations can access different types of incentives: 'Social entrepreneurs have to decide how they will approach the markets for resources and the markets for their services or goods. To what extent and in what ways will they rely on philanthropic or "expressive" motivations as opposed to more self-interested motivations common in commercial markets?'¹⁴⁴

Generally, incentives for stakeholders to contribute resources (labour, payments for products, investments, donations, material resources, co-operation) to the public good catalyzed by social entrepreneurial organizations can be both material and immaterial. Material incentives include monetary incentives – that is, payments in the form of salaries, interest rates, rental fees and various others, and non-monetary material incentives – that is, products or services. Examples of immaterial incentives might be a good conscience, personal satisfaction from helping, learning, reputation or public recognition. Social incentives – that is, incentives regarding status in society such as reputation – represent a considerable proportion of immaterial incentives.¹⁴⁵ Immaterial incentives can also extend to intrinsic motivation, such as pleasure at work.¹⁴⁶ Depending on the situation, resource need and environment in which the incentive is used to attract resources, many other types of immaterial incentives can be observed.

Monetary incentives seem to enjoy the most popularity, since they can easily be transformed into most other incentives.¹⁴⁷ However, immaterial incentives can be even more important. As Habisch indicates, incentives do not necessarily have to be of a monetary nature. Especially in the area of civic and social engagement, immaterial incentives have a stronger impact on steering the behaviour of stakeholders.¹⁴⁸

The effect of material and immaterial incentives depends on the general motivation of stakeholders to contribute resources. Stakeholders can be motivated to contribute resources by rent-seeking motives and by donor motives – that is, they can be motivated by rather egoistic- or

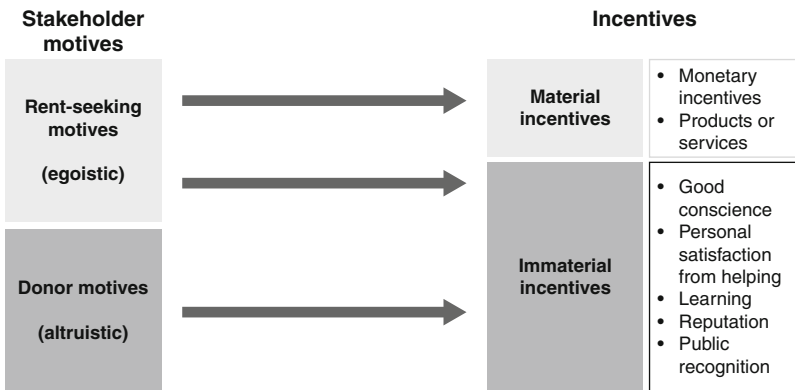


Figure 5.5 Overview of types of incentives¹⁵⁰

altruistic-driven incentives. While rent-seeking motives coincide with both material and immaterial incentives, donor motives are usually connected with immaterial incentives. Regarding resource contribution to social entrepreneurial organizations as catalyzts for public goods, donor motives can include the 'satisfaction of contributing directly to social welfare'.¹⁴⁹

Figure 5.5 sums up the possible incentives and motives used by social entrepreneurial organizations to attract resources for the provision of public goods.

Notes

1. Schreyögg (1997), p. 482. Contingency theory postulates that the way an organization is structured and behaves is influenced by the situation of the organization, and results in different levels of success; see Wolf (2003), p. 153. For details on contingency theory, see Kieser and Elbers (2006); Kieser and Kubicek (1992).
2. Aldrich and Pfeffer (1976) and Pfeffer and Salancik (1978).
3. Sandner (1990), p. 36 *et seq.*
4. Hermesch (2000), p. 96.
5. Nienhüser (2004), p. 89 and Hermesch (2000), p. 96. Because of this, Pfeffer and Salancik themselves first called their approach a 'perspective' rather than a theory; Nienhüser (2004), p. 89. However, most scientific authors on resource dependency call it a theory, including the authors themselves in recent articles, Pfeffer (2005).
6. Chin *et al.* (2004), n.p.; Pfeffer (2005), p. 441. For further details on open system theory see Scott and Davis (2007), p. 87 *et sqq.*
7. Schreyögg (1997), p. 481; also Cyert and March (1963).
8. Hall (1991), p. 277 *et seq.*; Schreyögg (1997), p. 481; see also Hasenfeld (1972); Jacobs (1974); Wamsley and Zald (1973); Benson (1975).
9. Pfeffer (2005), p. 441; see also Emerson (1962); Blau (1964).
10. Pfeffer (2005), p. 441; see also Thompson (1967).
11. Hall (1991), p. 278; see also Chandler (1962); Child (1972).
12. Hermesch (2000), p. 97.
13. Pfeffer and Salancik (1978), p. 2; see also Pfeffer and Salancik (1978), p. 258. The problem of sustaining the survival of the system is derived from system theory; Schreyögg (1997), p. 481.
14. Pfeffer and Salancik (1978), p. 1.
15. Nienhüser (2004), p. 91.
16. Hall (1991), p. 278 and Schreyögg (1997), p. 481 *et seq.*
17. Pfeffer and Salancik (1978), p. 2.
18. Pfeffer and Salancik (1978), p. 2. As well as this social embeddedness of the organization in a system of other institutions, it is also historically embedded, while the resource-based view, in contrast, does not include the notion of embeddedness in a context of social actors, zu Knyphausen-Aufseß (1997), p. 456.
19. Dees (2001), p. 2.

20. Timmons (1998), p. 165.
21. Schmude (2003), p. 299.
22. Schmude (2003), p. 299. Regarding networks, entrepreneurship literature also highlights the importance of structural embeddedness and the regional anchoring of the organization; for example, Buhmann *et al.* (2002), p. 158 *et seq.*; Arnold (2006), p. 112 *et seq.* and p. 130 *et seq.*
23. Becker and Dietz (2002), p. 240 *et seq.* For more, also immaterial, resources entrepreneurs can retrieve from networks, see Arnold (2006), p. 119 *et seq.*
24. Buhmann *et al.* (2002), p. 158 *et seq.*
25. Entrepreneurial networks are usually created through the entrepreneur, who is thus highly significant for the organization. This fact is highlighted with reference to social entrepreneurship in the subsection 'Resource needs and related dependencies'.
26. Pfeffer (1992), p. 87. This broad understanding of resources can also be found in entrepreneurship literature Bygrave (1998), p. 130.
27. Hall (1991), p. 278.
28. Hall (1991), p. 278. Pfeffer and Salancik (1978) cite the example of medieval abbeys and their need to recruit new members to demonstrate that even the most self-contained organizations needs to transact with its environment to gain critical resources; Pfeffer and Salancik (1978), p. 2.
29. Nienhüser (2004), p. 244.
30. Rumelt *et al.* (1994), p. 33.
31. Hermesch (2000), p. 97 *et seq.*
32. Pfeffer and Salancik (1978), p. 51.
33. Pfeffer and Salancik (1978), p. 46. The authors point out that the two determinants are not independent of each other.
34. Pfeffer and Salancik (1978), p. 46.
35. Nienhüser (2004), p. 91.
36. Pfeffer and Salancik (1978), p. 46 *et seq.*
37. Pfeffer and Salancik (1978), p. 50.
38. Pfeffer and Salancik (1978), pp. 47 *et seq.* The level of control on resource allocation and use also determines the boundaries of the organization as an open system: 'The boundary [of an organization] is where the discretion of the organization to control an activity is less than the discretion of another organization or individual to control that activity'; Pfeffer and Salancik (1978), p. 32.
39. Pfeffer and Salancik (1978), p. 50.
40. Own illustration adapted from Hermesch (2000), p. 101; zu Knyphausen-Aufseß (1997), p. 465.
41. Pfeffer and Salancik (1978), p. 3.
42. Pfeffer and Salancik (1978), p. 67.
43. For the following, Hermesch (2000), p. 101 *et seq.*
44. See also Pfeffer and Salancik (1978), p. 68.
45. Pfeffer and Salancik (1978), p. 89.
46. Own illustration adapted from Hermesch (2000), p. 102.
47. The concept of power in resource dependency theory is strongly built on the concept developed by Emerson; Emerson (1962). However, Pfeffer and Salancik shifted the focus from individual actors to organizations; Scott and Davis (2007), p. 233 *et seq.*

48. Emerson (1962), p. 32.
49. Pfeffer and Salancik (1978), p. 52 *et seq.*
50. Sandner (1990), p. 37.
51. Sandner (1990), p. 37.
52. For a detailed description of power-dependence relations, see Casciaro and Piskorski (2005), p. 169 *et seq.*
53. Pfeffer and Salancik (1978), p. 154.
54. zu Knyphausen-Aufseß (1997), p. 465.
55. Hall (1991), p. 278.
56. Aldrich and Pfeffer (1976), p. 83.
57. Also zu Knyphausen-Aufseß (1997), p. 464. However, he reduces the market aspect to the exchange of benefit and money between organization and customer.
58. For inducement-contribution theory, see March and Simon (1958).
59. March and Simon (1958), p. 84.
60. For example, Hermesch (2000), p. 97.
61. The idea that entrepreneurs have to motivate their suppliers, employees and other co-operation partners to supply their services and products coincides with entrepreneurship literature and the understanding that entrepreneurs rely on external resources they do not own but try to control; Stevenson and Gumpert (1998), p. 107.
62. Pfeffer and Salancik (1978), p. 2.
63. zu Knyphausen-Aufseß (1997), p. 458. Pfeffer and Salancik (1978) require that the external standard of effectiveness be distinguished from the internal measure of efficiency; Pfeffer and Salancik (1978), p. 11.
64. Pfeffer and Salancik (1978), p. 11.
65. Pfeffer and Salancik (1978), p. 24. They refer explicitly to the inducement contribution theory of March and Simon: 'March and Simon (1958) noted that it was necessary to provide inducements for social actors to participate in organizations'; Pfeffer and Salancik (1978), p. 25.
66. Pfeffer and Salancik (1978), p. 25.
67. Merriam-Webster Dictionary. Available at <http://www.merriam-webster.com/dictionary/sustain> and <http://www.merriam-webster.com/dictionary/sustainability>; accessed 14 May 2008.
68. Herkommer and Bartol (2004), p. 1.
69. For example, The United Nations General Assembly (2005), p. 12.
70. Goodland (2002), p. 2.
71. Merriam-Webster Dictionary; see Nt 57 above.
72. Weerawardena and Mort (2006), p. 29 *et seq.*
73. Wilcox (2008), n.p.
74. Watson (2004), p. 6.
75. Boschee and McClurg (2003), p. 1.
76. Dees and Anderson (2002a), p. 7.
77. Seelos and Mair (2005), p. 244.
78. Schöning (2003), p. 3. Hafenmayer also relates sustainability to the availability of financial resources, emphasizing their importance especially for the growth of social entrepreneurial organizations; Expert interview with Wolfgang Hafenmayer (29 September 2008).
79. Wilcox (2008), n.p.

80. Schöning (2003), p. 5.
81. Mosher-Williams (2006), p. 148.
82. Weerawardena and Mort (2006), p. 25.
83. Anderson and Dees (2006), p. 147 *et seq.*
84. Seelos and Mair (2005), p. 242.
85. Dees and Anderson (2002a), p. 8.
86. Guclu *et al.* (2002), p. 10.
87. Guclu *et al.* (2002), p. 10; also Grenier (2003a), n.p.
88. Dees and Anderson (2006), p. 51.
89. Guclu *et al.* (2002), p. 11.
90. Guclu *et al.* (2002), p. 10.
91. Dees and Anderson (2002a), p. 7.
92. Guclu *et al.* (2002), p. 10.
93. Guclu *et al.* (2002), p. 10.
94. Expert interview with Wolfgang Hafenmayer (29 September 2008).
95. Guclu *et al.* (2002), p. 10.
96. Expert interviews with Wolfgang Hafenmayer (29 September 2008) and Oda Heister (07 October 2008).
97. Thompson (2002), p. 421.
98. Elkington and Hartigan (2008), p. 57.
99. Own illustration based on Achleitner *et al.* (2007), p. 14 *et seq.*
100. Achleitner *et al.* (2007), p. 14.
101. Achleitner *et al.* (2007), p. 14 *et seq.* Generally, equity financing and debt financing can occur with both internal and external financing: equity financing can occur externally through the contribution of money or other things as well as through the acquisition of shares or the transfer of property rights; and internally through retaining profits or adding them to reserves; Schneck (2003), p. 272 *et seq.* Debt financing refers to the external provision of debt capital through credit or bonds; and to internal generation through the creation of reserves; Schneck (2003), p. 370 *et seq.*
102. Philanthropy is defined as an 'active effort to promote human welfare', Merriam Webster Dictionary. Available at: <http://www.merriam-webster.com/dictionary/philanthropy>; accessed 18 March 2008. An additional definition is proposed by Salamon and Anheier: 'Philanthropy ... is the giving of gifts of time or other valuables (money, securities, property) for public purposes. Philanthropy, or charitable giving, is thus just one form of income for private nonprofit organizations'; Salamon and Anheier (1997a), p. 13.
103. Achleitner *et al.* (2007), p. 17.
104. Dees and Anderson (2002a), p. 3.
105. Barendsen and Gardner (2004), p. 48.
106. Achleitner *et al.* (2007), p. 14 *et seq.*
107. Achleitner *et al.* (2007), p. 15.
108. Guclu *et al.* (2002), p. 10.
109. Expert interview with Oda Heister (07 October 2008).
110. Own illustration.
111. Guclu *et al.* (2002), p. 11.
112. Guclu *et al.* (2002), p. 11.
113. Dees (2003), n.p.
114. Drayton (2002a), p. 129.

115. Drayton (2002b), p. 8.
116. Drayton (2002a), p. 129. For a detailed analysis of the mismatch between funders' and social entrepreneurial organizations' objectives, see Osberg (2006).
117. Expert interview with Oda Heister (07 October 2008).
118. Expert interview with Oda Heister (07 October 2008).
119. Expert interview with Oda Heister (07 October 2008).
120. Expert interview with Oda Heister (07 October 2008).
121. Drayton (2002a), p. 129.
122. Weerawardena and Mort (2006), p. 21.
123. Guclu *et al.* (2002), p. 11.
124. Dees and Anderson (2002a), p. 12.
125. Guclu *et al.* (2002), p. 11.
126. Laville and Nyssens (2001), p. 317.
127. Evers (2001), p. 296. In his conceptualization of non-market and non-state resources, Evers includes donations and volunteering, but does not limit the concept to these elements. In this book, social capital is conceptualized as encompassing intangible resources enabling the mobilization of donations and volunteers.
128. Evers (2001), p. 296.
129. Evers (2001), p. 300.
130. Bourdieu (1983), p. 190 *et seq.*
131. Flap (1995), p. 1 cited in Haug (1997), p. 7.
132. Flap (1996), p. 4 cited in Haug (1997), p. 7.
133. Adler and Kwon (2002), p. 18.
134. Granovetter (1985). The notion of embeddedness is also reflected in resource dependency theory through the importance attributed to the networks of organizations.
135. See, for example, Evers and Schulze-Böing (2001), p. 123 *et seq.*
136. Evers and Schulze-Böing (2001), p. 124.
137. Laville and Nyssens (2001), p. 317 *et seq.*
138. Haug (1997), p. 4.
139. Haug (1997), pp. 4, 12.
140. Evers (2001), p. 301.
141. Adler and Kwon (2002), p. 21.
142. Coleman (1990), p. 304 *et seq.*
143. Burt (1995), p. 9.
144. Dees and Anderson (2006), p. 54 *et seq.*
145. Homann and Suchanek (2000), p. 66.
146. Homann and Suchanek (2000), p. 67.
147. Homann and Suchanek (2000), p. 66.
148. Habisch (1999b), p. 96.
149. Spear (2006), p. 405.
150. Own illustration.

Part III Interim Summary

This part aimed to provide theoretical perspectives as a direction to the factual-analytical and empirical explorative research. From an external or output-orientated perspective, Chapter 4 provided the details of public goods theory and plotted the economic setting in which social entrepreneurial organizations operate. This chapter depicted the characteristics of public goods, non-rival consumption and non-exclusive access, which led to the challenge of free-riding and hidden preferences which result in hidden demand. Hidden demand results in market failure and thus public goods cannot be supplied through the market mechanism. With the help of a game theory dilemma structure, the incentive problems causing market failure were illustrated and the importance of incentives in public goods provision was highlighted. The chapter detailed the traditional provision of public goods through collective action; that is, by the state through raising taxes or providing normative structures, as a consequence of market failure.

Based on these insights into the characteristics of public goods and market failure, the role of social entrepreneurial organizations in public goods provision was analysed in detail. First, the types of market failures addressed by social entrepreneurial organizations were identified, revealing that they address both market failures that result from unwillingness to pay and those that result from an inability to pay. Subsequently, the types of goods and services produced or provided by social entrepreneurial organizations were analysed, and it could be concluded that they offer mainly goods and services with individual benefit but also with positive external effects on society. Thus social entrepreneurial organizations act as catalysts for the provision of public goods. Finally, the important role of social capital in the context of social entrepreneurship, especially as a result of social entrepreneurial activities, was highlighted.

After having conceptualized the role of social entrepreneurial organizations as catalysts for public good provision, in Chapter 5 the resource dependency theory served as a theoretical perspective regarding which strategies social entrepreneurial organizations apply to catalyze the provision of public goods. The resource dependency theory perceives organizations as open systems that rely on their environment for critical resources and thus incur dependencies and uncertainties. It could be demonstrated that the resource dependency theory features certain connections to entrepreneurship theory regarding the importance of networks for resource acquisition mentioned there. Inherent to the resource dependency theory is the use of incentives to stabilize exchange relations to resource providers and reduce dependencies.

Resource dependency theory conveyed the understanding of social entrepreneurial organizations as resource dependent organizations with various dependencies and uncertainties. Since social entrepreneurial organizations exist to solve social problems, the basic assumption of resource dependency theory, that survival is the aim of an organization, had first to be specified for social entrepreneurial organizations. This analysis led to the insight that social entrepreneurial organizations are indeed confronted by the challenge of survival, or sustainability: on the one hand regarding the solutions they create to solve a social problem, and on the other regarding sustaining the organization itself as long as it is needed to solve the social problem. The fundamental concepts of resource dependency theory provided the basis for analysing resource needs and related dependencies for social entrepreneurial organizations along the lines of human, economic and social capital. Since the concept of incentives is inherent in resource dependency theory and important in relation to public goods provision, the types of incentives to be used by social entrepreneurial organizations were analysed and identified as material and immaterial.

The insights from both public goods theory and resource dependency theory served to develop a conceptual perspective on the further exploration of the research question, of the way that social entrepreneurial organizations contribute to the provision of public goods. Public goods theory helped to identify the role of social entrepreneurial organizations as catalysts for public good provision as a result of the indirect positive effects their products and services have on society. Public goods theory also defined the economic setting in which social entrepreneurial organizations operate, particularly highlighting the importance of incentives in public goods production and the problem of dilemma structures.

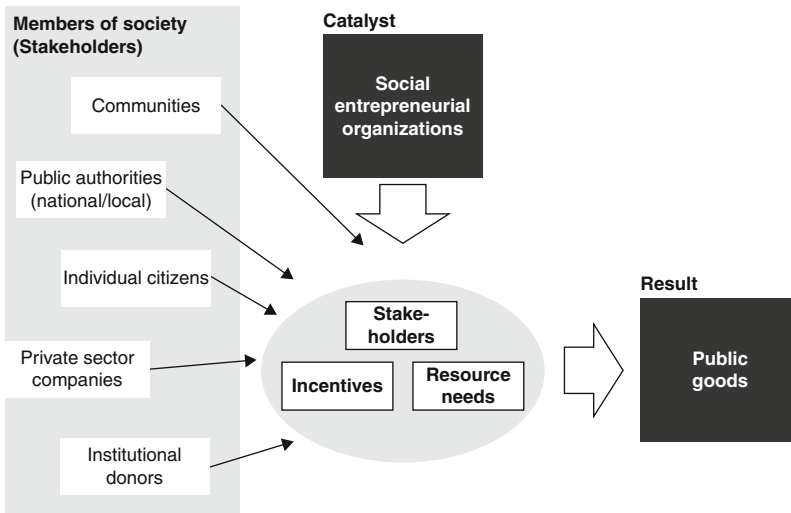


Figure III.1 Conceptual perspective¹

Resource dependency theory provided the strategic perspective to answer the question of which strategies social entrepreneurial organizations apply to catalyze public goods provision when dealing with production-related challenges. Resource dependency theory is particularly useful as a perspective to analyse the behaviour of social entrepreneurial organizations, since it focuses on the management of dependencies and features the use of incentives as a means of stabilizing exchange relationships. The use of incentives ties in with the importance of incentives in the provision of public goods and leads to the conclusion that social entrepreneurial organizations seem to use incentive strategies to motivate their stakeholders to contribute to the public good, and thus catalyze the provision of public goods. Figure III.1 illustrates the conceptual perspective resulting from theoretical perspectives on the research question.

Part IV of this book explores the incentive strategies social entrepreneurial organizations employ, and the incentive structures they create in order to catalyze public good provision.

Note

1. Own illustration.

Part IV

Social Entrepreneurial Strategies to Catalyze Public Goods Provision

Introduction to Part IV

With the public goods theory and the resource dependency theory, Part III provided the theoretical perspective for analysing the research questions on social entrepreneurship. Having identified social entrepreneurial organizations as catalysts for public goods provision, the objective of this part is to find an answer to the following question: which strategies do social entrepreneurial organizations, acting as catalysts, apply to contribute to the provision of public goods? Public goods theory and resource dependency theory narrowed down the perspective on the use of incentives in order to guide the explorative factual-analytical and empirical research to answer this question.

First, in Chapter 6, the business model as a useful unit of analysis is introduced as a means of structuring the subsequent research insights. One group of research insights is derived from factual-analytical research based on a database of social entrepreneurial organizations: it reveals a variety of different individual incentive strategies used by social entrepreneurial organizations to catalyze the provision of public goods (Chapter 7). The second group of research insights is derived from empirical research based on the case study method: the case studies of three social entrepreneurial examples illustrate the holistic applications of incentive strategies and the creation of incentive structures that catalyze public goods provision (Chapter 8).

6

The Business Model as a Unit of Analysis

The aim of this chapter is to introduce the business model as a unit of analysis. To provide the necessary background to the concept, its current usage and conceptualization in business and the social entrepreneurship literature are detailed, as well as its usefulness as a unit of analysis in the context of social entrepreneurship. Subsequently, the business model dimensions, which constitute the concept, are introduced through the generic dimensions defined in the literature on business models, and are then specified for social entrepreneurial organizations.

Background to the business model concept

To build a foundation on which to use the business model as a concept to analyse social entrepreneurial organizations' strategies, the origin and current use of the term business model is first reviewed. The concept appears in the literature of both management and social entrepreneurship. Subsequently, its usefulness as a unit of analysis is assessed in comparison to such terms as organization or industry.

Origin and current usage

The relatively new term of business model originated from information management and has spread to other disciplines in recent decades. Several articles on the concept of a business model include database searches on the term in order to demonstrate the newness as well as the rapid spread of the term.¹ Today, the concept business model can be understood as an advancement of the strategy concept and is used widely both in academia and in practice.²

The term business model emerged in the 1970s in information management and is closely linked to the emergence of commercial activities

on the internet.³ It describes the result of business modelling, which means capturing and presenting information streams in order to model operational processes and information systems in a company. Business modelling in its original sense has both organizational (efficiency gains through increased transparency about responsibilities and processes) and technical information (cost reduction of software implementation through improved planning) objectives. In its original context, business modelling was closely linked to information technology and operational processes at the level of specific functional areas of the company.⁴ Based on the business model, operational processes and a data model can be deduced.⁵

Having gained popularity during the emergence of the new economy, the term business model changed, moving beyond its original restrictive meaning and away from information technology and the new economy into other disciplines during the 1990s.⁶ Today, the term business model has lost its exclusive connection to information and communication technology. Instead, authors increasingly relate it to strategy.⁷ The business model is considered to be the result of strategy, and holistically describes the activities of an organization in an aggregated form. As such, it concerns strategic questions at a corporate level and is increasingly used in science, by companies, and the public.⁸

As illustrated in Figure 6.1, the evolution of the business model concept can be split into five distinctive phases. The figure illustrates the development of the business model concept from first definitions and propositions of business model components to the development of meta-models and their application in management and information systems.¹⁰

Conceptualization in the literature

As described earlier, the business model concept in its current usage originates from the literature of business and management. This section

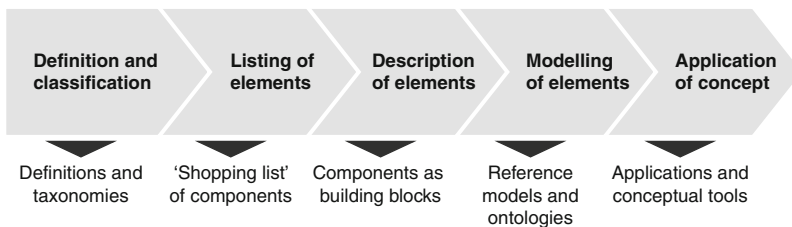


Figure 6.1 Evolution of the business model concept⁹

focuses first on the use of the business model concept in the general management literature, then, turning to social entrepreneurship, it may be asserted that the concept has also appeared in this area's literature.

Business models in the general management literature

As a first, conceptual approach towards defining the term business model, it is useful to understand its constitutive terms. The term 'business' generally relates to an organization aiming to reach a profit, while a 'model' is a simplified image of reality, formed by elements and their relationships.¹¹ However, the term business can encompass both commercial and non-commercial activities, since the modelling is independent of the aims of the business.¹² As a consequence, a business model is a simplified abstract image of the real-life mechanisms and methods of how a business, network of businesses or a whole industry creates value.¹³

Osterwalder *et al.* define a business model generally as the

blueprint of how a company does business. It is the translation of strategic issues, such as strategic positioning and strategic goals into a conceptual model that explicitly states how the business functions. The business model serves as a building plan that allows designing and realizing the business structure and systems that constitute the company's operational and physical form.¹⁴

In the existing literature, authors use the term business model to mean a variety of different levels. These can be separated into three different, hierarchically linked, conceptual levels.¹⁵

The first level relates to the business model as an abstract concept and encompasses the business model definition and meta-models. The definitions clarify its meaning, functions and significance, whereas the meta-models list different elements constituting a business model.

The second level refers to business model taxonomies: different types and sub-meta-models of business models. While business model types attempt to classify similar business models into groups, sub-meta-models specify the common characteristics of business models generally. The taxonomies are applied both to businesses in general and to specific industries.

The third level relates to real-world instances of business models, either as specific company examples or as the conceptualization of a company business model.

In sum, a business model may be defined as the operationalization of strategy into a plan of a business, which facilitates the implementation of strategy into structures and processes.

Business models in the social entrepreneurship literature

As noted above, while being rooted in business and management literature, the business model concept has also found its way into the social entrepreneurship literature.

Two contributions conceptualize business models from a social entrepreneurship perspective, integrating the concept into the broader context of the social entrepreneurship process. Guclu *et al.* and Perrini and Vurro define the business model as a step in the social entrepreneurship process, and present two conceptualizations of the term, each with different factors.

In their analysis of the social entrepreneurship process, Guclu *et al.* develop a business model concept comprising the elements of the operational model and resource strategy.¹⁶ The operating model describes the activities, structures and support systems that interact to create the intended social value. The interaction of these elements resembles a value chain similar to the business one.¹⁷ According to Guclu *et al.*, the operating model also defines the division between internal and external (by partners and allies) value creation. The resource strategy supports the operational model through the identification and mobilization of tangible and intangible resources. The two elements of the operational model and resource strategy are based on assumptions about the way the social entrepreneurial organization creates social value (social impact theory). They integrate the conditions of the external environment (markets, industry structure, political environment and culture) as well as the personal fit with the social entrepreneur. The authors reason that the development of a feasible business model is crucial for the success of the social entrepreneurial organization. Figure 6.2 illustrates the business model conceptualization by Guclu *et al.*

Perrini and Vurro develop a broader conceptual framework for the social entrepreneurship process, with the business model being the implementation of social innovation.¹⁹ The authors highlight the importance of the market and stakeholder orientation of the business model, which is achieved by 'strong network orientation, organizational flexibility, a wise trade-off between local and global dimensions and a participatory management philosophy'.²⁰ Consequently, their definition of the business model includes the elements market orientation, network, flexibility, geographic orientation and organizational structures.

The two conceptualizations of business models in the context of social entrepreneurship represent only a small part of the conceptualization of the social entrepreneurship process and are thus not extensively elaborate. However, similarities regarding the generic dimensions of the business

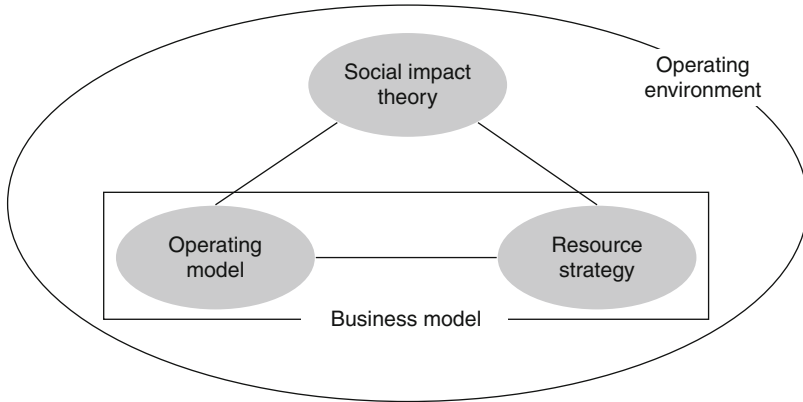


Figure 6.2 The social entrepreneurial business model¹⁸

model can be recognized. Guclu *et al.* highlight the value creation architecture, while Perrini and Vurro point to the value proposition and the importance of stakeholder orientation and integration.

Other authors use existing business model concepts to analyse specific social entrepreneurial organizations or as a unit of analysis specifically to identify differences between social entrepreneurial organizations along certain criteria.

Mair and Schoen use the business model as a unit of analysis in their exploratory study that analysed three social entrepreneurial organizations.²¹ By means of a comparative case analysis, the authors aimed to identify common patterns in social entrepreneurial business models, which could be defined as success factors. They used the business model concept of Hamel.²² Seelos and Mair derived three forms of business models from three social entrepreneurial cases, based on the co-operation of two separate organizations.²³ They did not use an explicit business model concept, but rather employed the term business model as a general expression to describe the operations of the analysed cases and their co-operation structures.

Several authors used the term business model as a unit of analysis to identify differences between social entrepreneurial ventures. Dees and Anderson spanned a spectrum of social entrepreneurial organizations between the extremes of 'purely charitable' and 'purely commercial', and analysed the effects for different stakeholders of the organization.²⁴ Their approach was meant to cover the whole spectrum of possible business models, but did not constitute specific business model types.

In an earlier publication, Dees and Anderson focused more on the profit-generating notion of the term business model and claim that

The business model must make the case that this venture can have its intended social impact and make a sufficient profit at the same time ... A strong business model will be built around opportunities where there is potential for significant congruence between social and economic value creation.²⁵

Alter presents the most extensive publication to date regarding social entrepreneurship business models, defining different social enterprise models and employing a practice to theory approach.²⁶ The author illustrates both general and operational models of social entrepreneurship with case studies, focusing on the relationship between the social mission and financial aspects (similar to Dees and Anderson). Alter based her study on a very broad definition of social enterprise and did not use a specific business model concept. Instead, she described possible flows of products, services and money between the different stakeholders of a social enterprise and used common patterns regarding these flows to distinguish between different groups of organizations.

Some contributions point to factors that could explain differences between social entrepreneurship business models. *Mair and Martí* assume that the selection of the business model type is influenced by the characteristics of the addressed social need and the quantity of resources needed. Additional influence comes from the socio-economic and cultural environment.²⁷ Hockerts designs a conceptual framework for social-purpose business ventures depending on their type of social opportunity, and concludes that social entrepreneurial organizations have to develop different strategies depending on the type of opportunity.²⁸ Seelos and Mair highlight the conditions that social entrepreneurs face in developing countries, which require the development of innovative business models.²⁹

In sum, this analysis demonstrates that the concept of the business model has expanded into the social entrepreneurship literature. However, it has also become obvious that the concept has been used more as a buzzword and has rarely been applied rigorously as a unit of analysis.

Adequacy of the business model as a unit of analysis

As has been detailed above, the emergence of the construct of a business model has been triggered by the growing significance of the internet and related business opportunities. Explainable by the theory of transaction

cost economics, these technological advances have led to both a decline in communication costs and to totally new business opportunities – a development that enabled companies to offer by co-operating; that is, commercialize value jointly with other companies or suppliers and customers to communicate via networks.³⁰ These developments accelerated the emergence of the network economy, focusing on the significance of networks, which have to be designed strategically and employed by businesses.³¹ As a result, existing analytical units of strategic management, such as the company or organization, the business unit, the industry or single products, cannot explain economic success or failure any longer, because they do not represent the network component.³² The business model as a comprehensive analytical construct filled this void, integrating network effects beyond single company or industry borders into economic value creation.³³ Osterwalder *et al.* predict that ‘The business model concept is a candidate to replace the industry as a unit of analysis.’³⁴

The comprehensiveness of the business model as a unit of analysis makes it especially appropriate for the analysis of social entrepreneurial organizations. Such organizations are characterized as being embedded in extensive networks made up of for-profit companies, non-profit organizations, local, regional, national and international public authorities and governments, and other institutions. Using incentive structures, they create complex exchange relations with various stakeholders. It is difficult to analyse these strategies and structures using the perspective of the product or the organization, since the value creation of social entrepreneurial organizations extends well beyond their own organizational borders. Hence the business model serves as a useful unit of analysis covering all aspects of social entrepreneurial value creation.

Business model dimensions

The term business model is defined more by its different dimensions than by general definitions. The existing literature offers a large variety of business model definitions, with agreement regarding its constitution and dimensions.³⁵ This section gives an overview of business model dimensions defined in the existing literature by highlighting some of the most characteristic definitions. In a second step, the variety of existing generic business model dimensions is condensed into four business model dimensions and tailored specifically to describe social entrepreneurial organizations.

Overview of business model dimensions

The following authors separate the concept of a business model into three different dimensions:

- Mahadevan considers three different streams to be blended in the business model: the stream of value for business partners and buyers, the revenue stream focusing on income generation, and the logistical stream concerning the supply chain.³⁶
- Stähler, one of the most popular authors on business models, names the value proposition, the architecture of value creation, and the income model as constituting the elements of a business model.³⁷
- Timmers defines the business model as the architecture of three different flows (product, service and information) and focuses on the actors and their roles and benefits as well as the revenue sources.³⁸
- Tomczak and Sausen consider that three elements form a business model: the architecture of value creation, the value proposition for all parties involved in the business, and the income model securing success.³⁹
- zu Knyphausen-Aufseß and Meinhardt list product-market combinations, implementation and configuration of value-creating activities, and income mechanism as the structural elements of business models.⁴⁰

The business model dimensions detailed in these definitions share significant similarities. Most authors focus on value proposition or benefit created, value creation, and income generation.

The following authors add some other elements or aspects to their definitions of a business model:

- Leading strategy author and speaker Gary Hamel lists four building blocks of the business model: customer interface, core strategy, strategic resources, and value network.⁴¹
- The consulting firm Mercer Management Consulting⁴² defines business models as holistic strategies, emphasizing the importance of consistently integrating market and product policy, profit model, resource input, and organization. All these elements are considered to be of equal importance.⁴³
- Osterwalder *et al.* define nine business model building blocks, grouping them under product (value proposition), customer interface (target customer, distribution channel, relationship), infrastructure management (value configuration, core competency, partner network), and financial aspects (cost structure, revenue model).⁴⁴

- Servatius applies the balanced scorecard concept to business models, stating that the same four perspectives describe the business model of a company: finance, customers, process and potential.⁴⁵
- Treacy and Wiersema have a more operational view of the business model, defining it as the interaction of operational processes, management systems, organizational structure and corporate culture, which together enable a business to deliver the announced performance.⁴⁶
- Weill and Vitale accentuate the roles of the different actors in a business model, such as suppliers, customers and associates. They also include different flows (product, information, money) in their definition of business model as well as benefits to the actors.⁴⁷

The overview on business model dimensions shown in Table 6.1 illustrates the heterogeneity among existing business model definitions. Apart from the differences in nomenclature, however, the overview demonstrates that most authors include value proposition, value chain and income model as major building blocks in their business model definitions. The integration of customers and/or other stakeholders into the definition also seems to be of a certain importance to some authors.

Dimensions of the social entrepreneurial business model

The previous section detailed the various elements used by authors to define the concept of a business model. The most important components emerged as a result of this investigation and can be used to define the business model dimensions for this book. While a business model is a generic concept that can be used for any type of organization, this section aims to conceptualize the business model concept as a unit of analysis specifically for social entrepreneurial organizations. To reach this objective, the different components detailed in the previous section will be integrated into four major business model dimensions, thereby accounting for the specifics of social entrepreneurial organizations on certain dimensions: value proposition, product design and market definition, and internal and external value creation architecture. These different elements or dimensions of the business model concept are considered to be based on each other.

Value proposition

The dimension of value proposition describes the benefits for stakeholders. The main external actors in a business model are customers and value

Table 6.1 Overview of business model dimensions⁴⁸

Business model dimensions	Mahadevan	Stähler	Timmers	Tomczak/Sausen	zu Knyphausen-Aufseß/Meinhardt	Hamel	Mercer (Nels, Baumgartner)	Osterwalder, Pigneur, Tucci	Servattus	Treacy/Wiersema	Weill & Vitale
Value proposition	Value stream, logistical stream	Value proposition	Product, services and information flows	Value proposition for all parties involved in the business	Product-market combinations	Core strategy	Market and product policy	Product (value proposition)	Announced performance	Announced performance	Benefits to the actors
Value chain	Value stream, logistical stream	Architecture of value creation	Product, services and information flows	Architecture of value creation	Implementation and configuration of value creating activities	Strategic resources	Organization, resource input	Infrastructure management (value configuration, core competencies, partner network)	Process perspective	Operational processes, management systems, organizational structure	Product and information flow
Income	Revenue stream	Income model	Revenue sources	Income model	Income mechanism	Profit model	Profit model	Financial aspects (cost structure, revenue model)	Financial perspective	Money flow	Money flow

Customers	Customer interface	Customer interface (target customer, distribution channel, relationship)	Customer perspective
Other stake-holders	Business partners and buyers	Value network	Roles of different actors
Culture	Actors and their roles, benefit for actors		Corporate culture
Future aspect			Potential perspective

creation partners. The value proposition for customers is defined more by the satisfaction of needs and less by specific products. The benefit for value creation partners such as suppliers, strategic partners and other stakeholders motivates them to involve themselves in the business model. The value proposition is the result of the core strategy of the business and gives direction to the other business model dimensions. Defining the value proposition for stakeholders is of major importance to social entrepreneurial organizations. It is the starting point for designing the other dimensions of their business model.

Product design and market definition

Based on the value proposition, the product or service can be designed that will satisfy the need of customers or create a benefit for other stakeholders. The design of products or product bundles fulfils the value proposition for customers and differentiates the business from its competitors. The market definition marks the relevant market for the business by geographical criteria or customer segment definition.

Internal value creation architecture

The value creation architecture implements the product design and has to be configured in a way that meets the needs of customers and value creation partners efficiently. The boundary between the internal and external architecture is defined as follows: any element that is controlled by the organization itself belongs to the internal architecture, and to the external architecture if it is controlled by external actors. The two main components of the internal architecture are the resources and the value chain. While the resources represent the building blocks controlled by the organization for producing a product or service, the value chain represents the plan for transforming these into the final product or service, as well as the actors involved in the value creation and their respective roles. The resources can be structured into human, economic and social capital. Economic capital includes financial and physical capital.

This book also includes financial resources resulting from income generation, though many authors discussing business models define the income model as a separate dimension. When analysing social entrepreneurial organizations, however, it seems useful to include income and the means to generate it with resources because income for these organizations serves only as a means of reaching social ends, whereas for organizations in the private sector, the income model

represents the plan for their success that is defined in economic terms. Social entrepreneurial organizations use income generation to varying degrees along with a large variety of equally important resources to reach their social objectives. As has been mentioned already, financial resources, particularly income, result from different sources and types of revenue, such as sales from goods and services, transaction fees, commissions, advertising revenue, subscriber fees, sponsoring income and so on, which can arise on a regular or a one-off basis. The pricing mechanism is also an important aspect in understanding the creation of revenues.

The two main components resources and the value chain are embedded in and linked through the structural elements of the internal value creation architecture: organizational structure, legal structure and ownership structure (the latter two being legally interdependent). Growth strategy, the final element, defines how value creation can be grown or replicated.

External value creation architecture

The external value creation architecture describes the part of the organization's value creation architecture that is beyond its direct control and influence as well as the organization's interface to that part. The external architecture consists of two elements: customers and value creation partners. The customer interface is determined by the relationship between the organization and its customers, and by the distribution and communication channels, through which the organization delivers its value as well as receives and transmits information. The value creation partners control necessary resources for the value creating activity of the business. The business model describes the type of organization and the role it plays for the focal organization. Resources, value chain steps and growth strategy elements that are under the control of external stakeholders or require their co-operation belong to the external architecture.

Figure 6.3 illustrates the main building blocks of a business model. This business model concept, which has been developed based on the main elements found in the literature and adapted to the specifics of social entrepreneurial organizations, is used as a unit of analysis to structure individual strategies for catalyzing public goods provision. It is also used to describe the holistic implementation of these strategies in the form of business models of selected social entrepreneurial organizations as catalyzts of public goods provision.

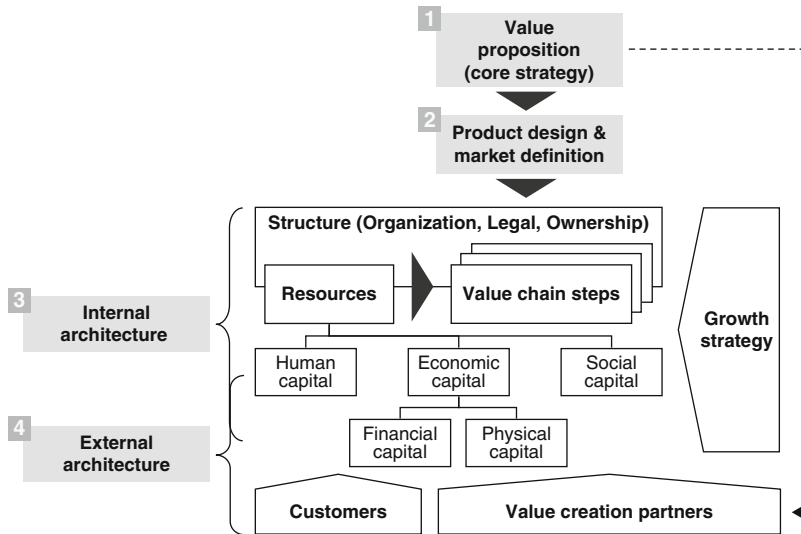


Figure 6.3 Business model dimensions⁴⁹

Notes

1. e.g. Osterwalder *et al.* (2005), p. 6; Stähler (2001), p. 37; Zollenkop (2006), p. 29; zu Knyphausen-Aufseß and Meinhardt (2002), p. 64.
2. zu Knyphausen-Aufseß and Meinhardt (2002), p. 64.
3. Stähler (2001), p. 38; Zollenkop (2006), p. 27 (also for the following two sentences).
4. Zollenkop (2006), p. 29.
5. Stähler also writes about methods for modelling information systems based on business models; Stähler (2001), p. 38.
6. Zollenkop (2006), p. 29; zu Knyphausen-Aufseß and Meinhardt (2002), p. 64.
7. Stähler (2001), p. 39 *et seq.*
8. Rentmeister and Klein (2003); Zollenkop (2006), p. 29.
9. Own illustration adapted from Osterwalder *et al.* (2005), p. 11.
10. Osterwalder *et al.* (2005), p. 11 *et seq.*
11. zu Knyphausen-Aufseß and Meinhardt (2002), p. 65.
12. Stähler (2001), p. 38.
13. Bieger *et al.* (2002b), p. 50; Ripsas (2004), n.p.
14. Osterwalder *et al.* (2005), p. 4.
15. Osterwalder *et al.* (2005), p. 9.
16. Guclu *et al.* (2002).
17. Porter introduced the concept of the value chain, representing the strategic activities of an organization systematically as primary and secondary value creation activities; Porter (1985).
18. Guclu *et al.* (2002), p. 2.

19. Perrini and Vurro (2006).
20. Perrini and Vurro (2006), p. 79.
21. Mair and Schoen (2005).
22. Hamel (2001), p. 112.
23. Seelos and Mair (2007).
24. Dees and Anderson (2006), p. 51.
25. Dees and Anderson (2002a), p. 15.
26. Alter (2006a), Alter (2006b).
27. Mair and Martí (2005).
28. Hockerts (2006).
29. Seelos and Mair (2004a).
30. Bieger *et al.* (2002a), p. 3; Osterwalder *et al.* (2005), p. 7 *et seq.*
31. According to Stähler, the network economy has the following characteristics: digital information and communication technology, increasing significance of information and knowledge as production factors, information carriers as active knowledge carriers connected via communication networks, global economy, and acceleration of economic development; Stähler (2001), p. 29 *et seq.*
32. Bieger *et al.* (2002a), p. 3; Bieger *et al.* (2002b), p. 36; Stähler (2001), p. 31 *et seq.*
33. Bieger *et al.* (2002a), p. 3.
34. Osterwalder *et al.* (2005), p. 8.
35. Scheer *et al.* (2003), p. 7. For a detailed annotated overview of business model definitions, see Bieger *et al.* (2002b); Scheer *et al.* (2003).
36. Mahadevan (2000), p. 9.
37. Stähler (2001), p. 41 *et seq.*
38. Timmers (1998), p. 4.
39. Tomczak and Sausen (2002), p. 62.
40. zu Knyphausen-Aufseß and Meinhardt (2002), p. 66.
41. Hamel (2001), p. 112.
42. Now renamed Oliver Wyman Consulting GmbH.
43. Mercer Management Consulting (2002) cited in Scheer *et al.* (2003), p. 17.
44. Osterwalder *et al.* (2005), p. 18.
45. Servatius (2002) cited in Scheer *et al.* (2003), p. 18.
46. Treacy and Wiersema (1995), p. 10.
47. Weill and Vitale (2001), p. 25 *et seq.*
48. Own illustration based on the analysis of definitions from the following sources: Mahadevan (2000), p. 9; Stähler (2001), p. 41 *et seq.*; Timmers (1998), p. 4; Tomczak and Sausen (2002), p. 62; zu Knyphausen-Aufseß and Meinhardt (2002), p. 66; Hamel (2001), p. 112; Mercer Management Consulting (2002) cited in Scheer *et al.* (2003), p. 17; Osterwalder *et al.* (2005), p. 18; Servatius (2002) cited in Scheer *et al.* (2003), p. 18; Treacy and Wiersema (1995), p. 10; Weill and Vitale (2001), p. 25 *et seq.*
49. Own illustration.

7

Individual Incentive Strategies

Having introduced the business model as unit of analysis in the previous chapter and specified the different dimensions of the concept for social entrepreneurial organizations, this chapter analyses selected strategies used by social entrepreneurial organizations to catalyze public goods provision with the help of incentives. The business model dimensions specified for social entrepreneurial organizations serve as a framework to structure the different strategies according to their thematic area. To identify the strategies analysed, a database has been set up that integrates business model characteristics of thirty-four social entrepreneurial organizations.¹ The database allowed patterns in social entrepreneurial behaviour to be identified, leading to the discovery of specific incentive strategies.² Since the value proposition is relevant for the design of the whole business model, the value proposition strategies occupy an exceptional position among the other strategies. While the other strategies represent options from which social entrepreneurs choose, each social entrepreneurial organization can be related to one of the three value proposition strategies. Some of the incentive strategies analysed in this chapter depend on the value proposition strategy applied. Social entrepreneurial organizations create different strategies regarding their product design and market definition, their internal value creation architecture and their external value creation architecture. Analysing all the individual strategies, certain clusters in their application can be identified. Figure 7.1 provides an overview of the structure and number of the individual strategies used by social entrepreneurial organizations in the specific business model dimensions to attract contributions by stakeholders to public goods provision.

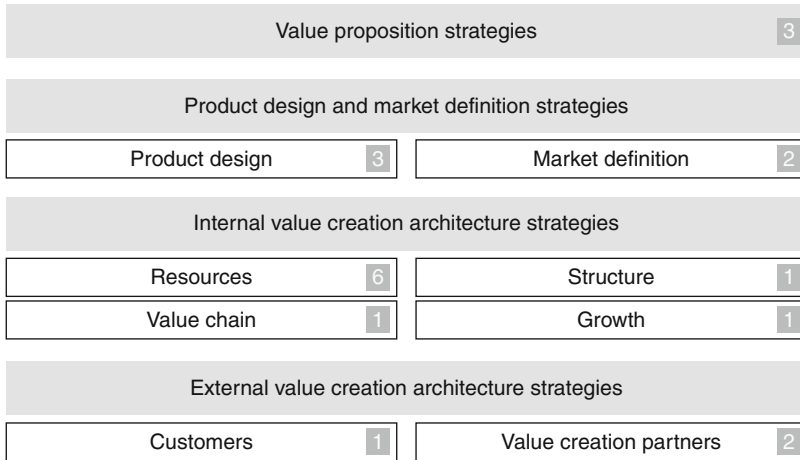


Figure 7.1 Structure and number of individual strategies³

Value proposition strategies

As a business model dimension, the value proposition defines the benefit for stakeholders of an organization, satisfies needs and encourages co-operation. It thus determines the design of the other business model dimensions. As such, the value proposition incorporates the organization’s justification for its existence and dominates the other dimensions.

Social entrepreneurial value propositions are as heterogeneous as the types of social entrepreneurial organizations themselves, therefore it is difficult to identify any patterns in value proposition strategies. However, a characteristic for clustering value proposition strategies emerges when analysing how social entrepreneurial organizations serve their stakeholders. Social entrepreneurial organizations have a multi-stakeholder approach, meeting different needs and creating different incentives for contribution at the same time: ‘Markets refer not only to the intended users or clients, but also to third-party payers, donors, volunteers, and workers, anyone who must voluntarily participate in the venture in order for it to be successful. Social entrepreneurs must have a plausible value proposition for each market or stakeholder group.’⁴

However, a social entrepreneurial organization’s primary concern lies – by definition – with its target customer or beneficiary group, the group of people whose social problem it strives to solve. All the incentives a

social entrepreneurial organization creates to motivate its stakeholders to contribute resources are aligned with the value proposition created for their target group. Consequently, social entrepreneurial value proposition strategies can be differentiated by the way they address their target group. Social entrepreneurial organizations either create social value *with* their target group, *for* their target group or in a *hybrid* model combining these two strategies.

Social value creation with target group

When creating social value with their target group, social entrepreneurial organizations integrate their beneficiaries into their value chain. Typically, they employ their target group as a means of solving their social problem. Generally, the product or service the target group produces as employees of the social entrepreneurial organization is not even intended to create social value and competes with similar products or services in the market place. Following this value proposition strategy, the social entrepreneurial organization has to create incentives for the target group to motivate them to work for the organization and for customers to buy the products or services they produce in order to sustain the organization. In addition to these two main stakeholders, this type of social entrepreneurial organization usually has to create incentives for other stakeholders on whom it depends at the start and at the end of its social value creation chain. These include organizations to connect them with their target group, or organizations and companies to take over their target group once training or employment with the social entrepreneurial organization is completed. In addition, some of the social entrepreneurial organizations following this strategy are not able to sustain their operations fully through the sale of products and services, and thus need to create incentives to attract additional funding.

The Job Factory Basel AG is an example of a social entrepreneurial organization that creates social value with its target group. Robert Roth founded the Jobfactory in Switzerland in the year 2000 to give unemployed youths a second chance to work, by providing them with an internship and training for the job market.⁵ The Job Factory offers internships in fifteen different professions in a real department store setting (restaurant (including service and kitchen), sales of fashion items, hairstyling, gift shop, musical instruments store, coffee lounge (including a delivery service), a print shop, a guitar repair workshop, a carpenter's workshop, information technology and communications services, industrial assembly, mailing services and office services.⁶ The unemployed youths can choose their internship from this range of

professions and receive accompanying professional and personal training through the Job Training Foundation to prepare for job applications or undertake further education. Being integrated into the value creation of the Jobfactory, they produce products and services that are already offered on the market, but most of them have a unique value proposition. The social value is created through the youths fulfilling meaningful and thus rewarding tasks in a performance-orientated environment that prepares them for integration into the 'real' job market afterwards. As well as being given the opportunity to improve their prospects, the youths are given incentives to work for the Jobfactory: since there is such a large array of job training available, they are able to choose an area that suits their interests, which increases motivation. Additionally, they do not face the sort of stigma that attaches to those who have completed state-run programmes, and the training is individualized to focus specifically on their areas for improvement.

Social value creation for target group

Social entrepreneurial organizations that create social value for their target group offer products or services whose use by the target group creates the intended social impact. These products or services are either sold to the target group or paid for by other stakeholders to be used by the target group. Following this strategy, social entrepreneurial organizations need to create incentives for customers to buy their products or services. In this case they need to differentiate between the two reasons for market failure that social entrepreneurs generally address: inability to pay and unwillingness to pay.⁷ When their target group is not able to pay for the products and services that would satisfy their needs (for example, people from developing countries who cannot get access to or afford products from developed countries), social entrepreneurial organizations still often find ways to make these products or services available to their target group to create a social impact. When their target group is able but not willing to pay for the product or service, social entrepreneurs have to use incentives that motivate their target group's contributions to the public good. In both cases, social entrepreneurial organizations might have to use incentives for additional stakeholders – that is, for funding, materials or distribution.

The social entrepreneurial organization KickStart is an example of social value creation for the target group. KickStart operates in Sub-Saharan Africa and was established in 1991 by Martin Fisher and Nick Moon. The organization develops and promotes agricultural tools with low-cost technology, such as micro-irrigation pumps and oilseed presses

that empower local entrepreneurs to start their own profitable small businesses.⁸ Selling these tools to poor farmers in developing countries at a price they can afford and with the features and quality they really need (particularly simple, intuitive use and long durability), KickStart catalyzes the reduction or eradication of poverty and increases the welfare of developing nations through enabling a large number of small-business owners to earn a living.

Hybrid social value creation

Social entrepreneurial organizations employ a hybrid model where the two value proposition strategies above are combined. In this case, the social value is created both through the integration of the target group into the value chain and via a product or service delivered to them – that is, they have to contribute to the product or service produced to solve their social problem, and their integration into the product or service creation process is part of the solution. In other cases of hybrid social value creation, the social value created spans several beneficiaries to a similar degree, or the social value is created through several distinguishable groups of people to a similar degree. The social entrepreneurial organization has to use the respective incentives depending on its situation.

An example for a social entrepreneurial organization creating social value with a hybrid model is Habitat for Humanity. It was founded in 1976 in the USA by Millard and Linda Fuller, with the aim of providing decent, affordable housing to poor, homeless families in various countries in the world.⁹ The organization works to achieve this aim based on financial and material donations, volunteer support and ‘sweat equity’ – that is, the future homeowners’ own labour investment in their new house.¹⁰ In this way, Habitat for Humanity can build houses at a very low cost and sell them to the new homeowners, providing them with a no-profit mortgage. The fact that Habitat for Humanity’s social value creation is built on selling affordable houses to people who help to build them demonstrates the integrated value proposition: ‘paying a mortgage gives the recipient a greater sense of ownership and responsibility, creating social value beyond the fundamental provision of housing’.¹¹

It also recruits volunteers who have benefited from the programme to build houses for other people in the same region. Having themselves benefited from the help of volunteers, these newly recruited volunteers feel a strong incentive to return the favour to other families in need.¹² This reciprocal commitment is an example of the social capital that social entrepreneurs create through their business model, and their

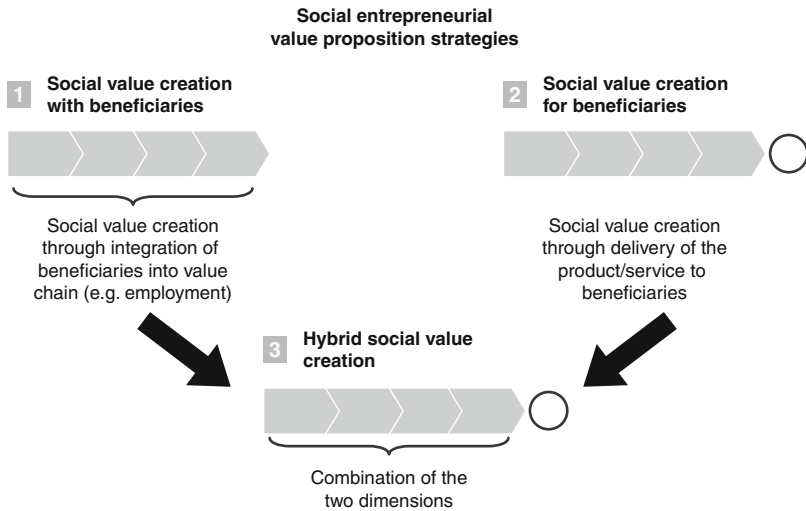


Figure 7.2 Value proposition strategies¹³

need for it to function too. Habitat for Humanity’s value proposition is hybrid because social value is both created by the process of building the new homes and by the final product itself.

Figure 7.2 illustrates the three value proposition strategies that social entrepreneurial organization can apply.

Product design and market definition strategies

With the aim of catalyzing the provision of public goods, social entrepreneurial organizations shape innovative strategies regarding the design of the products or the definition of the markets they address. These diverse strategies have in common the creation of incentive structures by designing innovative products, and by defining markets innovatively, both leading to the provision of public goods.

Product design

The product design strategies identified for social entrepreneurial organizations include making public goods more tangible through individualization, offering a secondary product with a unique selling proposition (USP), and adapting product technology to meet the requirements of the market.

Some social entrepreneurs catalyze the provision of public goods by *making public goods more tangible through individualization*. Public goods, such as a healthier environment, a socially integrated society or the absence of poverty, are characterized by being rather intangible and detached from the individuals contributing to them. Increases or improvements in these products cannot be traced back to individual contributions and individuals usually do not feel a direct benefit from the contribution made. This makes it more difficult to comprehend the effect of one's contribution to public goods. As detailed in the theory of public goods (Chapter 4), this characteristic of intangibility, together with the characteristics of non-excludability and non-rivalness in consumption leads to a decreasing willingness among individuals to contribute to public goods. Accordingly Dees and Anderson reason that 'When the benefits are intangible/societal and the non-monetary costs are high, charging participants is likely to pose more of a problem.'¹⁴

Several social entrepreneurial organizations aim to make the benefits of public goods more tangible for the individual through personalizing contributions, and attempting by these means to increase individuals' willingness to contribute. Two examples of social entrepreneurial organizations clarify the practical implementation of this product design strategy: the CarbonNeutral Company Ltd, and Kiva.

The CarbonNeutral Company, founded in 1997 by Sue Welland and Dan Morrell in the UK, contributes to the fight against the effects of climate change. It catalyzes the provision of the public good of a healthier climate by making carbon dioxide emissions more tangible for individuals and businesses, thus increasing their willingness to pay for offsetting them.¹⁵ The company claims to be a pioneer in packaging and selling carbon offsets, and in creating online calculators for carbon emissions.¹⁶ Individuals and businesses can use the calculators to work out the amount of carbon dioxide resulting from their activities (flying, driving, using heating and so on). For individuals, the damage they produce – that is, the costs for offsetting the amount of carbon dioxide produced – are presented after the calculation. By paying these costs, individuals can invest in different projects that offset their carbon dioxide emissions. The CarbonNeutral Company makes this investment even more tangible by offering a 'CarbonNeutral pack' with a certificate confirming the carbon offset amount, a baggage tag and information about the projects offsetting the individual's emissions. For businesses, the CarbonNeutral Company offers to offset its total carbon dioxide emissions and thus make the organization a 'CarbonNeutral Company', being awarded the 'CarbonNeutral brand' with the possibility of joining

the 'CarbonNeutral programme'. This programme offers even more possibilities to capitalize on the 'CarbonNeutral brand' and reduce emissions. The number of other organizations with similar offers regarding carbon footprint reduction demonstrates the success of making carbon dioxide emissions more real for individuals and businesses, and thus increasing their willingness to pay for the damage they create through their activities.¹⁷

The US-based internet start-up organization Kiva is another example of making public goods more tangible through individualization.¹⁸ Kiva's strategy involves portraying individuals from developing countries who need microcredit for their small businesses on Kiva's internet site (<http://www.kiva.org>), and enabling individuals from developed countries to lend small interest-free amounts of money to specific individuals they would like to support. According to the Skoll Foundation, by which Kiva was granted the 'Skoll Award for Social Entrepreneurship', Kiva attracted more than 148,000 lenders through the internet during its first three years. These lenders supported 33,000 small-business owners across forty developing countries with loans totalling US\$22 million.¹⁹ Making poverty and the means to end it more tangible through publishing individual life stories seemingly provides an incentive for individuals to contribute to its eradication.

Another strategy of social entrepreneurial organizations to catalyze the provision of public goods by overcoming the intangibility of public goods is to offer a *secondary product with a unique selling proposition* to a different customer group than the target group. Social entrepreneurs following this strategy often employ members of their original target group in their organization – for example, disabled, homeless or marginalized people – to give them the opportunity to become independent of public aid, regain self-confidence through doing a meaningful job, and reintegrate into society through direct contact with other people.²⁰ The social entrepreneurs provide the support for these jobs by producing and/or selling products or services to 'second' customers, who are not their original target group, but constitute an essential element to catalyze the intended public goods provision and to ensure the business model's sustainable functionality. The production and/or sales of products usually has two effects, both of which contribute to the intended social value. First, producing and/or selling products and services occupies the target group, and second, by selling the product or service to other citizens, the target group is able to establish social contacts and reintegrate socially. The public goods catalyzed by using this strategy can be described as the empowerment of marginalized individuals and a

socially integrated society. Social entrepreneurial organizations applying this strategy share the characteristic of striving for quality and uniqueness in their respective areas of business rather than offering just 'more of the same'. This selling proposition serves as stable incentive for customers to buy their products and services apart from mere compassion and thus catalyze public goods by realizing a direct individual benefit at the same time. Social entrepreneurial organizations spearheading this strategy offer a diverse range of products and services: for example, Consens GmbH in Germany and its concept 'Dialogue in the Dark', Rubicon Programs Inc. in the USA, and San Patrignano in Italy.

Consens has focused on social reintegration of blind and disabled people since 1996.²¹ Dr Andreas Heinecke, the founder of this social entrepreneurial organization and its prestigious project 'Dialogue in the Dark', created a museum that provides a kind of 'edutainment' to customers. They are guided through completely dark theme rooms by a blind guide to learn about the world of blind people. In addition, Consens employs disabled people in other operations in the museum. Various public goods are created in this process: blind and disabled people gain self-confidence and motivation through doing a meaningful job, which also generates income; they feel respected by their customers, and their customers in turn gain a better understanding of being blind. Dialogue in the Dark has proved to be a unique and innovative concept which has been replicated in number of cities around the world.²²

Rubicon Programs was founded in 1973 and operates two business ventures: Rubicon Bakery and Rubicon Landscapes, in California, USA. These ventures employ the 'unemployable' – in this case, homeless or poor people, marginalized individuals and individuals with psychiatric disabilities.²³ Other services for this target group, such as housing, legal advice and mental health care are part of Rubicon's employment package. In addition to its ambitious social mission, Rubicon aims to produce extraordinary products and deliver quality service. It has already received several prizes for its bakery products.

Drug addicts who wish to detox and reintegrate into society can turn to the community of San Patrignano – Società Agricola Cooperativa Sociale in Italy, founded in 1978 as a 'community against social marginalization' by Vincenzo Muccioli.²⁴ San Patrignano offers a variety of fields in which former drug addicts can engage, based on their personal interests, to produce products or services. Among the products and services created or provided by the members of the community are: making home décor articles such as furniture, accessories, wallpaper, fancy foods

and wines, breeding of horses and dogs, and growing plants and flowers. To provide customers for these products with an incentive to buy, San Patrignano offers high quality. The community produces wines that rate among the best in the country, and breeds champion horses.

One key strategy for social entrepreneurs is to design products according to the requirements and payment possibilities of the market, thereby empowering poor people to buy products on their own and thus catalyze the provision of public goods. Social entrepreneurial organizations focus in particular on *designing or adapting the technology of their products to the requirements of their target market*. Especially in developing countries, this generally means designing durable, affordable products that allow for easy and intuitive use, and often enable poor people to pay for the product or service themselves. This strategy allows social entrepreneurial organizations to recover all or part of the costs associated with providing the good or service to its target group. At the same time, it turns beneficiaries into customers. This change in roles has several benefits. The rights associated with being a customer can evoke a feeling of dignity among the beneficiaries, as well as the fact that they themselves paid for the product or service, which also increases the probability that they will value the product or service accordingly (that is, maintain the product properly). The social entrepreneurial organizations Dabba Telecom, Freeplay Energy plc and KickStart demonstrate the implementation of this strategy in their respective fields.

Dabba Telecom, based in South Africa, aims to provide access to communication services to under-served areas – namely, to marginalized South Africans living in townships.²⁵ To make voice and data services affordable for this target group, Rael Lissoos, founder of Dabba, employs low-cost wireless technology based on open-source software development and operated via affordable Wi-Fi handsets. As a result, local calls within the village can be offered free of charge, while other, still affordable, calls follow the pay-as-you-go principle.²⁶ The adaptation of technology and its distribution to meet the requirements of the local market leads to a service that is both useful and affordable to the target group, creating an incentive to buy. Other local entrepreneurs are encouraged to replicate Dabba's 'village telco' model in other communities.²⁷

Freeplay Energy, established in the UK in 1996 by Rory Stear, develops self-sufficient portable energy devices to match the requirements of outdoor enthusiasts, environmentalists, international aid agencies and emergency workers as well as those of poor people living in rural areas in developing countries with no access to the energy network:²⁸ 'Freeplay Energy has developed patented wind-up technology, coupled with solar

energy, which is used for radios, torches, water purifiers, mobile phone chargers, medical instruments and stand-alone power generators.²⁹ The advantage of Freeplay's electronic products is their robust and durable construction and their independence from the electricity network, which is not available in rural areas in developing countries. Freeplay's product range covers typical needs in such areas: clean water, light, independent power supply, information and communication. In cooperation with the Freeplay Foundation, Freeplay Energy distributes these devices to communities in need and thus catalyzes the provision of public goods – for example, by giving wind-up radios to rural communities in developing countries: 'Freeplay Energy has increased the potential impact of public health approaches, education and income generation efforts targeting poor and rural communities, thereby contributing to poverty eradication and helping to improve quality of life.'³⁰

KickStart, as discussed earlier, is a social entrepreneurial organization in Sub-Saharan Africa that sells agricultural tools with low-cost technology to small-scale farmers. To reach its objectives, KickStart applies strict rules to its product design that are derived from local market and geological requirements: '[The product] must be affordable, manually operated, energy-efficient, durable and easy to transport by bicycle or bus. It must require minimum training to install and use, be easily repairable and manufactured from locally available materials.'³¹ KickStart's agricultural tools are designed taking into consideration the needs and financial abilities of small-scale farmers in Kenya, Tanzania and Mali. As a result, local farmers do not only have an incentive to buy these tools, but they are also able to finance the product on their own and recover their investment after some three to six months.³² Moon and Fisher sum up their ambitions for KickStart: 'The greatest good to the largest number in the shortest time at the least cost.'³³

These three strategies for product design demonstrate how making public goods more tangible, combining them with individual benefit or using suitable technology to design products can lead to stable and often profitable incentive structures. These structures either create a willingness to pay among those able to pay, or enable the poor to take part in the market mechanism and thus catalyze the provision of public goods – such as the empowerment of poor and marginalized individuals, poverty reduction and environment protection.

Market definition

Innovative market definition can be another fruitful area of public goods catalyzation for social entrepreneurial organizations. Two strategies

regarding market definition become obvious when analysing examples of social entrepreneurial organizations: the identification of existing demands within society with no or low profit potential, and the bridge between offer and demand.

Certain social entrepreneurial organizations purposefully *identify existing demands within society with no or low profit potential* but still with some income potential that might eventually allow for break-even operations. These opportunities are normally not tapped by for-profit companies from the private sector since they would then be liable to the profit imperative from their owners or shareholders. However, this leaves certain demands unsatisfied, which can be converted into market structures by social entrepreneurial organizations with a non-profit status. The CAP supermarket chain, wellcome and the Institute for One World Health provide examples of markets created from unsatisfied non-profit demands.

The concept of small-scale CAP supermarkets in Germany, the first one opening in 1999, covers multiple demands and thus builds on several incentives of stakeholders to contribute.³⁴ The name of the small-scale supermarkets – CAP – hints at their main employees, namely handicapped individuals. They are given meaningful jobs as shop assistants, where they are given a chance to develop their talents.³⁵ CAP markets have been opened in smaller communities, as local supply of consumer goods is no longer available in city centres. In these areas there is often a demand for a local shop within walking distance, particularly from elderly people without individual transport possibilities. While bigger supermarket chains with a profit imperative move to cheaper and larger areas outside the city centres, CAP markets aim to satisfy this local demand and at the same time contribute to community life by integrating handicapped and non-handicapped people, and offering residents a local shopping experience with personal attention.

The social entrepreneurial organization wellcome gGmbH was founded in Germany by Rose Volz-Schmidt in 2002. It helps young mothers during the first weeks following childbirth, preventing excessive demands on the young family and avoiding postnatal crises.³⁶ A volunteer member of the organization cares for the young family in its own home for several hours a week until a day-to-day routine is established (usually for about three months, but in serious cases the time can be extended up to a maximum of a year). Typically, volunteers provide emotional and practical support, ranging from their simple presence and listening to the young mother's problems, to caring for older siblings and helping with housekeeping.³⁷ Volz-Schmidt identified a need for this

kind of service among all social levels of German society.³⁸ This means that there are mothers who would be able to donate towards costs. To make the service affordable for all mothers needing it, wellcome generally charges €4 per hour for its service, to help cover the organization's operational costs.³⁹ This fee can be waived in case of financial hardship, but can also be amended by donations from affluent customers.⁴⁰ According to Volz-Schmidt, many families are happy to pay for the service just because it makes them feel less needy.⁴¹ The fees represent one pillar of wellcome's financial resources, which also include public funds and private donations. Depending on the region of service delivery, the fees can add up to 60 per cent of wellcome's financial resources.⁴² Volz-Schmidt decided to satisfy the demand for this kind of service explicitly at all social levels – that is, making its service available to all mothers – while accepting the fact that only a part of the operational costs can be covered by fees.

The Institute for One World Health, founded in 2000 by Victoria Hale in the USA, also aims to satisfy a huge demand which has no or only a very low profit potential: the demand for medical treatment for infectious diseases in the developing world such as leishmaniasis, malaria, and diarrhoeal diseases.⁴³ In order to enable sustainable production and affordable sales of these drugs, the Institute for One World Health provides the structure within which to research, develop and test potential new drugs for these no- or low-profit markets. These markets would have otherwise been undeveloped by for-profit pharmaceutical companies because of the lack of profit potential. Victoria Hale described her basic idea for founding the Institute for One World Health: 'If the barrier to developing drugs for these medicines is the profitability requirement, then it should be possible to develop these medicines within a pharmaceutical company that doesn't have that profitability requirement.'⁴⁴

The Institute for One World Health achieves this goal through integrating intellectual property shared or donated by industry and academia, philanthropic capital mainly granted by foundations, and expert scientists loaned from pharmaceutical companies.⁴⁵ Once a drug is developed, the Institute for One World Health contracts local companies in developing countries to manufacture and distribute it, thus creating local jobs at the same time: 'With the specific goal of separating profitability from a drug's potential to cure disease, OneWorld Health's social entrepreneurial business model leverages promising industry research to create life-saving medicines for those most in need.'⁴⁶

Some social entrepreneurial organizations create markets by *bridging offer and demand between countries and continents*, making globalization work in favour of social purposes. They realize there exists a certain, sometimes traditional, skill, product or commodity in one (often developing) country and the demand for these in other (often developed) countries. In order to catalyze the provision of public goods through exercising the skill, or selling the products or commodities identified, these social entrepreneurs find ways to bring together offer and demand, as the examples of Novica United, Inc., Bosnian Handicrafts, Recycla Chile Ltd and the Sekem Group demonstrate.

Roberto Milk and Armenia Necessian de Oliveira founded Novica in 1998 in the USA, with the aim of bringing together artisans of traditionally manufactured products (such as home décor, jewellery, apparel and paintings) with potential buyers directly via the internet.⁴⁷ This direct connection leads to a win-win situation between vendor and buyer. By cutting out middlemen and their margins, the artists and artisans can set their own prices to earn a decent living, while the customers can still buy their products at a much lower price than would have been possible through traditional channels.⁴⁸ This process catalyzes the preservation of cultural heritage and the reduction of poverty at the same time.

The project Bosnian Handicrafts, run by the organization UHD Bosanske Rukotvorine, brings the traditional knitting and other craftsmanship skills of women from Bosnia and Herzegovina to a broader audience by using the bridging function of the internet.⁴⁹ Lejla Radonic started the initiative in 1995 after the Bosnian War, with the aim of giving women refugees, displaced and traumatized by war, an opportunity to earn an income by using their traditional skills and preserving their own cultural traditions.⁵⁰ Their products sell nationally and internationally, with the USA, France and Germany being the biggest export markets, and allow approximately 700 craft producers to earn their own income by using their traditional skills (around 200 to 250 women are fully employed).⁵¹

The social entrepreneurial organization Recycla was founded in Chile in 2003 by Victor and Pedro Nilo, with the aim of contributing to the environment by recycling electronic waste and non-ferrous metals.⁵² Recycla's business model integrates environmental and social objectives with the economic opportunity of selling valuable components of electronic appliances to European waste processing plants. It has created a profitable waste management system by employing former prisoners, who dismantle the electronic waste. The former inmates are reintegrated

into society and the job market at the same time. Recycla offers its services to individuals and corporations, educating the public and raising awareness of the environmental and health-related importance of recycling electronic appliance waste. Acting as a bridge between the demand from developed countries for commodities and the supply of electronic appliance waste in Chile, Recycla is able to catalyze sustainably the creation of a public good of a healthy environment.

The popular social entrepreneurial organization, the Sekem Group, benefits from demand for organic products both locally and abroad. Founded in Egypt in 1977 by Ibrahim Abouleish, Sekem has become a successful example of a socially, environmentally and economically integrated company. With the aims of applying biodynamic agricultural methods, providing the quality products and services consumers really need, and marketing and distributing products and services in partnership with their stakeholders, Sekem has established a number of different entities supporting its mission in various areas such as phyto-pharmaceuticals, organic foods, herbs and spices, organic seedlings and organic cotton textiles.⁵³ Sekem's employees are organized into a co-operative, and receive education, healthcare and increased quality of life through the Sekem Development Foundation. About 45 per cent of Sekem's revenue is generated through export activities to European countries and the USA whose demand for organic products ensures the sustainability of Sekem's integrated business model.⁵⁴

The strategies for market definition presented here, with their illustrative examples, demonstrate how social entrepreneurial organizations create incentive structures that ensure sustainable demand for the products and services they offer, providing clear incentives for customers to buy their products – for example, uniqueness, superior quality and/or lower cost. Sustainable demand for their products and services catalyzes the provision of public goods, such as the reduction of poverty, increased levels of health, education or quality of life, and a healthier environment, which often result from employing beneficiaries in the social entrepreneurial organization.

Strategies for the internal value creation architecture

Social entrepreneurial organizations shape their internal architecture by using incentive structures that catalyze the provision of public goods. They create strategies to attract new resources, or use existing ones; design their value chain; structure their organization; or expand their operations.

Resources

Social entrepreneurs create innovative strategies to attract resources for the provision of public goods. While the resource dependency theory, which serves as the theoretical foundation for this part of the book, suggests that anything that is valuable to the organization is considered a resource, this section specifically highlights strategies that create incentive structures within the categories of human capital and economic capital.⁵⁵

Human capital

The incentive strategies explored here are: the integration of current or former beneficiaries into value creation; volunteer graduate employment; and value-added volunteer employment.

Integrating current or former beneficiaries into value creation is a strategy many social entrepreneurial organizations use to access human capital and to catalyze the provision of public goods. The integration of current beneficiaries into the workforce of the social entrepreneurial organization is often the core of the social entrepreneurial business model and catalyzes directly the provision of public goods, such as the empowerment, training or social integration of marginalized people. Former beneficiaries serve as experienced volunteers, since they have already passed through and benefited from the processes of the organization. Both groups of volunteers share the same incentive for working for the organization: current beneficiaries gain personal advantages from the process of working, while former beneficiaries who gained personal advantages through the organization in the past are thus willing to 'give back' to it in the present. The examples detailed below highlight both the integration of current beneficiaries (in La Fageda) and of former beneficiaries (in the Committee for the Democratization of Information Technology – CDI).

La Fageda, a social co-operative founded by Cristóbal Colón in 1982 in Spain, provides jobs for Spanish citizens marginalized by mental disabilities.⁵⁶ La Fageda rehabilitates such people by giving them meaningful work in its dairy production, its plant nursery, its landscaping services and its cattle farm for milk production and breeding.⁵⁷ In addition to having meaningful work and being given the opportunity to lead a decent life, these individuals are attracted to La Fageda for rehabilitation. Beneficiaries are given further incentives. They are assigned to jobs that best suit their respective condition. A monitor, hired by the organization, is assigned to each individual, when he starts working at La Fageda. The monitor is there to train beneficiaries in their work and

to report on their performance. As part of the support programme, psychologists follow the beneficiaries' personal and professional development. Workers also become shareholders of the co-operative.⁵⁸

Rodrigo Baggio runs the computer schools of the Brazilian non-profit Committee for the Democratization of Information Technology (CDI), founded in 1995, partly with the help of former beneficiaries. The CDI has developed the concept for so-called Information Technology and Citizen Rights Schools (ITCRSs) that are situated in low-income communities and use information technology to assist marginalized individuals such as the mentally disabled, indigenous populations, homeless children or prison communities with reintegration.⁵⁹ Information technology instruction is intended to help these individuals train for and seek jobs, access knowledge, encourage social interchange and improve self-esteem.⁶⁰ Former beneficiaries who have completed courses taught at the ITCRSs can themselves become teachers. The motivation to do this arises both from their own positive, empowering experiences with CDI and from the incentive of earning a salary as a CDI teacher.⁶¹

Many social entrepreneurial organizations rely to a certain extent on a volunteer workforce or a workforce accepting below-market payment. To build stable relationships with a volunteer workforce and thus ensure sustainable operations, social entrepreneurs use incentives other than money and employ diverse strategies to create effective incentive structures.

Some social entrepreneurial organizations apply the strategy of *niche volunteer employment*. They aim to attract a certain target group of potential volunteers with a specific value proposition rather than trying to appeal to everyone. Some organizations specifically seek recent college graduates to work for them. This strategy works because a significant number of graduates feel the need to take some time off to broaden their horizons, gain valuable experience or just to 'give back to society' after graduating. Other organizations offer volunteer opportunities that attract specific skills or give the opportunity to train for a real job afterwards. Three examples, Teach for America, Inc., Un Techo para Chile and wellcome gGmbH use this strategy.

Teach for America is a popular example of a social entrepreneurial organization applying this strategy. Founded in 1989 by Wendy Kopp, Teach for America aims to increase educational opportunities for children in low-income areas in the USA.⁶² To achieve this aim, Teach for America seeks to attract recent college graduates with outstanding grades who agree to teach in schools in rural and urban communities for two years.⁶³ Being admitted to the Teach for America corps of teachers

is considered an award among graduates, which sends a positive signal to future potential employers. As Teach for America alumni, these talented students are expected to serve additionally as promoters not only of the Teach for America programme but also of improving education in low-income communities. As such, Teach for America fosters an exchange between those 'who made it' – that is, passed successfully through college, and those who have yet to overcome the challenges of their environment and background.

The organization *Un Techo para Chile* (Spanish, meaning 'A Roof for Chile'), founded in 1997 by Felipe Berrios, employs thirty recent graduates of Chile's best universities for two years to manage the organization's various programmes. These provide housing and infrastructure facilities to Chilean slum dwellers as well as supporting efforts to create communities and foster social change. The public goods catalyzed during this process are poverty reduction and social capital. The organization's innovative approach consists of integrating larger and diverse parts of society into the process of community creation instead of only the slum dwellers or beneficiaries. The success of this approach is mainly a result of Berrios's ability to involve highly talented Chilean youth: 'Un Techo para Chile has successfully eroded the barriers preventing national solidarity by generating a commitment by Chile's youth to the future of their country. In the process, their parents and the public and business sectors have joined the effort.'⁶⁴ Graduates compete for the possibility of learning how to manage a social entrepreneurial organization despite a below market average salary. They are attracted by the organization's reputation, the opportunity for further learning and by the knowledge that they are contributing to improving Chilean society as a whole and the lives of citizens in need in particular.

The German social entrepreneurial organization, *wellcome gGmbH*, discussed earlier in the chapter, offers pragmatic help for young families. This service is based on *wellcome's* strategy to attract a very specific group of volunteers: women who want to be involved in an activity with children, but without being tied to an organization.⁶⁵ Volunteers are often mothers whose children are now grown up and independent, women who do not have children themselves, or women who would like to train for a job linked to children or babies, such as midwives.⁶⁶ According to Volz-Schmidt, the founder of *wellcome*, the organization usually finds enough employees to satisfy the demand for its services.⁶⁷ Volz-Schmidt's opinion on volunteer engagement makes *wellcome* special. In her eyes, it is not only the volunteers giving their labour and passion to the organization, but also the organization offering them the

opportunity to satisfy their wish for a volunteer role in a specific niche, and to gain rewarding experiences.⁶⁸ Another incentive for volunteers to work for wellcome is the flexibility the organization offers – volunteers can decide from job to job whether they wish to continue or prefer to have a break or even to change their focus as volunteers.

Other social entrepreneurs employ the strategy of *value added volunteer employment* to attract other groups of volunteers. As well as the feeling of satisfaction gained by working for a social objective, additional incentives such as exceptional vacation experience (demonstrated by the example of Habitat for Humanity), expert training (demonstrated by the example of Aravind Eye Hospitals) or specific scientific and research opportunities (demonstrated by the example of the Institute for One World Health) are offered.

Introduced earlier in the chapter, the organization Habitat for Humanity attracts volunteers (in addition to former and current beneficiaries) by offering so-called ‘construction vacations’. Volunteer engagements are packaged into three- to four-week assignments and marketed as holidays in foreign, partly exotic, countries, with the special experience of working closely with the local population. These special experience vacation packages are offered to individuals as well as companies, which can also use it as a special employee incentive or team-building activity. Some 25–40 per cent of Habitat’s volunteers form part of a corporate social responsibility programme allocating them to one of Habitat’s construction sites.⁶⁹

Aravind Eye Hospital was founded in India in 1976 by Govindappa Venkataswamy.⁷⁰ The hospital focuses on ophthalmic surgery and has revolutionized eye care in developing countries through efficient cost management and an innovative fee system for patients that allows poor patients also to benefit from their services. By making their services available to poor people, Aravind catalyzes the production of such public goods as empowerment of the poor, improved health, and poverty reduction resulting from the person’s ability to work after being cured of blindness. Part of this hospital’s strategy is achieving large-scale while maintaining quality to bring down costs and operate sustainably. As a result, ‘Aravind performs over two hundred thousand sight-restoring surgeries each year’.⁷¹ This high volume of highly specialized surgeries translates into extraordinary skilled doctors who in turn make the Aravind Eye Hospital a globally popular training facility among young ophthalmic doctors. Aravind can provide them with both specialized insights and experience from its expert doctors and the opportunity to perform a large number of sight-restoring operations in a very

short period of time. These incentives serve to attract doctors from renowned medical schools all over the world to train as visiting residents at Aravind.⁷²

The Institute for One World Health, also discussed earlier, needs scientists to develop drugs to cure diseases in the developing world. However, as a non-profit company it is not (yet) able to pay competitive salaries (only about 75 per cent of the amount currently paid in salaries in the pharmaceutical industry).⁷³ According to the founder, however, the social entrepreneurial organization can attract scientists who compensate for the reduced salary with the satisfaction they feel from using their skills to benefit humanity and doing research whose impact they feel more directly.⁷⁴ The incentive provided by the Institute for One World Health is that the scientists are able to continue to follow their profession and carry out high-end pharmaceutical research, combined with a more obvious and direct attachment to the outcomes of that research.

Economic capital

Regarding economic capital, a strategy in the area of financial capital has been identified (multi-tiered pricing) as well as strategies in the area of physical capital (new or enhanced use for unutilized or underutilized physical resources, and use of resources often not recognized as such).

Securing access, and a continuous flow of the right amount of financial capital to sustain their operations are some of the greatest challenges faced by social entrepreneurs. Strategies regarding this business model dimension can create incentive structures that either enable the generation of their own income or attract external capital not directly resulting from the operational activities of the social entrepreneurial organization. While the attraction of external capital can be similar to the respective activities of either for-profit businesses – that is, competing for venture capital or debt capital; or non-profit organizations – that is, fundraising, this subsection highlights a social entrepreneurial strategy in the area of income generation.

Some social entrepreneurial organizations provide their product or service to differentiated customer groups: well-off customers who can afford to pay the normal price (that is, including a profit margin), and poor customers who can only afford to pay a fraction of the cost or nothing at all. The aim of these social entrepreneurs is usually is to make their product or service also available to the poor but in a sustainable way, and thus catalyze the provision of public goods. To achieve this, these social entrepreneurs take advantage of the differing ability to

pay between their customer groups. Through keeping the right balance between the two customer groups, the social entrepreneurial organization can reach financial break-even while creating a significant social impact. This strategy is known as multi-tiered pricing.⁷⁵ The following three examples – Aravind, Aurolab and Freeplay Energy – demonstrate the feasibility of this strategy.

The example of Aravind Eyecare System was introduced earlier. Aravind uses multi-tiered pricing to enable the company to offer ophthalmic surgery sustainably to the poor. It differentiates between wealthier patients and poor patients: 'By linking higher levels of payment for wealthier patients to lesser charges for the poor, it is fully self-sustaining. This has been achieved without any deficiency in the quality of care received by poor patients.'⁷⁶ Patients separate themselves into one of the two groups and have slightly different experiences regarding their overall hospital stay; for example, a private room with a bed, compared with a shared ward equipped only with mattresses.⁷⁷ The same level of medical quality, however, is assured for all patients, and staff rotate between the two surgery areas.⁷⁸ With this strategy, Aravind can treat about two-thirds of its 1.4 million patients each year free of charge and still deliver the same quality of service to all its patients.⁷⁹

The social entrepreneurial organization Aurolab, founded by David Green in 1992, catalyzes the provision of eyesight and eye health. Green has succeeded in producing not only intraocular lenses for developing countries for a fraction of their traditional cost in developed countries, but also spectacles and hearing aids. These products are offered on a sliding price scale, and wealthier patients are charged more than poorer ones.⁸⁰ This pricing method allows sustainable provision at least at break-even of high-quality products to both wealthy and poor beneficiaries: 'Sales to lower- to upper-middle class people who can afford to pay more for the hearing aid generate profits that offset losses on below-cost sales to poor people.'⁸¹

Wealthier people have an incentive to buy these products rather than competitive products from developed countries, since they can still be offered at significantly cheaper prices (even including a margin to subsidize free provision to the poor) while maintaining the same standard of quality. Thanks to David Green's search for more efficient production processes, poor people in developing countries are able to benefit from high-tech medical products.

Freeplay Energy was mentioned above as a provider of self-sufficient portable energy devices such as radios, torches and power generators to be used in extreme outdoor conditions and remote areas that do

not have access to the energy network. By targeting three different customer groups, Freeplay can catalyze public goods through the provision of energy and devices such as radios for the poor.⁸² As noted earlier, Freeplay offers its solar, wind-up and rechargeable energy products to individuals in both developed and developing countries, ranging from outdoor enthusiasts who use their products for leisure activities in remote areas, through to mobile phone users in energy-remote areas and to environmentalists in search of eco-friendly energy solutions.⁸³ The second customer group using Freeplay products are international aid agencies and emergency workers, operating in inaccessible areas in developing countries. They use Freeplay products for their professional engagements. Third, Freeplay develops and provides its products to poor communities in isolated areas in developing countries, giving them access to energy and light as well as to education and information through the wind-up radios. Thanks to sales to the first two customer groups, Freeplay can provide its products at reduced prices to the third customer group through the Freeplay Foundation: 'Freeplay Energy has benefited from the high volume of sales to affluent populations. This profit has allowed them to develop and improve its products and to establish the Freeplay Foundation, which buys Lifeline radios at subsidized rates for humanitarian and development efforts.'⁸⁴

To stimulate and maintain the demand from and resulting payment by the wealthier customers, these social entrepreneurs pursue a USP – superior quality through experience, efficient production allowing cheaper prices than competitors offer, even for wealthier customers, or innovative technologies. The examples demonstrate that multi-tiered pricing allows for sustainable operations that catalyze the provision of public goods.

Social entrepreneurs are popular for *putting unutilized or underutilized physical resources to new or enhanced use*: 'They take under-utilized and often discarded resources ... and re-energize them by finding new ways to satisfy unmet and often unrecognized needs.'⁸⁵ Social entrepreneurs use existing structures and institutions to provide their services or acquire their customers – that is, gain access to their beneficiaries. Other social entrepreneurial organizations put physical resources discarded by one society to use in another: 'most of those physical assets are things which have no value for those who have it but huge value for those who need it and you just need to find clever bridges in order to find those that don't need it to give to those who need it'.⁸⁶ Yet others make use of natural resources (such as sunlight) or waste material to create

incentive structures that generate income, empower the poor and benefit the environment.

Murat Vural founded the German initiative Interkultureller Bildungs- und Förderverein eV (IBFS) in 2004, with the aim of empowering immigrant schoolchildren in Germany to overcome the hurdles of alienation, disintegration and the lack of self-esteem and poor school performance that accompany these hurdles. IBFS uses schools as a resource for both the distribution and production of its services. First, IBFS gains access to migrant children who show performance difficulties through the schools with which the company cooperates. Second, it uses unused rooms in the schools during afternoons and evenings to provide coaching and tutorials.⁸⁷ Using schools as distribution channels and for physical research helps IBFS to save money on marketing and renting classrooms.

The Brazilian organization CDI, introduced earlier, is another example – it uses hardware and software discarded by wealthier communities and societies abroad to give marginalized individuals in the Brazilian *favelas* access to information and communication technology.

Other social entrepreneurial organizations base the creation of whole business models on the *use of resources often not recognized as such*. By considering certain resources as valuable, these social entrepreneurs (re-)configure value chains, which results in new jobs for poor people, increased empowerment, improved health and positive external ecological effects. The following three examples demonstrate different business models built around revalued resources: DMT Mobile Toilets Nigeria Ltd, Ciudad Saludable and Selco Solar Light Ltd.

DMT has already been mentioned briefly in Part I. It was founded in 1992 in Nigeria by Isaac Durojaiye.⁸⁸ With his social entrepreneurial organization, Durojaiye catalyzes several public goods: ‘His business model aims at improved public health and social transformation by providing job opportunities and better sanitation.’⁸⁹ Originally intended to provide outdoor events in Nigeria with sanitary facilities, DMT is now a multifaceted company that uses human waste as a resource to provide jobs for unemployed youths and marginalized people. At the same time, it improves hygienic conditions in Nigeria. DMT manufactures mobile toilets locally, places them in high-traffic areas such as markets and bus stations, and franchises them without charge to widows or young people. These individuals maintain and manage the toilets while earning a living through the small fees they charge other citizens who use their toilets.⁹⁰ A certain proportion of these fees go to DMT for its evacuation services, but the majority of the fees remain as income with the individual: ‘This

system ensures that the young people have a sense of ownership of the toilets and a stake in keeping them clean and functional in order to continue making profit.⁹¹ DMT earns additional income through selling advertising space on its mobile toilets and through renting its toilets to organizations and institutions, or for outdoor events. The social entrepreneurial organization plans to enhance the value of human waste as a resource even more by reprocessing it into biogas after evacuation.⁹²

In 1989, Albina Ruiz founded Ciudad Saludable in Peru, recognizing waste as a valuable resource and creating employment from waste collection.⁹³ Starting in one of the slum areas of the Peruvian capital of Lima, Ruiz introduced a system of fee-based waste collection that was both cheaper and more effective than the government-provided services, which previously collected only half of the waste produced daily. Ciudad Saludable's system integrates public agencies, public education and rising awareness regarding waste-related matters, and the mobilization and redirection of resources.⁹⁴ The waste collection value chain created by Albina Riuz centres around micro-entrepreneurs who collect and recycle waste from households and thus free themselves from unemployment. They are chosen by community members and are paid a monthly fee of roughly US\$1.50 for waste collection by each household. Some micro-entrepreneurs enhance their income by processing the waste into organic fertilizer which can be re-sold.⁹⁵

Ciudad Saludable uses several incentives to enhance the sustainability of the process. Households are educated about dangers to health resulting from waste, and about protecting the environment. In addition, households receive gifts for prompt and regular waste collection, such as kitchen baskets or trees planted in front of their houses (the latter also serves as signal to other community members). Another incentive is that families actually save money with cleaner surroundings because there is less illness and thus a reduced need for medication.⁹⁶ Since the micro-entrepreneurs responsible for collecting the waste live in the same community as their customers, they are under social pressure to maintain their businesses (as well as the incentive provided by the income they earn).⁹⁷ With the help of these incentives, Ciudad Saludable achieves support from 98 per cent of community households (whereas the government receives only around 40 per cent, leading to the failure of the municipal waste collection system).⁹⁸

Selco Solar Light Ltd, founded by Harish Hande in 1995 in India enhances the value of the resource of sunlight as a source of energy, and provides poor Indian households with electricity.⁹⁹ Selco combines photovoltaic solar home systems, providing energy for lighting or other

household appliances, with a suitable means of financing in co-operation with banks and microfinance institutions. As a result, poor Indian households can use increased income from light-enabled extended working hours and their savings from reduced purchases of fossil fuel to pay for the solar power systems on a monthly basis. In addition, Selco creates employment opportunities for its 'business associates': they buy rechargeable light kits based on solar energy and lease them to night vendors. These vendors have an incentive to use solar lights instead of traditional kerosene-based lighting because it is cheaper.¹⁰⁰ As a result, Selco put the resource of sunlight to work to catalyze improved working and living conditions, empowerment and poverty reduction for poor Indians, as well as environmental sustainability.

As can be seen from the strategies described, social entrepreneurs create incentive structures to attract resources to their organizations. They take advantage of the intrinsic motivation of current beneficiaries or the principle of reciprocity with former beneficiaries, or they use the motivation of graduates from leading universities or attract resources through providing additional value beyond the volunteer experience. Regarding income generation, social entrepreneurs use multi-tiered pricing to cross-subsidize provision of their products to their poor customers. Social entrepreneurial organizations also put existing, but unutilized or underutilized resources to new use, creating innovative markets and employment.

Value chain

Since social entrepreneurial organizations usually provide goods and services rather than relying only on funding and donations, they have to increase their operational efficiency instead of focusing on fundraising activities.¹⁰¹ Facing the lack of funding and the beneficiaries' often limited ability to pay for goods and services, some social entrepreneurs *increase the efficiency of whole value chains* in order to cut down costs significantly and make the product or service available to poorer people through lower prices (there is a demand for certain products or services, but they are too expensive for some people). The organizations achieve this by using cheaper materials and electronic hardware, specializing in a certain product or service and achieving economies of scale,¹⁰² or attracting volunteer employees. The following examples of the Narayana Hrudayalaya Institute of Medical Sciences and Aurolab demonstrate the application of this strategy.

Dr Devi P. Shetty founded the Narayana Hrudayalaya Institute of Medical Sciences in India in 2001, with the aim of providing sophisticated

healthcare, especially in cardiology, to all citizens, including the poor.¹⁰³ Dr Shetty's strategy of 'the Wal-martization of healthcare'¹⁰⁴ includes cost-reduction through material and scale effects. Dr Shetty reduced the cost of cardiac surgery by 50 per cent, partly by replacing hightech special equipment with normal electronic equipment (connecting analysis equipment to normal printers, for example) and partly by having his team of doctors perform around twenty-five cardiac operations a day at the hospital.¹⁰⁵ In addition, Shetty introduced telemedicine to provide cost-efficient cardio healthcare to rural communities.¹⁰⁶ In combination with his innovative pricing system,¹⁰⁷ Shetty's numerous cost-reduction innovations catalyze the provision of cardiac healthcare for all.

Aurolab, mentioned earlier in this chapter, employs a highly efficient production process providing cost-effective ophthalmic consumables to poor people. David Green deconstructed the production process of ophthalmic consumables such as intraocular lenses and built a new value chain with significant cost reduction.¹⁰⁸ While such lenses would cost around US\$150 in the United States, Aurolab manufactures and sells them for US\$2–4 in India, 'helping countless patients that otherwise could never afford such treatment to preserve their sight and ability to work'.¹⁰⁹

David Green calls his technique to reduce costs 'forensic research'.¹¹⁰ He thoroughly analyses traditional manufacturing operations and technical equipment provided by suppliers in order to find the potential to decrease costs. The ability to bring costs down and give people in developing countries access to sophisticated healthcare technology resulted in a 10 per cent worldwide market share (in the number of units sold) for Aurolab.¹¹¹

As this strategy demonstrates, drastically reducing the cost of a product by producing it more efficiently along the value chain contributes to the catalyzation of public goods, since poor people gain access to high-tech products and services from developed countries that were once unaffordable.

Structure

Regarding their organizational structure, certain social entrepreneurial organizations can be observed to be *combining various different legal entities* to reach their social impact. This strategy often entails the connection of for-profit and non-profit entities, the former generating income through the sales of goods and services, while the latter serve as back-up institutions to provide the necessary infrastructure, training or research – that is, performing activities that do not generate income directly. As such, the

latter qualifies to receive and actively acquire donations and grants. With this strategy, social entrepreneurs ensure maximum flexibility in the acquisition of resources. Three sample organizational structures made up of different legal entities can be demonstrated with the examples of Development Alternatives (DA), Sekem and Abgeordnetenwatch.

Development Alternatives is an Indian social entrepreneurial organization, founded in 1983 by Ashok Khosla.¹¹² It first develops and then sells new technologies and methods that allow the poor to earn an income and at the same time regenerate the environment. Consequently, the organization catalyzes the provision of public goods, such as healthier environment and empowerment of the poor, which leads to reduction of poverty: 'Among its successes are machines that produce standardized and affordable products for rural markets, such as roofing systems, compressed earth blocks, fired bricks, recycled paper, handloom textiles, cooking stoves, briquetting presses and biomass-based electricity.'¹¹³

To fulfil its mission, Development Alternatives is structured as a conglomerate of institutions with different legal statuses. DA itself serves as a research and design entity, focusing on the development of new technologies and methods. Technology and Action for Rural Advancement (TARA) is the for-profit entity in the conglomerate that commercializes DA's developments through its subsidiaries, generating income that makes up about two-thirds of the conglomerate's total budget. TARA pays a royalty to DA for the technologies it commercializes. In addition, DA is able to accept national and international donations, which make up approximately a third of the budget and are mainly used for research and development (R&D).

The example of the Egyptian organization Sekem, as a socially, environmentally and economically integrated company that provides organic products, has been discussed earlier in the chapter. In order to achieve social, environmental and economic integration, Sekem split its operation into several legal entities that ensure focus on its mission. The Sekem Holding Company consists of the eight companies that generate Sekem's income in their respective areas. The Sekem Development Foundation, formerly called the Egyptian Society for Cultural Development, is responsible for cultural preservation and development. Adherence to human rights and the development of social resources are ensured by the co-operative of Sekem employees.¹¹⁴ With this organizational structure, Sekem has distributed responsibilities, separated income generation from more socially orientated activities and included the workers in the achievement of Sekem's mission.

The social entrepreneurial organization Abgeordnetenwatch eV was founded in Germany in 2004 by Gregor Hackmack and Boris Hekele. The purpose of the organization is to enable citizens to fully use their democratic rights.¹¹⁵ As Hackmack describes the organization:

Abgeordnetenwatch is an internet platform where citizens can pose public questions and get public answers from their members of parliament. And in addition, they also get information on the voting behavior, their voting record, and their committee memberships, and some general biographical information such as the date of birth, which party people are members of, etc.¹¹⁶

Abgeordnetenwatch tackles the problem of a growing distance between politicians and citizens, and consequently catalyzes the reactivation of democracy and civil participation in politics.¹¹⁷ The organization was begun with volunteers and a very small budget but as it expanded its activities nationwide, the need for financial resources grew.¹¹⁸ As a result, the founding team tapped various sources, including the Members of Parliament themselves, the citizens, other non-profit organizations and advertising partners.¹¹⁹ Today, the organization does not depend on just a few individual donors, but has created a balanced portfolio of different contributions. Since these contributions are both philanthropic (such as donations) and market-orientated (such as fees for advertising on the website), Abgeordnetenwatch founded two different organizations to be able to access all financial resources: a civic association receiving donations (Abgeordnetenwatch eV) and an organization with a for-profit legal form to sell services and charge fees (Abgeordnetenwatch GmbH).¹²⁰

As can be seen from the examples given, social entrepreneurs purposefully design their organizations' structure to enable the functioning of market mechanisms in co-ordination with the social mission in order to catalyze public goods.

Growth

Replication and growth are of high importance for social entrepreneurial organizations pursuing the aim of changing whole systems, nationally and internationally.¹²¹ Researchers on social entrepreneurship begin by identifying various strategies for growth and replication, including among others licensing, franchising and organic growth.¹²² However, these strategies often tend to be learnt from the business management literature, and differences between strategy implementation in a business

context and the social entrepreneurial context need to be clarified. As part of licensing and franchising strategies, with or without fees, a specific social entrepreneurial growth strategy can be observed: *the use of other organizations as replication support*. Watson says, about social entrepreneurial activity, 'This work is not about taking organizations to scale but about taking the movement to scale.'¹²³

Part of most social entrepreneurs' vision is to scale up the social impact of their innovation. They do not necessarily plan to scale up their operations or to open up to new affiliates. Instead, they often share their concept with other organizations and allow them to implement and operate it within their respective geographic area. These supporting organizations are usually local non-profit organizations with similar target groups and areas of impact. Two examples of social entrepreneurial organizations, wellcome gGmbH and CDI, changing the scale with the help of supporting organizations will be reviewed below.

The company wellcome was introduced above as a social entrepreneurial organization that cares for mothers and their families after childbirth. The organization's growth strategy shows a strong connection to the conviction of the founder, Rose Volz-Schmidt, that social entrepreneurs should strive for change outside existing systems and not in conjunction with them.¹²⁴ Consequently, she capitalizes on her strong knowledge of the German social system, with its authorities and charities, to replicate wellcome's innovative service. The brand wellcome and its operational concept is franchised to local charities in other German cities that engage in family or child care.¹²⁵ The first site, in Hamburg, takes the headquarters role, supervising quality standards, providing central marketing and communication tools to the regional sites, and generally developing wellcome's strategy. The local sites pay a small fee to the centre in Hamburg for these services.¹²⁶ With this growth strategy of supporting organizations, wellcome plans to expand rapidly in Germany: 'wellcome's expansion plans are very aggressive. It currently has 50 local teams and wants to expand to 250 by 2011 to cover all of Germany'.¹²⁷

Volz-Schmidt believes that wellcome would not be able to grow that fast and inexpensively with a greenfield strategy. By franchising the concept to local organizations, wellcome can benefit from its local branding as well as its networks and contacts to become known among its target group and potential volunteers. Local organizations, on the other hand, have an incentive to integrate wellcome into their service offerings, since it matches their mission and often fills a gap in their service offering in a very efficient way.¹²⁸ According to Volz-Schmidt,

this interplay of incentives creates a win-win situation among all participants and increases sustainability.¹²⁹

CDI was introduced earlier, as a system of computer schools benefiting marginalized individuals in Brazilian slums. The network of CDI schools has grown through autonomous CDI operations in different Brazilian states. These units originate from the interest of regional or local community groups in operating CDI in their area:

Different groups get to know the venture through the media or at one of the many lectures and seminars he is invited to countrywide. They then contact CDI headquarters in Rio, and, after a careful screening process that includes interviews and recommendations, they are given the go-ahead to start work in their area.¹³⁰

The CDI headquarters provide the autonomously operating, self-funded local CDIs with guidelines and regular information. It also monitors them continuously.¹³¹

The examples used to demonstrate this social entrepreneurial replication strategy demonstrate the unique features of social entrepreneurial growth. Both examples show characteristics of the growth strategy of franchising, known from the private sector as an entrepreneurial way for an organization to grow.¹³²

Strategies for the external value creation architecture

The external architecture describes the interface both to customers – that is, the relationship, and distribution and communication channels – and to the value creation partners – that is, the type of organization and the role they play in the value creation process. Social entrepreneurial organizations create strategies both to communicate and distribute their products and services to customers, and to attract value creation partners, both of these building effective incentive structures allowing the catalyzation of public goods.

Customers

Two fundamental customer relationships must be differentiated regarding social entrepreneurial organizations' interface with their customers. Customers are normally the direct beneficiaries of the social impact created by the organization: they consume the product or service provided and thus contribute to the catalyzation of the greater public good.

However, despite being the ones to 'consume' the product or service provided by the organization, the beneficiaries can also be integrated into the value creation process as a workforce. In this case, they consume the service offered by the organization by actively contributing to it. Often this strategy (the integration of current beneficiaries, as described above) involves a 'second' customer, who contributes to the financial sustainability of the social entrepreneurial organization by buying the products and services produced with the integration of beneficiaries. The occurrence of two different customer groups occurs when the strategy of linking a public good to an attractive individual good is pursued.

When beneficiaries are directly involved in the value creation process, the social entrepreneurial organization has maximum control over the adherence to the guidelines that ensure the catalyzation of the public good and the achievement of the individual benefit. The relationship between organization and beneficiaries resembles that of employer and employee. Distribution and communication channels are managed as part of the organization's internal processes. When beneficiaries do not benefit from the social impact by contributing to it but by consuming it, the relationship between organization and beneficiary resembles that of a more typical customer relationship, either one-off or repeatedly, depending on the type of product or service provided. In this case, the distribution and communication channels have to be managed differently in order to ensure the intended catalyzation of the public good and the creation of a social impact.

As a result, some social entrepreneurial organizations, mainly those providing micro credit, have designed a strategy of *joint liability or community trust* that manages the distribution channel in an innovative way. The strategy entails the distribution of the product or service to groups of people rather than to just one individual. The large amount of social capital among this group of people (usually from the same community or neighbourhood) ensures the intended use of the service or product and the resulting creation of social capital. The two examples which follow – Grameen Bank and SKS Microfinance Pvt. Ltd – highlight the details of this strategy.

Grameen Bank became famous when its founder, Prof. Muhamad Yunus, was awarded the Nobel Peace Prize in 2006. However, it was founded decades before, in 1976 in Bangladesh, and has since revolutionized banking in developing countries. Grameen Bank grants micro-credit to poor small entrepreneurs and self-employed people without securities in Bangladesh.¹³³ Contrary to the popular belief that poor

people are not eligible for credit because they cannot offer securities to guarantee repayment, Yunus found these people to be very reliable in their repayments, and indeed 'bankable'.¹³⁴ The challenge of lending small amounts of money to poor people was mainly to find ways to distribute it, and to organize and ensure repayments to millions of people in thousands of small and remote villages. Yunus innovatively created several instruments to overcome this challenge.¹³⁵ He started lending money to groups of people in a community or to a whole village, who in turn organized the distribution to and repayment from individual people, thus ensuring usage and repayment based on trust and the close connections among them. He also introduced weekly repayments, meetings and other instruments to improve the repayment system in a cost-efficient, sustainable way. Instead of employing expensive specialists, he built on the social capital among the members of a group of beneficiaries, who organize the credit among themselves.¹³⁶

SKS Microfinance was founded as a non-profit organization in 1997 by Vikram Akula in India.¹³⁷ By applying best practices from the business world and standardizing most of the processes, Akula turned SKS into a for-profit company.¹³⁸ SKS also capitalizes on community trust in a strict way. It lends only to the women of a community. They have to form groups of five, and these groups gather weekly with another nine groups of women. Before credit is allocated to these groups, the women undertake extensive, standardized credit training lasting four to six days. The women are eligible to increased credit limits and individual borrowing after a defined time of successful repayment.¹³⁹

The examples of Grameen Bank and SKS Microfinance demonstrate how social capital can be used to create an incentive structure that enables the distribution of a product or service, and thus the creation of market processes and the catalyzation of public goods.

Value creation partners

One characteristic of social entrepreneurial organizations is their generally large network of partners and allies. The network and the relationship to value creation partners is crucial for a social entrepreneurial organization to make the intended social impact: 'The mobilization of networks is one of the key ways that social entrepreneurs help to create opportunities for change.'¹⁴⁰

In addition, the often very diverse networks of social entrepreneurial organizations contribute to a broad anchoring of the social initiative in various levels of society – for example, local and national public authorities and governments, the private sector and non-profit organizations.¹⁴¹

'one of the common features of social enterprises is a multi-stakeholder structure ... in order to create and maintain the commitment of other organizations and institutions of civil society'.¹⁴²

Building partnerships and alliances with different institutions also helps social entrepreneurs to mobilize all kinds of resources.¹⁴³ In particular, networks provide social entrepreneurial organizations with social capital, such as contacts, advice and expertise, as Spear's research results suggest.¹⁴⁴ Consequently, it is important for them to 'correctly perceive all the external groups it depends on or the relative importance or potency of each'.¹⁴⁵

Given the importance of networks for social entrepreneurs, they have been creative when designing strategies to attract partners and allies as part of their business model. While public and non-profit or civil society institutions can be committed to co-operation through the similarity of the social mission and target group, companies from the private sector have to be provided with additional incentives in order to become allies or partners and invest resources into the social entrepreneurial organization. Consequently, the following will highlight two social entrepreneurial strategies aiming at integrating corporate stakeholders into their business model: development/access to relevant market and benefit clarification.

Certain social entrepreneurs attract the support of corporate stakeholders by *developing their relevant market or offering them access to it* through the social entrepreneurial business model. This opportunity leads to a win-win situation: through collaborating with a certain social entrepreneurial organization, for-profit companies (often from developed countries) are able to gain a foothold in new markets. Thus the corporate stakeholder is willing to invest in the social entrepreneurial organization, contributing to the provision of public goods, since the company expects a future indirect return on investment. The return is indirect since it will not be paid by the social entrepreneur, but through the business opportunities that open up for the corporate stakeholder as a result of the collaboration. The social entrepreneurial organizations CDI and Cinepop exemplify the implementation of this strategy.

CDI was introduced earlier as a social entrepreneurial organization using computer schools to open up new opportunities for marginalized individuals in Brazilian slums. In order to sustain their operations, CDI attracts in-kind donations of hardware and software from large international computer firms. These firms acknowledge CDI's efforts to give deprived individuals access to and skills in information technology, since they expect CDI's activities to develop the market for information

technology products for this target group in the future. Individual stories of CDI alumni prove this development: formerly illiterate, a woman was able to improve her business through developing computer skills and earned enough money to afford a computer herself.¹⁴⁶ As a consequence of such stories, Microsoft, for example, became a supporter of CDI.¹⁴⁷

The Mexican social entrepreneurial organization Cinepop was founded in 2004 by Ariel Zylbersztein, who realized that going to the cinema was becoming more and more expensive, and slipping out of reach of poorer families.¹⁴⁸ To counter this development, he founded an organization that enables thousands of families to enjoy an educational entertainment event using suitable technology (large inflatable screens) and sponsor money from consumer goods companies.¹⁴⁹ Before the film is screened, several non-profit organizations, socially responsible businesses and government agencies are given the opportunity to transmit information or educational messages about their services or programmes that would benefit the audience.¹⁵⁰ The screenings are sponsored by large corporations for two reasons: they want to support a social business as part of their corporate social responsible activities, and they want to become more visible among a large segment of the population, who are either currently customers of their products, or potential customers. Besides being seen as a socially responsible business, this second aspect is a sufficient incentive to become a sponsor of this social entrepreneurial organization.

Another strategy of social entrepreneurial organizations to attract stakeholders as supporting partners or allies is *clarifying the benefits* of the social initiative to them and consequently letting them share the costs. Some social entrepreneurial initiatives offer products or services that directly benefit companies in the private sector, mainly by increasing productivity through positive influences on their employees. Some social entrepreneurs use this fact to convince companies to participate in the costs this social initiative incurs, since they will also be taking advantage of its benefits. Two examples of social entrepreneurial organizations, Die Komplizen gGmbH and Abgeordnetenwatch, highlight the essence of this strategy.

Die Komplizen offers a mentorship programme for students in their last years at school and was founded by Dr Philipp Scherenberg in Germany.¹⁵¹ The aim of the initiative is to provide the mentees – the young adults still at school – with perspectives for their life after school, further education opportunities and professional career. The mentors are young professionals who have just started work themselves. They

are young enough to remember what life was like in school because they have only recently moved beyond that stage. As well as the benefits for the mentees, the mentors also gain from the dialogue with a younger person. They increase their social competence, improve their communication skills, coaching and conflict management skills, and take on social and societal responsibility. These personal skills are also relevant in their professional setting, benefiting the mentors' employers. Die Komplizen uses the latter point to market its services to employers as a human resource development tool, and charges a fee for each employee who becomes a mentor. This fee is used to cover training and administrative costs associated with the mentoring role. With this structure, Die Komplizen can offer a professional service free of charge to both students and mentors.

Abgeordnetenwatch, the social entrepreneurial organization discussed earlier that aims to reactivate democracy, faced the need to tap new financial resources when expanding beyond its original region to other federal states in Germany.¹⁵² To satisfy this need, the founders Hackmack and Hekele innovatively stimulated the incentives of various stakeholders of the organization: 'we were thinking who were the stakeholders of the project, who's actually involved, who's benefiting from it?'¹⁵³

Clarifying the benefits of their participation in Abgeordnetenwatch's business model to their stakeholders resulted in several different types of co-operation that also bring cash into the organization. Hackmack and Hekele convinced Members of Parliament to pay a fee for a more detailed representation (including a photograph, resumé, information on current dates and appointments and so on). Hackmack noted that 'candidates have an interest that they present themselves'.¹⁵⁴ At the same time, the organization itself benefits from the candidates' interest in representation, since they themselves provide the necessary information and photographs, which saves Abgeordnetenwatch time. Other non-profit organizations represent another stakeholder group for Abgeordnetenwatch. They can benefit from Abgeordnetenwatch's services by using the ticker tool. According to Hackmack, this tool enables the non-profit organization to display candidates' answers to questions concerning the organizations' area of activity directly on their own web page. For example, Transparency International uses the ticker to display current answers on the website from Members of Parliament regarding corruption and transparency.¹⁵⁵ To use the service, non-profit organizations contribute a monthly fee to Abgeordnetenwatch.

These two strategies demonstrate the incentive structures that social entrepreneurial organizations can create to attract stakeholders and their

resources. Integrating stakeholders into the value creation architecture catalyzes the provision of public goods.

Clusters in individual incentive strategies

Having explored the individual incentive strategies among a sample of thirty-four social entrepreneurial organizations, certain clusters in these strategies can be identified. Two approaches are applied to further analyse these clusters among individual incentive strategies. First, the sample is analysed for strategies that seem always to be applied in combination with other strategies – that is, to derive strategy clusters. Second, the sample is checked for similarities regarding the context of the organizations that apply identical incentive strategies.

Strategy clusters

Strategy clusters are identified around the three value creation strategies: social value creation with target group; social value creation for target group; and hybrid social value creation. The value proposition strategy, social value creation with target group, often seems to be applied together with the strategies of ‘secondary product with unique selling proposition’ and ‘integration of current beneficiaries’. This strategy cluster can be explained by the fact that social entrepreneurial organizations that create social value with their target groups naturally integrate them into their value creation processes by employing them. Often, the means to employ them is the production of a secondary product or service, which is sold to a second customer group who have indicated a demand for that product or service and have the ability to pay for it. As a result, these three strategies are strongly interconnected.

For social entrepreneurial organizations that apply the value proposition strategy of social value creation for target group, a tendency to also apply the two strategies of ‘product technology adaptation’ and ‘identification of existing demands with low/no profit potential’ can be observed. Since, with this value proposition strategy, the social value is usually created through the provision of a product or service for the target group, it seems to be important to social entrepreneurial organizations to create or adapt products and services according to the needs of their target groups and which are also affordable to them. To create social value for their target group, social entrepreneurial organizations often discover existing demands and respective incentives that allow them to charge a contribution from the target group that covers at least part of the cost of producing and providing the product or service.

While the value proposition strategy of social value creation for target group is closely linked to the provision of a good or service to expand social value, the strategies of social value creation with target group and hybrid social value creation often create social value by applying the strategy 'integration of current or former beneficiaries'. The close integration of beneficiaries into the value creation process seems to be a characteristic of social entrepreneurial organizations.

Similarities regarding the context

Exploring the sample for similarities regarding the context of the organizations that apply identical incentive strategies reveals connections between certain strategies and the problem focus of the organization, as well as between certain strategies and the development status of the country in which they operate.

Problem focus of the organization

Social entrepreneurial organizations focusing on health improvement, such as Aravind Eyecare Hospitals, Narayana, Aurolab or the Institute for One World Health, tend to apply individual incentive strategies that focus on cost reduction and recovery. Among the strategies they apply are value added volunteer employment, multi-tiered pricing, or the efficiency increase of whole value chains. This connection between strategies and context highlights the fact that people have an incentive to improve their health but often cannot afford to do so in developing countries. By applying these strategies of cost reduction and distribution to different customer groups, social entrepreneurial organizations give poor people access to free or affordable medical treatment.

Social entrepreneurial organizations focusing on education, such as CDI, IBFS, Job Factory, Teach for America or Die Komplizen, tend to apply the strategy integration of current or former beneficiaries. Naturally, these organizations closely integrate current beneficiaries into their value creation processes to reach the objective of improving their education. At the same time, these organizations often capitalize on the successful educational development of their former beneficiaries and integrate them later into their value creation processes as employees or volunteers.

Social entrepreneurial organizations that strive for the empowerment of the poor are a very heterogeneous group of organizations. However, many of them, such as KickStart, Grameen Bank, SKS Microfinance or Dabba Telecom, apply the strategy of product technology adaptation to the requirements of the market. The provision of goods and services by

these organizations that are both useful and affordable to the poor help them to help themselves and to start or expand their own businesses, which improves their standard of living.

Social entrepreneurial organizations with the aim of the social reintegration of their target group, such as Consens, Rubicon, San Patrignano, or CAP supermarkets, usually seem to apply the strategies of integration of current beneficiaries and a secondary product with a unique selling proposition. This behaviour can be explained by the observation that these organizations tend to employ their target groups as a means to reintegrate them socially, thus integrating them into the organization's value creation process. As mentioned earlier, the secondary product serves as an incentive to create meaningful jobs and to generate financial resources, as well as to establish social contact between the target group and other people.

Social entrepreneurial organizations such as the CarbonNeutral Company, DMT, Ciudad Saludable or Selco Solar Lights that catalyze a healthier environment tend to use the incentive strategies identification of existing demand with low/no profit potential as well as the use of resources not recognized as such. On the one hand these organizations identify a certain demand for products and services with a positive effect on the environment. Consequently, they make a suitable offer and use these existing incentives to catalyze the public good of a healthier environment. On the other hand, such organizations also use resources innovatively that are commonly not regarded as useful. They use human waste to provide a job opportunity, creating more hygienic conditions; recycled household waste as organic fertilizer, thus creating income and reducing the burden on the environment at the same time; or sunlight as a source of energy that replaces environment-damaging kerosene.

Development status of the country

In addition to connections between certain strategies and the problem focus of the organization, the sample analysed also displays connections between certain strategies and the development status of the country in which they operate. Certain strategies tend to be applied in developing countries while others seem to be more suitable for developed countries.

As can be observed, the value proposition strategy of social value creation with target group is applied more in developed countries, where social integration is achieved mainly through having a meaningful job, a regular income and a daily routine. The product design strategy of making public goods more tangible through individualization seems to be applied more commonly in developed countries, with the aim of

bringing the need for public good provision closer to the stakeholders. The product design strategy of secondary product with unique selling proposition requires customers who have desire for and can afford these products or services. Consequently, the strategy is applied more in developed countries. A social entrepreneurial organization that uses incentives to attract volunteers – that is, applies the resource strategies of niche volunteer employment or value added volunteer employment, targets potential volunteers in developed countries.

It can be observed from the sample that the product design strategy product technology adaptation to the requirements of the market is applied more in developing countries. Since these markets have a demand for products and technologies from developed countries, but with certain requirements often driven by the local climate conditions as well as a limited ability to pay, social entrepreneurial organizations use these incentives based on existing demand to offer products and services that are adapted to the needs of the local market. Social entrepreneurial organizations that apply the market definition strategy of a bridge between offer and demand generally link offers from poor or marginalized people in developing or threshold countries with demand in developed countries, where people value the products and have both an incentive and the ability to pay for the product. As social entrepreneurial organizations in developing countries face even tighter resource restrictions, they often apply the resource strategy of using resources commonly not recognized as such, making use of what already exists in these countries. The customer strategy of joint liability or community trust seems to be applied only in rural areas of developing countries, as observed in the sample analysed. This can be explained by the prerequisite of close community structures for the strategy to unfold its benefits, which is a typical characteristic of rural areas in developing countries but tends to decrease or be totally absent in developed countries. The analysis of the sample also reveals that the value creation partner strategy of market development or access for value creation partners is applied more by social entrepreneurs in developing countries. The non-existent market structures for companies from developed countries in these areas might serve as an explanation for this behaviour.

Notes

1. Generally, the analysis of these social entrepreneurial organizations is based on secondary data. For two of the social entrepreneurial organizations analysed (Abgeordnetenwatch and wellcome), additional primary data was gathered during an expert interview with their founders.

2. Only those strategies that are specific for social entrepreneurship and relate to the creation or use of incentive structures have been identified and selected. They make no claim to be complete.
3. Own illustration. Social entrepreneurial organizations analysed could demonstrate more than one strategy.
4. Guclu *et al.* (2002), p. 12.
5. Job Factory homepage. Available at: <http://www.jobfactory.ch/>; accessed 08 August 2008.
6. Jobfactory (2006); The Schwab Foundation for Social Entrepreneurship (n.d.-n), n.p.
7. As detailed in Chapter 4, section entitled 'Types of market failures addressed'.
8. KickStart homepage. Available at: <http://www.kickstart.org/home/>; accessed 17 July 2008.
9. Habitat for Humanity homepage. Available at: <http://www.habitat.org/eca/>; accessed 11 August 2008.
10. Fuller (2001).
11. Dees and Anderson (2006), p. 53.
12. Habitat for Humanity Germany homepage, section 'Was wir tun'. Available at: <http://www.hfhd.de/was-wir-tun.html>; accessed 11 August 2008.
13. Own illustration.
14. Dees and Anderson (2006), p. 57.
15. The CarbonNeutral Company. Available at: <http://www.carbonneutral.com/>; accessed 17 July 2008.
16. The CarbonNeutral Company (2008), p. 1.
17. Other examples of organizations offering carbon offsets include: Stiftung myclimate – The Climate Protection Partnership (<http://www.myclimate.org/index.php>) and Carbon Footprint Ltd (<http://www.carbonfootprint.com/>).
18. Kiva homepage. Available at: <http://www.kiva.org/>; accessed 17 July 2008. Kiva is a US 501(c)3 non-profit organization.
19. The Skoll Foundation, section 'Current SASE awardees'. Available at <http://www.skollfoundation.org/grantees/f-q.asp>; accessed 17 July 2008.
20. This strategy coincides with the value proposition strategy of creating social value with the target group.
21. Consens GmbH homepage. Available at: <http://www.dialogue-in-the-dark.com/>; accessed 17 December 2008.
22. Ashoka (2005a), n.p.
23. Rubicon Programs, Inc. homepage. Available at: <http://www.rubiconprograms.org/index.html>; accessed 17 July 2008.
24. San Patrignano homepage. Available at <http://www.sanpatrignano.org/?q=en>; accessed 20 July 2008.
25. Dabba Telecom homepage. Available at: <http://www.dabba.co.za/>; accessed 17 July 2008.
26. N.N. (2008), n.p.
27. N.N. (2008), n.p.
28. Freeplay Energy homepage. Available at: <http://www.freeplayenergy.com/>; accessed 17 July 2008.
29. The Schwab Foundation for Social Entrepreneurship (n.d.-q), n.p.

30. The Schwab Foundation for Social Entrepreneurship (n.d.-q), n.p.
31. The Schwab Foundation for Social Entrepreneurship (n.d.-m), n.p.
32. The Schwab Foundation for Social Entrepreneurship (n.d.-m), n.p.
33. Perlin (2006), n.p.
34. CAP Markt homepage. Available at <http://www.cap-markt.de/>; accessed 27 July 2008.
35. CAP Markt (n.d.), n.p.
36. wellcome homepage. Available at: <http://www.wellcome-online.de/>; accessed 29 April 2008.
37. Expert interview with Rose Volz-Schmidt (19 October 2008).
38. Expert interview with Rose Volz-Schmidt (19 October 2008).
39. Expert interview with Rose Volz-Schmidt (19 October 2008).
40. Expert interview with Rose Volz-Schmidt (19 October 2008).
41. Expert interview with Rose Volz-Schmidt (19 October 2008).
42. Expert interview with Rose Volz-Schmidt (19 October 2008).
43. Institute for One World Health homepage. Available at <http://www.oneworldhealth.org/index.php>; accessed 27 July 2008.
44. Nee (2007), p. 21 *et seq.*
45. The Schwab Foundation for Social Entrepreneurship (n.d.-t), n.p.
46. The Schwab Foundation for Social Entrepreneurship (n.d.-t), n.p.
47. Novica homepage. Available at: <http://www.novica.com/>; accessed 18 July 2007.
48. The Schwab Foundation for Social Entrepreneurship (n.d.-o), n.p.
49. Bosnian Handicrafts homepage. Available at: <http://www.bhcrafts.org/>; accessed 18 July 2007.
50. The Schwab Foundation for Social Entrepreneurship (n.d.-l), n.p.
51. Bosnian Handicrafts (2008), n.p.
52. Recycla homepage. Available at: <http://www.recycla.cl/>; accessed 21 July 2008.
53. Sekem homepage. Available at: <http://www.sekem.com/>; accessed 21 July 2008.
54. The Schwab Foundation for Social Entrepreneurship (n.d.-j), n.p.
55. Since social capital, as the third important group of resources, plays an important role in almost all social entrepreneurial incentive strategies, a specific social capital strategy was not identified.
56. La Fageda homepage. Available at: <http://www.fageda.com/web/es/main.xml>; accessed 08 August 2008.
57. The Schwab Foundation for Social Entrepreneurship (n.d.-d), n.p.
58. The Schwab Foundation for Social Entrepreneurship (n.d.-d), n.p.
59. CDI homepage. Available at: <http://www.cdi.org.br>; accessed 08 August 2008.
60. The Schwab Foundation for Social Entrepreneurship (n.d.-p), n.p.
61. Katzenstein Hart (2000), n.p.
62. Teach for America homepage. Available at: <http://www.teachforamerica.org>; accessed 11 August 2008.
63. The Schwab Foundation for Social Entrepreneurship (n.d.-v), n.p.
64. The Schwab Foundation for Social Entrepreneurship (n.d.-g), n.p.
65. Expert interview with Oda Heister (07 October 2008).
66. Expert interview with Rose Volz-Schmidt (19 October 2008).

67. Expert interview with Rose Volz-Schmidt (19 October 2008).
68. Expert interview with Rose Volz-Schmidt (19 October 2008).
69. Carsen (2006).
70. Aravind Eyecare System homepage. Available at: <http://www.aravind.org>; accessed 26 June 2007.
71. The Schwab Foundation for Social Entrepreneurship (n.d.-h), n.p.
72. Aravind Eyecare System (2006), p. 33 *et seq.*
73. Nee (2007), p. 23.
74. Nee (2007), p. 23.
75. For example, Hartigan (2006), p. 43.
76. The Schwab Foundation for Social Entrepreneurship (n.d.-h), n.p.
77. Stefanska and Hafenmayer (2007), p. 62 *et seq.*; Rangan (1993), p. 13.
78. Shah and Murty (2004), p. 36.
79. The Schwab Foundation for Social Entrepreneurship (n.d.-h), n.p.
80. Herbst (2003), n.p.
81. Herbst (2003), n.p.
82. The Schwab Foundation for Social Entrepreneurship (n.d.-q), n.p.
83. Freeplay Energy plc (2007), p. 3 *et seq.*
84. The Schwab Foundation for Social Entrepreneurship (n.d.-q), n.p.
85. Leadbeater (1997), p. 8.
86. Expert interview with Oda Heister (07 October 2008).
87. The schools are given incentives to provide IFBS with access to their students and rooms because IFBS's activities benefit their own target group.
88. DMT Mobile Toilets homepage. Available at: <http://www.dmttoilet.com>; accessed 18 August 2008.
89. The Schwab Foundation for Social Entrepreneurship (n.d.-k), n.p.
90. The Schwab Foundation for Social Entrepreneurship (n.d.-k), n.p.
91. Ashoka (2005b), n.p.
92. The Schwab Foundation for Social Entrepreneurship (n.d.-k), n.p.
93. Ciudad Saludable homepage. Available at: <http://www.ciudadasaludable.org>; accessed 14 July 2008.
94. The Schwab Foundation for Social Entrepreneurship (n.d.-a), n.p.
95. Oregon Public Broadcasting and Malone-Grove Productions, Inc. (2005), n.p.
96. Stefanska and Hafenmayer (2007), p. 30.
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8

Incentive Strategies from a Holistic Perspective

Case study analyses illustrate the implementation of certain incentive strategies in a holistic way. Selected social entrepreneurial organizations are analysed to demonstrate how they integrate different incentive strategies in one business model, and how they activate incentive structures to catalyze the provision of public goods. In this chapter, the methodological approach of case study research is described, and then the case studies selected for this book are analysed.

Methodological approach

This section explains the methodological foundations of case study research and specifies them for the research on social entrepreneurial business models. First, the case study as a qualitative research method is presented and differentiated from other research strategies. Subsequently, the different application possibilities of case studies are discussed, and finally, the application of the case studies undertaken is presented.

The case study as a qualitative empirical research method

The case study has a long tradition as a qualitative research method, yet it has experienced greater scientific acceptance and application only in recent decades.¹ The term case study has no precise definition; but the scientific understanding of the term needs to be distinguished from its rather colloquial use in the sense of anecdotes, case examples, storytelling, or teaching cases.²

Yin's definition is one of the most often cited in case study literature: 'A case study is an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries

between phenomenon and context are not clearly evident.³ His definition reveals the integration of the context into the analysis as characteristic of the case study. Orum *et al.*'s definition highlights the characteristics of detail and multiple data sources: 'A case study is ... defined as an in-depth, multifaceted investigation ... of a single social phenomenon. The study is conducted in great detail and often relies on the use of several data sources.'⁴

Case studies have a high level of detail and provide a holistic image of the research object compared to purely quantitative data analysis.⁵ The case study is neither a method of data collection (such as the interview) nor restricted to one type of data (such as qualitative data).⁶ While case studies are often based primarily on qualitative data, quantitative data sources can also be integrated.⁷ Generally, a case study is based on a variety of data sources, such as interviews, observations, field studies, and various kinds of documents.⁸

Figure 8.1 differentiates the case study from other research methods. The case study is differentiated from the other possible research methods using the criteria presented.

A case study and an experiment address similar research questions and have similar research objectives – that is, discovering the connection between reason and effect. However, one feature differentiating a case study from an experiment is the degree to which context (or environmental factors) can be influenced or shaped: 'case study research does not (and cannot) require any manipulation of variables'.¹⁰ Experiments,

1 Form of research question	2 Control of behavioural events required?	3 Focus on current events?	Research methods
How, why?	Yes	Yes	Experiment
Who, what, where, how many, how much?	No	Yes	Survey
Who, what, where, how many, how much?	No	Yes/No	Archival analysis
How, why?	No	No	History
How, why?	No	Yes	Case study

Figure 8.1 Differentiation of research methods⁹

however, are typically conducted under laboratory conditions, where the researcher *can* control external conditions. Case studies aim at understanding a phenomenon in detail in its real-life context, such as, for example, social entrepreneurial organizations, where the researcher cannot influence the research object or its environment.

A case study and a survey address different research questions. While the aim of a survey is to generalize statistically certain facts and limited sections of a phenomenon, the case study aims to answer 'How' and 'Why' questions holistically and in detail, selecting the cases according to their suitability and richness of information.¹¹

The result of comparing a case study and an archival analysis is similar: archival analysis addresses similar research questions to the survey and aims to analyse statistically mainly past events, which differentiates it from the case study's focus on current events.

While a case study and a history address similar research questions, the research method of a history does not focus on current events, which differentiates it from the case study. Yin sums up the criteria used to select a case study as a research method: 'when a "how" or "why" question is being asked about a contemporary set of events, over which the investigator has little or no control'.¹²

Case studies are particularly suitable for analysing primarily qualitative circumstances, for capturing and analysing holistic structures, for verifying existing statements with some cases, and for researching complex causal relationships.¹³ Case study research enables the researcher to extract from various data sources information that provides a holistic picture only when it is integrated.¹⁴

Application of case study methodology

Case study research has been acknowledged and applied in social, political and business sciences as well as in other disciplines.¹⁵ It is useful to gain scientific insights about individuals, groups, institutions, industries, or societal and political phenomena.¹⁶

The case study method can be applied to different research strategies. Descriptive case studies depict a current phenomenon or development holistically in its real context.¹⁷ Explicative case studies analyse relationships between cause and effect in a real context, and can be applied in both exploratory and confirmatory research strategies.¹⁸ Exploratory case studies aim at gaining insights and at supporting the building of hypotheses and theories.¹⁹ Confirmatory case studies are applied to verify or falsify existing hypotheses or theories.²⁰

On an overarching level, Siggelkow presents three uses for case study research: 'motivation, inspiration, and illustration'.²¹ Case studies can demonstrate the motivation for a certain research question; for example, to falsify an existing theory and thus motivate further research. In this case the research strategy is confirmatory. Case studies serve as inspiration in exploratory research: 'If only limited theoretical knowledge exists concerning a particular phenomenon, an inductive research strategy that lets theory emerge from the data can be a valuable starting point.'²² The third use of case studies put forward by Siggelkow is the illustration of conceptual contributions.

Case study research can be designed in two general ways: as a single-case or multiple-case design.²³ The single-case design focuses on critical, extreme, unique, representative, typical, or until that point not accessible cases, or cases that are analysed across a longer time frame, falsify theoretical insights or provide new insights on unexplored phenomena.²⁴ The advantage of the multiple-case design lies in the possibility of comparing cases and highlight the resulting insights through similarities of and differences between the cases.²⁵ Consequently, several authors consider the results of multiple-case designs to be more convincing, trustworthy and robust.²⁶ However, case study research with multiple-case design requires increased expenditure of both money and time.²⁷

In a multiple-case design, the case study subjects are typically selected according to a certain replication logic, which means that cases are purposely selected to integrate specific types of cases, as opposed to the principle of random sampling used in quantitative research.²⁸ In case study research, problem-specific relevance is often mentioned as a criterion for the selection of cases.²⁹

An important but often neglected part of case study research are the data collection methods and instruments.³⁰ This includes the selection of data types, data sources and collection methods.³¹ Regarding data types, both qualitative and quantitative data can be included. While qualitative data mainly give evidence on the character of a phenomenon, quantitative data allow conclusions regarding its amplitude and magnitude.³² Data sources can either be in the public domain, such as press articles, internet data, databases or academic publications, or internal, such as private data provided by the case study subject itself.³³ Data collection methods for case study research include document and literature analysis, interview, and observation.³⁴ The interview belongs among the main data collection methods for the case study approach:³⁵ 'One of the most important sources of case study information is the interview.'³⁶ Generally, qualitative research can use various different

forms of interview.³⁷ Those with an interview guide rather than a standardized questionnaire fulfil the principles of openness and neutrality required for gathering qualitative data.³⁸ The interview guide allows for a structured and purposeful conversation, but is open to unexpected information being received.³⁹

When conducting case study research, the researcher must observe the quality criteria of reliability, validity and objectivity.⁴⁰ The observation of these can enhance the quality of case study research by avoiding its potential weak points.⁴¹ Yin's approach to the judgement of the quality of case studies using the criteria of reliability and construct validity, and internal and external validity, is often cited in applied case study research, since he links implementable measures to improve quality to his criteria.⁴² According to Yin, reliability in case study research (that is, repeating the case study would yield the same results) can be achieved by a structured way of researching and by documenting exactly the research process and its results:⁴³ 'The general way of approaching the reliability problem is to make as many steps as operational as possible and to conduct research as if someone were always looking over your shoulder.'⁴⁴

Validity (that is, the degree to which the desired constructs can be operationalized) can be achieved by data and method triangulation (that is, by using various data sources and collection methods) and the documentation of chains of evidence during data collection, or the discussion of preliminary case study results with the research participants to avoid mistakes resulting from data collection or interpretation.⁴⁵

Objectivity (that is, the fact that the analyses are based on reality and not on suppositions by the researcher) can be realized by having the same person conducting all the interviews and using a relatively standardized set of questions (execution objectivity) and by recording the interviews with an audio device (evaluation objectivity).⁴⁶

Methodological approach and application in this analysis

Having detailed the different options for applying case study research in general in the previous section, the aim of this section is to conceptualize the case study research approach used specifically in this contribution and to highlight its application.

In the literature on case studies as a research method, detailed information is provided about the requirements of case study creation.⁴⁷ Together with the requirements resulting from the quality criteria described above, they served as guiding principles for this case study analysis to ensure the quality of the empirical insights.

The aim of this empirical analysis is to illustrate holistically the theoretical and factual-analytical conceptualization of social entrepreneurial incentive strategies. The case study is particularly suitable as a research method for this analysis because social entrepreneurship is a current practical phenomenon that is not researched extensively: 'In fact, getting closer to constructs and being able to illustrate causal relationships more directly are among the key advantages of case research vis-à-vis large-sample empirical work.'⁴⁸

The research question asks *how* social entrepreneurial organizations contribute to the provision of public goods – that is, it aims to analyse rather complex relationships and requires a holistic image. Consequently, the case study method is more suitable than other research methods for answering the research question.

Although the research strategy in this book is generally explorative, the empirical analysis is guided by theoretical conceptualization. This procedure is approved by Yin: 'For case studies, theory development as part of the design phase is essential, whether the ensuing case study's purpose is to develop or test theories ... the simple goal is to have a sufficient blueprint for your study, and this requires theoretical propositions.'⁴⁹ Borchardt and Göthlich further recommend a theory-guided procedure that considers the relevant literature.⁵⁰

For this case study analysis, a multiple-case design with three case studies has been chosen. This case study design offers the possibility of validating insights by comparison. In order to arrive at a justified selection from all possible case study subjects, the cases have been selected following the replication logic of maximum variation or extreme cases, selecting cases with maximum variations in their external contexts to demonstrate the heterogeneity of the phenomenon of social entrepreneurship, and to explore how incentive strategies are applied by different social entrepreneurial organizations in different contexts. The differentiating selection criteria are illustrated in Figure 8.2.

The working definition of social entrepreneurship described for this book is used to identify possible case study subjects. The three value proposition strategies serve as general categories to select case study subjects, and these were selected with maximum differentiation regarding the criteria of country of operation, size of organization (number of employees), area of value creation, legal status, founding year, and recognition from organizations supporting social entrepreneurs (to ensure that not only social entrepreneurs according to the definition of one organization are selected). Table 8.1 lists the case study objects selected for this analysis.

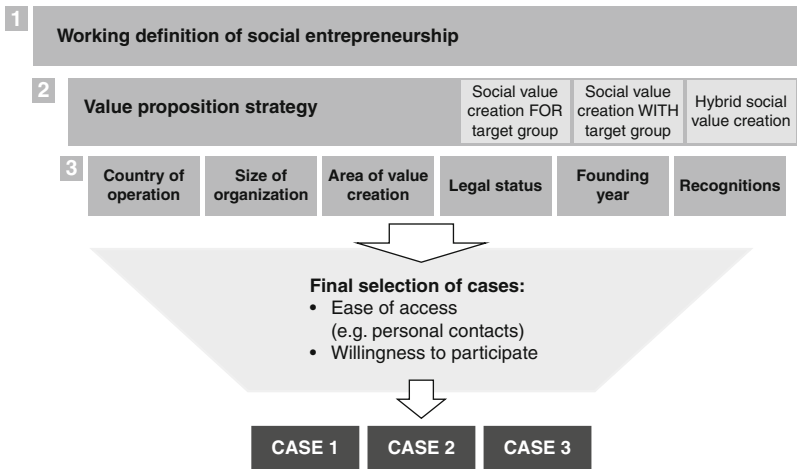


Figure 8.2 Case study selection criteria⁵¹

Regarding data collection and analysis, the data type, data sources and collection methods for this contribution are detailed below. Regarding data type, mainly qualitative data has been collected to comprehensively describe and explain the phenomena. Since high-quality case study analyses require the use of several data sources (data source triangulation), both publicly accessible data sources and internal sources of social entrepreneurial organizations have been used in order to decrease subjective influences and increase the validity of the analysis.⁵³ Regarding collection methods, both primary data (interviews) and secondary data (documents) have been combined as alternative data collection methods (method triangulation).⁵⁴ Primary data was collected through interviews, which were conducted personally or via the telephone and followed a semi-standardized interview guide. When designing the interview guide, the time frame of a maximum of one hour was respected as well as the creation of a line of suspense.⁵⁵ Consequently, the interview guide was designed to create a positive conversational atmosphere at the beginning through an open question (an 'ice-breaker') and to end with open and less important questions as the attention of the interview partner decreased. Semi-standardized guiding questions in the main part of the interview structure the conversation and ensure comparability, and thus also procedure objectivity.

The relevant organizations and individuals to be interviewed were identified – guided by the definition of social entrepreneurship in

Table 8.1 Case study objects

Organization	1 BISS Bürger in sozialen Schwierigkeiten	2 Phulki	3 Adopt-a-Business
Value proposition strategy	■ Social value creation with target group	■ Social value creation for target group	■ Hybrid social value creation
Country of operation	■ Germany	■ Bangladesh	■ UK/developing countries
Size of organization	■ 42 employees	■ 160 employees	■ 3 employees
Area of value creation	■ Homelessness and poverty	■ Working women's and Children's rights and health	■ Business skills & experiences for the developing world
Legal status	■ Non-profit	■ Non-profit	■ For-profit
Founding year	■ 1993	■ 1991	■ 2003
Recognitions	<ul style="list-style-type: none"> ■ Schwab Social Entrepreneur Finalist 2007 ■ Federal Cross of Merit 	<ul style="list-style-type: none"> ■ Ashoka Fellow 1999 ■ Schwab Outstanding Social Entrepreneur 2001 	■ Supported by UnLtd

this book – via existing personal contacts and the social entrepreneur databases of Ashoka – Innovators for the Public, The Schwab Foundation for Social Entrepreneurship and The Skoll Foundation. Interviews were conducted with either the founder or the current managing director of the organization.⁵⁶ To fulfil the quality criteria, the interview insights were cross-checked and enriched with secondary data such as video statements by stakeholders, or relevant documents. These measures were put in place to create greater interpretation objectivity and validity of this case study research.

Additional semi-structured interviews were conducted with experts on social entrepreneurship from supporting organizations, using a slightly different interview guide. The more global insights gained through these interviews enriched both the general introduction to social entrepreneurship and the specific case studies. To increase evaluation objectivity, the interviews were recorded in all cases but one, after

approval by the interview partners, with a digital audio device and transcribed later.⁵⁷

The second data collection method applied in this case study analysis was document analysis. Yin states that 'Because of their overall value, documents play an explicit role in any data collection in doing case studies.'⁵⁸ It involved collecting existing secondary data such as press articles, existing case studies, publications by the social entrepreneurial organizations themselves, internet site content, other internet sources, videos, published and unpublished reports, articles and interviews. The results of the literature and document analysis served to prepare for the interviews as well as to cross-check and complement the interview insights.⁵⁹

The research process was documented with the aim of increasing the reliability of the case study research. To achieve communicative validation, the interview transcripts were sent by email to the interview partners, asking them to screen the content and report necessary changes. Subsequently, the data was condensed to describe each case study's business model along the predefined dimensions and highlight the specific stakeholder groups and related incentive strategies created. To increase the objectivity of this case study research, all interviews were conducted by the same person and interviews were recorded with a digital audio device.

Case study analysis

This section provides analyses of the three examples of social entrepreneurial organizations selected as case studies to illustrate the holistic application of incentives strategies, and the incentive structures activated by social entrepreneurial organizations to catalyze the provision of public goods. Each of the three case studies applies one specific value creation strategy and thus one clearly delimitable business model: BISS eV creates social value *with* its target group; Phulki creates social value *for* its target group; and Adopt-a-Business Ltd applies the hybrid model of social value creation.

Social value creation with target group: BISS eV

BISS – Bürger in sozialen Schwierigkeiten eV – is a German non-profit organization that helps socially deprived citizens in the German city of Munich (mainly homeless people) to help themselves by employing them as street vendors of a high-quality street paper (along the lines of *The Big Issue* in the UK). Its mission can be described as the reintegration of socially underprivileged people into society through the principle

of 'quid pro quo'. In detail, this means assisting these people in their financial and health-related rehabilitation, helping them to structure their day with regular activities and to establish contact with other citizens, using the sale of the street paper to generate income, and providing general information to the community in order to make people more aware of their fellow citizens in socially dire predicaments.⁶⁰ While employing homeless people to sell a street paper is not a particularly new idea, the approach to employ these homeless people permanently and to expect some kind of performance from them can indeed be considered innovative. The approach implemented by BISS is analysed in depth in this case study. Before concentrating on BISS's business model, its origin and development are explained. Subsequently, the different business model dimensions are analysed, with a focus on the dependencies BISS incurs and the respective incentives it uses to reduce these dependencies and to encourage people to contribute to the public good created through its operations.

Origin and development

Homelessness is a phenomenon that affects about 330,000 people in Germany, and an estimated 20,000 of these actually live on the streets. In Munich, almost 7,000 are homeless: around 4,280 of them live in longer-term accommodation (provided by the city of Munich), 2,330 are in emergency shelters and other short-term accommodation, while 340 permanently live on the streets.⁶¹ Just giving these people a home is usually not enough to solve their problems and enable them lead a normal life. Homelessness is often the final destination after unemployment, indebtedness, psychological illness, alcohol and drug addiction, or serious personal problems. As complex and individual as the reasons are for someone to become homeless, so just as sophisticated and integrated has to be the help to reintegrate them into society. They have to be encouraged to actively shape their own life (again).⁶²

BISS aims to achieve this using its own approach. The idea of creating a street paper in Munich that helps homeless people reintegrate into normal life was originally conceived at a conference on the issue of homelessness near Munich in 1991. Working together on a voluntary basis, homeless people, social workers, journalists and church workers were able to publish the first issue of BISS on 17 October 1993, the United Nations World Day against Poverty, as the first German street paper. It had a circulation of 10,000 copies. In 1994, Hildegard Denninger, the present managing director of BISS, joined the organization and began to transform it into the social entrepreneurial organization it is today. In 1995, BISS was

confirmed as a legal entity (*eingetragener Verein*, meaning civic association) and professionalized by hiring two regular employees for editing and administration. Having been published every other month at the start, BISS switched to monthly circulation, producing 25,000 copies a month in 1996 after a successful advertisement campaign using local celebrities. In 1998, BISS was sold by 100 (previously) homeless people, and the first three of these were offered permanent contracts of employment. In 2003, the monthly circulation reached 35,000 copies and by then twenty-two street vendors were permanently employed by BISS. The year 2005 was marked by a relaunch of the paper and a circulation of 40,000 copies, with thirty underprivileged citizens permanently employed. In 2006, BISS was able to introduce old-age pension insurance and death benefit insurance for its employed street vendors, to relieve public finance in their old age. BISS's aim is to create jobs that make its target group independent of social welfare and to permanently employ as many street vendors as possible.⁶³ In 2007, Hildegard Denninger was one of the German finalists competing for the title of Outstanding Social Entrepreneur backed by the Schwab Foundation for Social Entrepreneurship. Her efforts regarding homelessness and poverty were honoured by the granting of the Federal Cross of Merit of Germany in 2008.⁶⁴

During the coming years the main challenges for BISS, according to Hildegard Denninger, are planning her succession and modernizing the street paper while staying true to its values.⁶⁵

Business model

BISS's business model is described by using the dimensions of value proposition, product design and market definition, and internal and external value creation architecture, as detailed in Chapter 6 in the section entitled 'Dimensions of the social entrepreneurial business model'. Particular focus is given to the specific individual incentive strategies that are applied by BISS in each business model dimension.

Value proposition. The value proposition of a business model describes the benefits that stakeholders gain from the organization. BISS serves several stakeholder groups. Its main beneficiaries and target group for its services focused on employment are homeless and poor people: citizens with social difficulties. For these people, BISS's value proposition is permanent employment and self-earned income, thus enabling a reintegration with societal systems. In addition, these individuals receive complete rehabilitation in terms of health and finance.⁶⁶ The product that employs BISS's target group – a street paper – is sold to another

stakeholder group, the citizens of Munich, BISS's 'secondary' customers. The value proposition to them is a street paper with high-quality content, containing critical statements about current political, economic and social issues that allows citizens to sharpen their view on the world. In addition, through buying something from the street vendors, they benefit them by providing the vendors with business and making social contact with them.⁶⁷ According to Hildegard Denninger, the value proposition of BISS towards society is the financial savings made with respect to public spending created through reduced social benefits to which homeless and poor people are entitled. Instead of relying on welfare, they now contribute taxes to the system through their regular employment, or at least need fewer transfer payments from the state. Additionally, BISS transmits joy, as Hildegard Denninger formulates it, and brings hope to other initiatives that employing beneficiaries can bring sustainable and long-term improvements.⁶⁸

The social value BISS generates is mainly created through the employment of its target group; that is, it creates social value with its target beneficiaries. By employing homeless and poor people and establishing social contact between them and other citizens of Munich, which is first of all an individual benefit for the target group, BISS catalyzes the provision of the public goods of reduced poverty and social integration, thus benefiting the whole society.

Product design and market definition. The business model dimension of product design and market definition describes how the organization implements its value proposition in specific products or product bundles and which markets it targets. Regarding product design, BISS offers two complementary products with individual benefits: the employment and reintegration of people experiencing social difficulties as primary product and objective of the organization, and the production and sale of a street paper as secondary product. Consequently, it follows the individual incentive strategy of 'secondary product with unique selling proposition'. Each product design is described below.

BISS's primary 'product' is the permanent employment of underprivileged people. According to BISS's belief, permanent employment allows its beneficiaries to break out of the vicious circle of unemployment and homelessness, and completely rehabilitate in terms of health and finance. Daily contact with other citizens – namely, the customers buying the street paper – represents an important driver for social reintegration.⁶⁹ Being permanently employed, a street vendor returns to the social system,

pays taxes and social insurance contributions, and has both health and old-age pension insurances.⁷⁰ According to Johannes Denninger, husband of Hildegard Denninger and social manager as well as sales director of BISS, their job enables street vendors to structure their day, giving them a feeling of success and improved self-esteem.⁷¹ BISS street vendors sell the street paper in an assigned area of the city, either at a fixed place – for example, within a subway station, or in restaurants and cafés. All BISS street vendors have badges that authorize them to work. The fact that street vendors have a certain number of regular customers adds a feeling of appreciation to the positive effect of having a job and catalyzes social reintegration. Consequently, most of BISS's issues are sold personally, but the organization also has some subscribers to the street paper.⁷²

Starting initially with a single employment model, BISS's service of employment is now always adapted to the specific situation of the new person to be employed. As a result, different part-time and full-time job variants exist, with respective salaries linked to the number of issues sold monthly.⁷³ When selling a street paper for €1.80, the street vendor takes 90c. Street vendors can choose to make their whole living from selling the street paper: for a salary of €1,550, 1,350 or 1,200 before taxes, they are required to sell 1,200, 1,000 or 800 issues, respectively. Street vendors who are not able to sell 800 issues per month, because of physical constraints, for example, can be employed part-time for €850, 525, or 325 before tax, by selling 600, 400 or 325 issues a month, respectively. These street vendors receive additional social welfare benefits. BISS also employs some pensioners, working as street vendors for BISS in addition to the low monthly pension they receive from the state. BISS has also created individual solutions for a self-employed street vendor, street vendors with families, and young people.⁷⁴ To enable the homeless and poor people to be employed as street vendors and reach their contracted number of issues, BISS offers support services: the organization advises them on and supports them with filling out forms for social welfare, paying back their debts, rehabilitating their health, and finding and furnishing new apartments.⁷⁵

BISS's 'secondary' product, which enables the employment of the street vendors through giving it meaning, structure and income, is the street paper. The street paper sold by the BISS vendors has a monthly circulation of 35,000 copies, with a double issue in July/August.⁷⁶ It is the oldest and one of the most successful street papers (measured in terms of circulation) in Germany.⁷⁷ The street paper is produced with a lean editing office, but has professional ambitions and considers itself

as a lobby group for the socially underprivileged, creating awareness for the issues of homeless and poor people.⁷⁸ In a writing workshop, the street vendors themselves can contribute their own articles to the street paper, which increases their identification with the product they sell and serves as a USP for their customers, showing them new perspectives.⁷⁹ Thus BISS successfully applies the product design strategy of 'secondary product with unique selling proposition' as it offers customers, who do not belong to its target group, a product – the street paper – that has a USP and differentiates itself from other print media. The results of a customer survey conducted by BISS demonstrate the organization's success in applying this strategy: 86 per cent of the interviewed customers said that BISS reports on issues they cannot find in any other magazine. When asked why they buy the street paper, 96 per cent of the customers answered that they want to support the BISS project. Remarkably, 88 per cent also consider the paper interesting.⁸⁰ As these survey results convey, customers are not only motivated to support BISS when they buy a street paper, but also consider the street paper itself reason enough to purchase it. The street paper provides an individual benefit for themselves, in the form of interesting content.

Additionally, through creating a direct contact between the street vendors and the customers of the street paper, BISS provides another incentive to support the organization by applying the product design strategy of making the product more tangible through individualization. Being able to support directly an individual in his own community and being able to observe his well-being and physical and psychological improvement serves as a powerful tangible incentive for many citizens in Munich. Some 90 per cent of the customers interviewed in the customer survey buy the street paper because they want to support a specific street vendor.⁸¹

The market for BISS is defined geographically by the city of Munich and its peripheral regions. On the one hand, homeless people can be employed only in this area, and on the other, the paper is only sold in this area. Regarding customer segments, BISS serves homeless and other people with social difficulties such as unemployment and extreme poverty. According to the customer survey, the street paper is bought by Munich citizens from all societal levels.⁸²

Internal value creation architecture. The business model dimension of internal value creation architecture consists of the resources as building blocks combined with the value chain steps to make the final product or service. Both resources and value chain are embedded in the structural

elements of the value creation architecture: the organizational, legal and ownership structures. The growth strategy describes the method of replicating the value creation. Each of these elements of the internal value creation architecture of BISS is described below.

BISS's main resources – that is, the building blocks for its products – come from human, economic and social capital. Regarding human capital, one of the most important internal resources of BISS, according to Hildegard Denninger, is the high quality and professionalism of BISS's employees in the administrative and editing departments. Since BISS follows the principle of 'Only the best quality for our beneficiaries', Johannes Denninger is convinced that only a good product (that is, the street paper), good care and positive support make social reintegration of the target group possible.⁸³ This is ensured and provided by the internal staff, connecting external support and target group, and transforming diverse sources of support into one purposeful holistic strategy to reintegrate homeless and poor people into society. BISS's target group is another important resource for BISS. Since the social value is created through employing these people in their operations, BISS applies the individual strategy of 'integration of current beneficiaries'. Since the target group is also the customer of BISS's services, and the dependency of BISS on them is quite high, their description and incentives to work for BISS are seen as part of the external value creation.

Regarding economic capital, BISS publishes its profit and loss statement every year in the street paper, to inform customers and partners about the organization's financial situation and to document its development.⁸⁴ More than half of the financial resources are generated through the sales of the street paper. These revenues completely cover the production and operational costs of the street paper as well as the salaries for the administrative and editing staff, and partly cover the street vendors' salaries.⁸⁵ Regarding social capital, Hildegard Denninger highlights the importance of BISS's strong network (she calls it 'our big capital'): BISS can rely on material and immaterial support from persons in all kinds of professional areas.⁸⁶ This network helps them to gain access to more external resources, making the employment of street vendors possible. Access to this network is considered to be part of the internal value creation architecture since it is a resource created and owned by BISS. The specific network partners, however, are value creation partners from the external value creation architecture.

To structure BISS's diverse activities along a value chain, the main activities creating the intended social value need to be identified. Since the mission of BISS is the social reintegration of homeless and

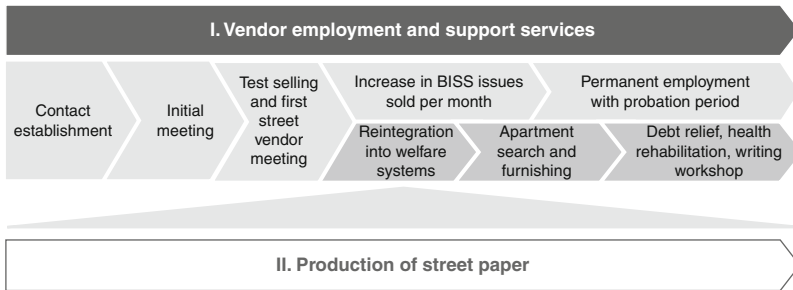


Figure 8.3 BISS eV: value chain steps⁸⁷

poor people through employment, the activities around employing a beneficiary are considered to be the main value chain steps. These are accompanied by crucial supporting activities. Figure 8.3 gives an overview of the value chain.

After the initial contact has been established with a homeless or poor person (either through a BISS street vendor, through the BISS office or through a public authority), the person is invited to a first meeting in the BISS office with the social manager. This meeting involves clarification of the person’s poverty status, possible claims on social welfare, information about BISS, and a check of general fit with BISS’s service offering (otherwise the person will be advised about possible support alternatives). If this first meeting is successful, the individual is equipped with his first batch of BISS street papers as well as a BISS identification badge, and is assigned to a certain selling place, where he can test sell the papers. Subsequently, the person is invited to attend the next regular monthly vendor meeting and is introduced to the system of BISS vendors. If the person is interested in continuing to sell the street papers, he can try to increase the number of issues sold continuously and eventually reach a level for permanent employment. The process of employment is backed by various support services offered by BISS to reintegrate the homeless and poor people holistically into society. The support services typically start with counselling about a possible reintegration into social welfare systems, continues with help in finding and furnishing an apartment, and includes health and financial rehabilitation.⁸⁸

These main value creating steps are supported by a parallel value chain that focuses on the creation, production and distribution of the street paper.

The organizational structure in which the value creating activities of BISS are embedded is based on the legal requirements linked to the legal status it chose in 1995. As noted earlier, the German legal structure signified by 'eV' means a civic association by membership. It does not include the distribution of profits outside of its operations; that is, it is a non-profit organization. As Hildegard Denninger recalls, the reason for founding a civic association in 1995 was mainly based on the need to be able to issue donation receipts (to allow tax benefits for donors). The civic association represented the simplest and both time- and cost-saving legal construct to allow BISS to continue to concentrate its the social work.⁸⁹ As a civic association, BISS has sixteen members and sponsor members. It has a committee, a managing director (Hildegard Denninger) who is mainly in charge of the strategic orientation of BISS and fundraising, an editing office, as well as departments for general administration, advertising and sales.⁹⁰ BISS is sold by around 110 street vendors, including thirty-six who are permanently employed.⁹¹ In addition, the organization has six internal employees.⁹² The editing office works with about fifteen freelancers (journalists and photographers).⁹³

The growth strategy of BISS has been organic, steadily increasing its circulation, the number of permanently employed street vendors and selling places. However, Hildegard Denninger considers further growth to be limited.⁹⁴ This is mainly because of the difficulty in finding new street vendors who are able to sell the paper: the damaged health of homeless people limits the capacity for growth. She also wants BISS to stay regional, and that necessarily limits the circulation. She considers the regional aspect to be important, for two reasons: to really stay true to BISS's maxim to put the street vendor first and not to get lost in efficiency and administrative traps, and to benefit from local networks of donors and promoters. Despite BISS as an organization staying regional, however, its model of permanent employment of beneficiaries has already been replicated in Germany. Recently, the International Network of Street Papers, of which BISS is a member, praised BISS's model of permanent employment of street vendors and announced a deeper analysis and implementation for other member organizations around the world.⁹⁵ This replication strategy of BISS's model of permanent employment per se through other organizations resembles the strategy 'use of other organizations as replication support'. Other street paper organizations around the world have an incentive to replicate BISS's successful model to better serve their own target group – the homeless and poor people in their region.

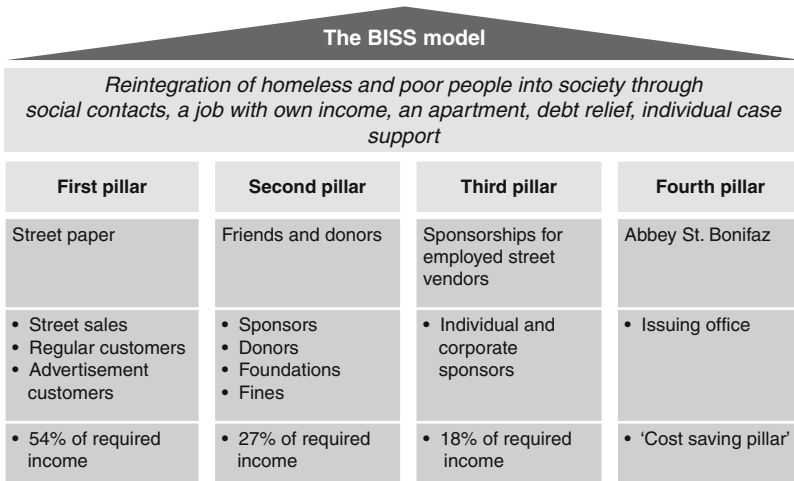


Figure 8.4 BISS eV: pillars of the BISS model⁹⁶

External value creation architecture. The external value creation architecture is made up of those individuals, groups and institutions that control resources critical to the organization’s operation. They can be customers and value creation partners.

Regarding resources, BISS has control over only a very few resources and thus has an extended external value creation architecture; that is, it relies heavily on its value creation partners. The BISS approach of permanent employment is based on four pillars, as demonstrated in Figure 8.4. The first pillar, made up of the street paper operation itself, is dependent mainly on two groups: the vendors as its target group, being both customers of its services and employees at the same time; and the customers who buy the street paper.

Because of its value proposition strategy, BISS’s target customers are at the same time their employees, and thus belong to both the external and the internal value creation architecture of BISS’s business model. Originally, BISS’s target customers, citizens with social difficulties, were homeless people. According to Johannes Denninger, social difficulties have changed over the years as a result of social reforms, and now homelessness is just one of many different symptoms of poverty.⁹⁷ Generally, anyone in Munich who is considered to be poor according to their claim for social welfare, and who is not able to qualify for another job (for example, older people) can sell the street paper and be employed by

BISS.⁹⁸ In 2007, of BISS's 110 active vendors, 33 per cent were employed by BISS and 57 per cent of them received minimum social welfare and sold BISS for additional income; 66 per cent of BISS's vendors are between 50 and 75 years old.⁹⁹ BISS and its vendors stay in touch through the regular pick-up of new batches of street papers by the vendors, and through the monthly vendor meetings at the BISS office. The administrative employees of BISS use these opportunities to check the vendors' well-being and health status. In particular, new vendors are visited regularly at their selling point by a social worker.¹⁰⁰

The dependency of BISS on this resource – homeless and poor people as the target group to be employed – is quite high. This is because of the relative importance of this resource to BISS's business model, in combination with the difficult access to people who qualify for employment with BISS. According to Johannes Denninger, only one in ten interested target customers can be permanently employed.¹⁰¹ This is largely because BISS's principle of putting the interests of the target group first. As a result, BISS tries to send those people who are physically and psychologically healthy enough to work in the first labour market to other support agencies. This often leads to a situation where the homeless and poor people who remain with BISS are not fully able to work as a street vendor (as depicted in the growth strategy description above).¹⁰²

Thus only quite a small group of homeless and poor people are available to sell the street paper and achieve the required circulation. These people are motivated to join and stay with BISS through a number of incentives integrated into BISS's employment strategy. The street vendors themselves list them: Thomas Grabner enjoys the personal contact with his customers and the feeling of independence from social welfare through earning his own income;¹⁰³ Pietro Dorigo says that selling the BISS street paper has improved his life, since it allows him to earn his own living;¹⁰⁴ Manfred Kollnberger is motivated to work as a street vendor because he can work outside, is not controlled by a supervisor, and feels that his customers miss him when he is not at his usual spot;¹⁰⁵ for André Schmitt, an important incentive to work for BISS is the safety net provided by BISS in case of illness or personal problems;¹⁰⁶ and Edelfried Fili's incentive is having something to do again that is useful and which structures his day.¹⁰⁷

BISS needs a second customer group to keep its business model functioning: the customers who buy its street paper. According to a survey among customers of the street paper, they are evenly distributed with respect to age; the majority of them are in paid work; almost 60 per cent

have achieved at least the university entrance requirement; and 74 per cent of BISS's customers are female.¹⁰⁸ BISS is highly dependent on these customers: only when they buy its paper does the organization receive the necessary financial resources to run its operations and the business model to unfold its socially integrating elements (such as personal contact between vendor and buyer). As was demonstrated earlier by the results of the customer survey, their main incentive for buying the street paper, apart from supporting BISS, was the quality and uniqueness of the paper.¹⁰⁹

To create its value, BISS also needs to co-operate with a number of value creation partners contributing to all four pillars. Over the years, BISS has created a sophisticated network of supporting organizations and institutions.¹¹⁰ Companies and self-employed people contribute their work pro bono or at reduced price to the production and operational processes of BISS, including the paper supplier, the financial auditor, and the creative advertising agency. To attract these resource contributions, BISS creates incentives for companies. It presents itself as a sustainable and transparent social organization, a good and grateful partner organization. Appealing to corporate social responsibility, it sells itself as being an organization worthy of support. In addition, the work of several pro bono partners of BISS has been honoured with prizes (for example, for advertising campaigns).¹¹¹

The second pillar is made up of general donations and grants provided by sponsors, donors, foundations and monetary fines, raised by municipal authorities and redistributed to local charities and non-profit organizations. These financial resources serve to cover the costs of the support services offered to street vendors, such as finding and furnishing apartments, medical treatment, and training for qualifications. While BISS generally tries to keep its budget as small as possible, financial resources, especially donations, should mainly benefit the street vendors directly (and not be used to cover the operational costs of the street paper production, for example).¹¹² Since the income from the sales of the street paper completely covers the production and operational costs as well as the salaries for the administrative and editing staff, the donations through the second and third pillar are used completely for the benefit the street vendors.

BISS depends on its respective value creation partners and thus motivates their resource contribution by using the following incentives: according to Hildegard Denninger, the main incentive is that they can contribute something to a structured and sustainable project that offers jobs and thus empowerment, as well as the fact that donor money is only

used for the beneficiaries and not for the production operation of the street paper.¹¹³ She recalls how a donor once told her that the return on his investment was never as high as when he invested in the street vendors.¹¹⁴ Hildegard Denninger also cites a reduced bad conscience as an incentive to donate to BISS because BISS reduces the number of people living on the streets, who are a sign that the society as a whole, including the individual whose conscience is troubling him, has failed to integrate all marginal groups.¹¹⁵

The third pillar is represented by the sponsorships – financial contributions by individuals and companies to specific street vendors to increase their salary. BISS depends on these contributions, since the vendors' salaries cannot be covered to a sufficient extent with the proceedings from the street paper sales, as discussed above. Apart from the incentives used to attract general donations (as mentioned above), BISS again uses the strategy of making public goods more tangible through individualization to attract donations for this area. By giving individuals and companies the possibility of directly supporting 'their' street vendor, they have a closer connection to the cause they support with their contributions.

The fourth pillar is named the 'savings pillar', representing the resources saved, mainly through using the monastery of St. Bonifaz as a distribution point where street vendors pick up their street papers to sell. St. Bonifaz is motivated to support BISS in this way mainly because of the congruence of their social missions in supporting homeless and poor people. The same can be assumed for other non-profit organizations that co-operate with BISS – for example, in fulfilling its support services. Public institutions also serve as value creation partners of BISS, establishing contacts between potential street vendors and BISS, and tying in with their offerings of help for homeless and poor people.¹¹⁶ According to Hildegard Denninger, BISS's ability to reintegrate homeless and poor people into society in a very effective way is a huge incentive for organizations to co-operate with it. BISS saves public authorities money and provides the target group with fringe benefits that the authorities cannot supply.¹¹⁷ According to Graffe, head of the Munich Sozialreferat (social welfare department), the Sozialreferat and BISS work towards the same objectives regarding homelessness and poverty in Munich, and the Sozialreferat depends on BISS to bring this issue closer to citizens and involve them in its solution.¹¹⁸

Generally, Hildegard Denninger assumes that people are motivated to support the project because BISS creates transparency about its operations and development, and attracts contributions from many different

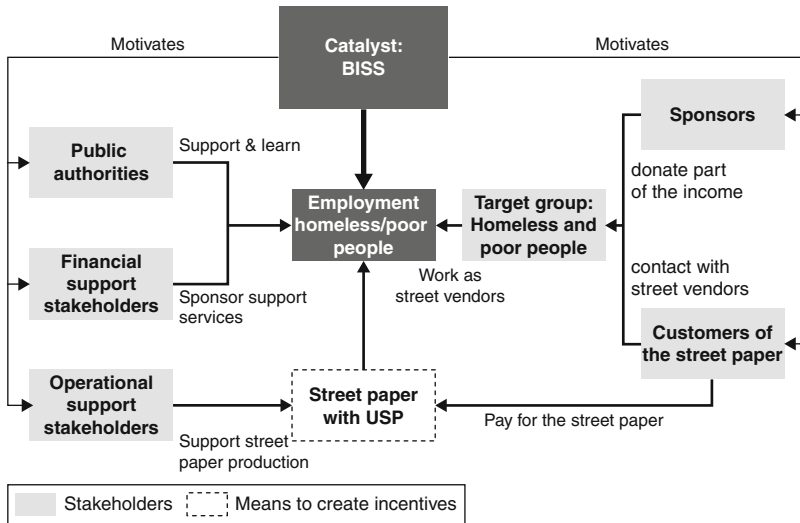


Figure 8.5 BISS eV: incentive structures¹²⁰

stakeholders. BISS shows them how a project relying on the principles of the social market economy and ‘quid pro quo’ can thrive and reintegrate marginal groups into society.¹¹⁹

Figure 8.5 illustrates the incentive structure activated by BISS. It highlights how BISS catalyzes the provision of public goods through the employment of homeless or poor people, attracting public, corporate, non-profit and individual stakeholders’ contributions to its social objective.

Social value creation for target group: Phulki

Phulki is a non-profit organization in Bangladesh that develops, promotes and runs daycare centres for children of urban working mothers, both workplace-based and in communities. In addition, Phulki lobbies actively for workers’ rights and promotes health and hygiene among Bangladesh’s poor: ‘Phulki’s mission is to create a world where working women do not have to sacrifice their children’s well-being in order to achieve economic emancipation.’¹²¹ From the outset, Phulki has sought active involvement and a contribution of resources by all stakeholders benefiting from childcare facilities. The innovative business model and various incentive strategies created to this end are explored in this case study. To demonstrate Phulki’s roots and the background to its services,

its origin and development will be explained first. This introduction to Phulki is followed by an in-depth analysis of its business model.

Origin and development

The background and reason for Phulki's services is connected strongly to Bangladesh's societal change. Continuous population growth and regular environmental disasters have increased rural poverty, causing, among other factors, mass migration to crowded Bangladeshi cities in search of work.¹²² The massive influx of rural migrants into urban centres has been absorbed by urban slums, which are overcrowded and unhygienic.¹²³ This rural migration destroys traditional family structures in which women care for the home and the family, and can rely on older family members to assist with childcare while they concentrate on their daily work.¹²⁴ Instead, the phenomenon of the nuclear family has arisen, since older family members are often left behind in rural areas.¹²⁵ To survive in the urban centres, generally all members of this nuclear family must work, forcing mothers to leave their small children unattended during the day, either locked in their slum dwelling or left outside in the hazardous conditions of the slums, usually without food, clean water or access to hygienic sanitary facilities.¹²⁶ Women find work in the cities as brick-breakers, maidservants, garment factory workers, and so on.¹²⁷ Since the 1980s, Bangladesh's export-orientated garment industry has boomed and accounted for 76 per cent of total export in the year 2000, employing more than 1.5 million workers.¹²⁸ Garment factory owners clearly prefer to employ young women (who are considered to be more amenable and less political than men), with 90 per cent of garment factory employees being women:¹²⁹ 'As the first modern industry to employ primarily women, it provides hundreds of thousands of women with access to wages.'¹³⁰

They usually work 12 to 14 hours a day, leaving no time to care for or educate their children.¹³¹ Bangladesh has aimed to establish equal rights for these working women through legislation, recognizing their important role 'in upgrading the lifestyle of the lower and middle class households [and] spearheading a social revolution by changing the way women are viewed in Bangladesh'.¹³²

The Bangladeshi government ratified both the Convention on the Elimination of All Forms of Discrimination Against Women in 1984, and the UN Convention on the Rights of the Child in 1990.¹³³ Additionally, the Factory Act of 1965 required each factory with more than fifty women employed to provide childcare facilities.¹³⁴ However, the state failed to implement these laws properly because of a lack

of incentives on the part of the garment factory owners, and bribery among officials.¹³⁵

Suraiya Haque founded Phulki with the aim of changing the situation for working mothers and their children. She dreams 'of a world where working women will not have to forgo their children's well being for economic reasons.'¹³⁶

Having a more privileged background, Haque was able to attend school until she married at the age of sixteen.¹³⁷ After eight years of forced interruption to her education because of her family responsibilities, she went back to school and was able ultimately to gain a bachelor's degree. As a garment factory supervisor, she introduced major innovations to make production more efficient (such as 'training on the job' for unskilled garment workers rather than lengthy training courses). A personal experience led to her idea of workplace-based childcare centres: 'A woman came to me for a job, and I turned her away because she had a small child, and that started haunting me. I realized that these women needed child care facilities to keep their job. So I started Phulki ... Phulki is a Bengali word. It means spark – the spark of a new idea.'¹³⁸

In 1991, with the first pay cheques of her two sons, Haque started her first daycare centre in her own garage.¹³⁹ In 1993, she convinced a factory owner and friend to set up the first workplace-based daycare centre in his factory, supported by funding from Radda Barnen (an international foundation).¹⁴⁰ Then she tried to convince more factory owners in Bangladesh to create daycare facilities: 'I started to write to the BGMEA [Bangladesh Garment Manufacturers and Exporters Association] and to the garment factories in Bangladesh, but they said that their buyers do not care about compliance. All kinds of excuses were given.'¹⁴¹

So with the help of extensive lobbying with both the national garment industry and international purchasing companies, she has convinced more and more garment factory owners to set up on-site daycare facilities for the children of their employees. When childcare finally entered the compliance regulations of multinational purchasing companies and thus became compulsory for Bangladesh's garment manufacturers to stay in business, Phulki changed from a service provider (mainly operating daycare centres) to a consultancy provider (mainly advising garment factories and other employers on the setup and operation of daycare centres).¹⁴² In 1994–5, Haque also persuaded several government agencies to set up daycare facilities with Phulki's support. In addition to workplace-based daycare centres, Phulki also operates community-based childcare centres and offers a range of services based around women's and children's rights, health and education. In 1999, Phulki had established more than

fifteen workplace-based care centres and twenty-four community-based care centres. Phulki 'envisages a future where children can grow in an environment that is not only secure and healthy but also provides them with a proper education with which to face the future'.¹⁴³

As a result of creating the extraordinary business model of Phulki, Haque was elected as an Ashoka Fellow in 1999.¹⁴⁴ In addition, The Schwab Foundation honoured her efforts by recognizing her as an Outstanding Social Entrepreneur in 2001.¹⁴⁵

Regarding the future, Haque considers retaining staff as a great challenge during the coming years, since Phulki cannot provide high salaries. She might, however, provide more training to staff as an incentive to stay with Phulki.¹⁴⁶ Regarding Phulki's further success, she considers employing people with a economic perspective on development and volunteers to develop a succession strategy for a second level of staff to promote Phulki's further success.¹⁴⁷

Business model

Phulki's business model is described along the dimensions value proposition, product design and market definition, and internal and external value creation architecture, as detailed in Chapter 6. Particular focus is given to the specific individual incentive strategies that are applied by Phulki in each business model dimension.

Value proposition. The value proposition of a business model describes the benefit stakeholders gain from the organization. Suraiya Haque considers all women with small children, in both educated and uneducated jobs, the government and employers in Bangladesh, as Phulki's main stakeholders.¹⁴⁸ Regarding the women, Phulki offers them the value proposition that they can go to work without worrying about their children and thus gain economic independence. The government benefits from Phulki as it provides a better means to integrate women into the job market without violating their rights nor the rights of their children. Phulki's value proposition to employers is its low-cost approach to childcare services, offering them the opportunity to get better service from their employees.

Phulki follows the value creation strategy of creating social value for its target group. Its beneficiaries are low-income working mothers with small children, and Phulki aims to provide mothers with the possibility of earning their own income while not having to neglect their children. To create this social value, Phulki acts as a catalyzt between female workers and their employers, channelling their joint effort to

establish childcare facilities from which both parties and several other stakeholders benefit. The public goods generated through this catalyzation process are the adherence to women’s and children’s rights, reduced poverty, better education, and increased hygiene and health among children, their parents and communities as a whole. Phulki promotes its services with the slogan: ‘Phulki care and education – better child, better nation’.¹⁴⁹

Product design and market definition. The business model dimension of product design and market definition describes how the organization implements its value proposition in specific products or product bundles and the markets it targets. Phulki offers a range of services around the rights, health and education of working women from low-income backgrounds and their children. Figure 8.6 provides an overview of Phulki’s services.

The childcare services represent the core of the services offered. Phulki offers two types of services regarding childcare: office-based daycare centres, and community-based daycare centres. Office-based daycare centres are set up by Phulki for children aged 0–2 years by agreement with an employer and operated by Phulki for the first month. After that, the

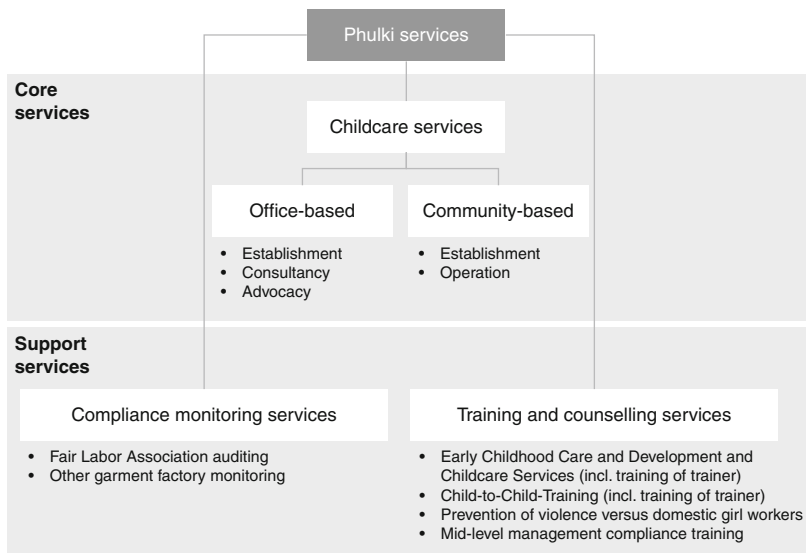


Figure 8.6 Phulki: services overview¹⁵⁰

employer can decide either to run the daycare centre himself or to pay a management fee to Phulki to operate the centre. Thus Phulki offers both establishment and consulting services for office-based daycare. Working mothers leave their children at the daycare centre when they arrive at work in the morning and pick them up when they go home. According to Haque: 'The best thing about this project is: the employer is allowing their workers to come and breastfeed their children two or three times in a day.'¹⁵¹

The mothers also bring food for themselves and their children and can have lunch together. 'I can really see her growing. She seems more mine,' says a mother about her daughter being cared for in a Phulki daycare centre.¹⁵² In addition, Phulki actively advocates office-based childcare among national and international institutions:

Phulki realizes that its goal of ensuring workplace based childcare cannot be achieved without the participation of the community, businesses and the government ... It is important for the continuity and success of Phulki's work that international buying companies, establishing factories in Bangladesh, understand the importance of on-site childcare facilities and bring their vendors under compliance.¹⁵³

Community-based daycare centres are established and operated by Phulki for children aged 3–5 years. After attending childcare centres, the children are admitted to primary school.

In one childcare centre, typically ten to twenty children are attended by two to four carers, who 'combine the roles of surrogate mother, caretaker, health worker and social worker' to fulfil the children's educational needs in health, learning, nutrition and recreational activities.¹⁵⁴

Phulki offers a range of services that support the organization's mission and its core services: compliance monitoring services, and training and counselling services. Phulki monitors garment factories represented in the Fair Labor Association (FLA) according to the FLA Charter Agreement, and non-FLA garment factories according to the International Code of Conduct.¹⁵⁵ These monitoring services allow Phulki to extend its office-based childcare model into more garment factories. Phulki established its training and counselling services to further the rights of children and their families in health, education and hygiene. Phulki trains all its caregivers and other trainers in 'early childhood care for development' (ECCD) methods, and in childcare services and is, according to Haque, expert in the ECCD approach in Bangladesh.¹⁵⁶ This education approach for children between 0 and

5 years of age aims to further their psycho-social development using recreational activities, with the long-term objective of reducing the repeating of years or dropping out totally in later school education.¹⁵⁷ In addition, Phulki applies the child-to-child approach: it educates child leaders and older children (8–11 years) in poor families about children's rights, healthcare, hygiene and sanitary practices, immunization and gender issues. They then pass on this information to their siblings, friends and parents:¹⁵⁸ 'The child-to-child approach is a highly effective methodology in creating awareness and promoting positive behavioural practices among slum households ...In this way children mobilize their communities and take initiatives to improve their own living conditions.'¹⁵⁹ Phulki also provides workshops and training to prevent violence against young female domestic workers, a problem prevalent in low-income families and thus well known to Phulki.¹⁶⁰

To improve the situation and the rights of workers in garment factories, Phulki also offers compliance training for mid-level-managers, 'to raise awareness about the International Code of Conduct [and to inform about] workplace based health and safety, harassment and abuse, child labour, wages, benefits, worker's rights'.¹⁶¹

Phulki's market definition for its core services currently covers low-income working mothers with small children, and garment manufacturers and other organizations as their employers in the cities of Dhaka and Chittagong in Bangladesh. Other organizations adopting Phulki's model include government organizations, hospitals, financial institutions and NGOs.¹⁶² With this market definition, Phulki applies the incentive strategy of 'identification of existing demands with low/no profit potential'. Through catalyzing the joint effort between employers and working women, Phulki identified the demand for childcare among poor working women and met that need. Although the target group itself would not be able to cover the full costs of childcare, it can still contribute to it.

Regarding compliance monitoring services, Phulki's market is currently defined by garment factories in Bangladesh.¹⁶³ Training and counselling services are offered, mainly to relevant customers in Bangladesh (that is, future employees such as caregivers), however, the child-to-child training for trainers is also given to international organizations aiming to apply the approach within their own domain.¹⁶⁴

Internal value creation architecture. The business model dimension of internal value creation architecture consists of the resources as building blocks and the value chain steps putting together the building blocks

to form the final product or service. Both resources and value chain are embedded in the structural elements of the value creation architecture: the organizational, legal and ownership structures. The growth strategy describes the method of replicating the value creation. Each of these elements of the internal value creation architecture of Phulki is described below.

Haque considers Phulki's most important resources to be the volunteers and the new office building they have been able to construct based on the US\$25,000 Sustainability Award it received in 2008 from The Global Fund for Children.¹⁶⁵ The office building saves them from paying rent and frees funds for scaling up Phulki further or investing in other activities. Other important resources for Phulki include its employees and the income generated through its childcare services. Phulki has about 160 employees, 98 per cent of whom are women; 100 employees work as caregivers in the daycare centres Phulki itself operates; and 60 employees are in mid-level management, responsible for tasks such as documentation or training. According to Haque, the employees enjoy their work, and are attracted by the pleasant office environment. Professional development is an important incentive: Phulki's employees generally do not have any prior experience or training. This is all provided by Phulki. After working a few years for Phulki, they will have gained enough experience to apply for work with other organizations.¹⁶⁶

Regarding income generation, Haque points out that Phulki was never planned to be a charity organization.¹⁶⁷ Instead, each stakeholder benefiting from Phulki's services contributes resources to the daycare centres. Employers are charged a one-off fee of 15,000 Bangladeshi taka for the establishment and operation of an office-based daycare centre during the first month. If the employer decides to contract Phulki to further manage the centre after that first month, Phulki charges 4,000 taka per month as a management consulting fee. However, the mothers also participate in the costs: as Haque says 'I don't believe in free services ... The mothers paid from the beginning. We wanted them to feel: "My child is my responsibility and I must take care of them [*sic*]." They have no voice if the service is free – the owners will dictate terms. A sense of ownership and partnership would not be there.'¹⁶⁸

As a result, mothers pay at least 50 taka per month for childcare and are usually responsible for providing food for their child/children. By providing food and taking part in monthly meetings regarding the childcare facility (as detailed in the value creation steps), the target group of working mothers is also partly integrated into Phulki's value creation. Consequently, Phulki applies the incentive strategy of 'integration of

current beneficiaries'. Relying on these income flows, the office-based daycare services, including its management and operation, are fully self-sustaining, and even cross-subsidize other initiatives run by Phulki.¹⁶⁹ The community-based daycare centres also rely partly on contributions by parents. Since these are not enough to fully sustain the centres, they are supplemented by donations.¹⁷⁰ Educational material is provided free of charge to the children and funded by donations, as are occasional recreational activities such as visits to amusement parks.¹⁷¹

Phulki's value chain steps concern the setting up of a daycare facility.¹⁷² Figure 8.7 provides an overview of these steps. The value creation process starts with the planning and design phase. The starting point of this phase is the initial contact and appointment with an employer to describe the childcare facilities Phulki provides. When these first talks are successful, Phulki starts to evaluate the requirements for a future daycare facility by conducting a survey investigating how many small children the women employed in the specific factory have. Additionally, Phulki interviews the mothers of small children on their needs and wishes regarding daycare. Having gathered this information, Phulki starts to design and plan the daycare centre according to the general requirements and specific needs of the mothers and the preferences of the factory owner. During this step, Phulki also assumes an intermediary role between employer and mothers regarding their wishes (that is, Phulki consolidates the wishes of the parents and discusses them with the employer). At the end of the design phase, a decision has to be made about cost-sharing between the employer and the working women. Having finally decided on the design of the daycare centre, the next phase concentrates on the implementation and opening of the facility. The caregivers to be employed in the new centre need to be trained, and the room(s) furnished and decorated. The implementation phase culminates in the opening of the daycare centre on the prearranged date. During the first month of operation, the centre is operated by Phulki to ensure its proper operation according to Phulki standards.

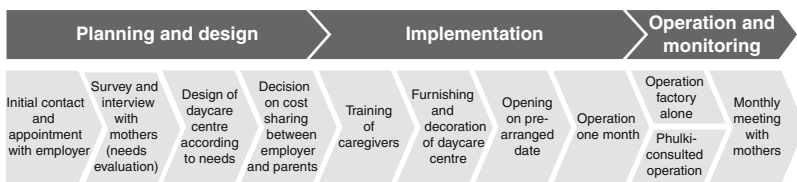


Figure 8.7 Phulki: value chain¹⁷³

Phulki also trains a supervisor nominated by the employer regarding to deal with the management of the centre once Phulki hands it over.¹⁷⁴ After one month, the factory or organization decides whether to phase out Phulki's support and operate the daycare centre independently, or to contract Phulki to continue, based on a management fee: 'Phulki's designed phase-out approach and its fee-structure transfers the responsibility for childcare to the factory and the parents, where the initial mandate intended it should be.'¹⁷⁵

When Phulki is contracted, a supervisor employed by Phulki regularly visits the eight daycare centres in his factory cluster. Monthly meetings between the mothers, caregivers and supervisor of the daycare facility ensure the continuing participation of the mothers in the management of the centres.¹⁷⁶

When setting up community-based childcare centres, the value creation steps are similar, but do not involve an employer. Phulki increasingly tries to involve the fathers in childcare, by having them bring or pick up their children, or participate in the monthly meetings.¹⁷⁷

As a strategy to expand Phulki's services, Haque uses the approach of social franchising. The process of setting up and operating a daycare centre has been codified to allow for simple yet effective replication with other employers.¹⁷⁸ Haque aims at scaling Phulki's model to more garment factories and other commercial and private sector partners in Bangladesh.¹⁷⁹ To create pressure on these garment manufacturers to provide daycare, she advocates women's and children's rights among international purchasing companies such as Nike, Reebok, Gap, H&M and Marks&Spencer.¹⁸⁰ Haque reveals her plans with Phulki: 'My dream is that all the 2,500 garment factories will have a daycare facility.'¹⁸¹ However, as she stated in an interview, she believes the Phulki model could also be replicated throughout Asia and in other countries.¹⁸²

External value creation architecture. The external value creation architecture is made up of those individuals, groups and institutions that control resources critical to the organization's operation. They can be customers and/or value creation partners.

Phulki's customers are low-income working mothers with small children; garment factories as large employers of women and other institutions employing large proportions of women, such as banks, NGOs and government.¹⁸³ 'Government agencies, the banking sector, hospitals, garment manufacturers, other citizen sector organizations are following Haque's model.'¹⁸⁴

Phulki creates awareness for its services with all customer groups through advertisements in newspapers and on television as well as through documentary films about Phulki as an organization.¹⁸⁵ In addition, social mobilizers, female promoters of Phulki, inform mothers in urban slums about Phulki's service and motivate them to bring their children to a community-based daycare centre.¹⁸⁶ Because of the importance of their investment and effort in the creation and operation of a daycare centre, the factory owners and employers are not only Phulki's customers, but also become one of its most important value creation partners in Phulki's quest for women's and children's rights. Phulki's business model depends strongly on the co-operation and willingness of the garment factory owners and other organizations to pay for its services. Consequently, Phulki uses a number of incentives that appeal to its corporate customers and value creation partners. As Haque recalls, 'From the beginning I knew I was addressing a business community. They will only do something that increases their profit.'¹⁸⁷

In order to reach her objective of establishing daycare centres in as many garment factories as possible, Haque uses three different sorts of incentives to convince the factory owners. First, she points out the direct benefits a business can gain through setting up a daycare centre: 'Childcare facilities reduce absenteeism, they can retain their skilled workers, and migration is also declining.'¹⁸⁸

Phulki was able to prove that the benefits of a childcare centre (that is, higher productivity, less absenteeism, and so on) outweigh the cost of establishing and operating a centre.¹⁸⁹ 'It demonstrates to factory owners that, by investing in childcare, they not only provide essential life benefits for their employees, but they themselves benefit from a workforce that is happier, more productive and has lower rates of absenteeism.'¹⁹⁰

Second, Phulki clarifies the legal situation, pointing to existing laws in Bangladesh that require the provision of childcare and highlighting the illegal practices of factory owners, thus forcing them to abide by national laws and establish childcare centres.¹⁹¹ Third, she lobbies national associations and international purchasing companies to include childcare and workers' (particularly female workers') rights in their compliance standards for overseas suppliers. Through that channel, additional pressure is put on Bangladesh's garment industry to introduce childcare centres in order to be fully compliant.¹⁹² 'Nike, Reebok, Levi's and Van Heusen are helping set the standard for overseas manufacturers.'¹⁹³

Through Phulki's engagement, some factory owners have realized that social services for their workers result in higher productivity and

profitability, and thus they have introduced even more services.¹⁹⁴ As Phulki's incentives to factory owners and employers demonstrate, Phulki applies the strategy of 'benefit clarification', particularly towards the customers applying its model. By clarifying the positive cost-benefit ratio of setting up a daycare facility, Phulki convinces and motivates them to contribute their share to the public good.

Phulki's childcare centres also depend on the contributions of the mothers or parents. The incentives for them to bring their children to Phulki's childcare centres are obvious:

I have to pay 50 taka. This is not a problem for me. I keep my child here every day from 7 in the morning to 9 at night. With my child staying here, I am able to concentrate on my work – that is a big benefit.¹⁹⁵

We are given two breaks of 10 minutes each, at 11 in the morning and 5 in the evening. In addition, we also get tiffin (meal) time at 1 p.m. and 7 p.m. Which means, in one day, we can see our children four times.¹⁹⁶

Before, the children would stay at home, in dirty surroundings, with no regular feeding, and I could not take care of them myself. But here, there are many benefits: they stay clean, eat properly, are given affection. If my child falls ill, they show the child to the doctor, and of course they inform me as well.¹⁹⁷

Mothers can breastfeed and share lunch breaks with their children. Instead of worrying about their health and hygiene, they can concentrate on their work. Moreover, the daycare centres encourage proper education and free older siblings or relatives' children of the responsibility of childcare and enable them to go to school.

Phulki also depends on donations and grants to run its community-based childcare centres. Incentives for donors include the provision of plans, transparency, the submission of a clear project proposal and the strong focus on just one issue: childcare.¹⁹⁸

The support of other non-profit and social entrepreneurial organizations also benefits Phulki. When Suraiya Haque was elected an Ashoka Fellow, Ashoka arranged appointments with high-ranking officials in multinational brand companies. Haque could thus lobby directly for the observance of childcare in these companies' compliance codes.¹⁹⁹ For non-profit organizations, the incentives to be part of Phulki's network and to

support it are mainly the congruence of their missions and the efficiency of Phulki's problem solution, as the example of the Sustainability Award granted by The Global Fund for Children demonstrates.²⁰⁰

As well as innovatively creating, using and linking incentives to further Phulki's objectives, Haque also integrates the end consumer of garments manufactured in Bangladesh as a Phulki stakeholder: 'She suggests that garment companies introduce a clothes tag saying a small fraction of the cost will be funnelled directly to welfare projects for workers in manufacturing countries.'²⁰¹ Thus, in the end, 'the factories win, the parents win and the customers are winners, too'.²⁰²

Figure 8.8 illustrates the incentive structure activated by Phulki. It highlights how Phulki catalyzes the provision of public goods through making incentives work on several levels (nationally and internationally), including whole families in caring for their children.

Hybrid value creation: Adopt-a-Business Ltd

Adopt-a-Business Ltd (AAB) is a UK-based social entrepreneurial organization that offers leadership development experiences to developed-country companies and their talented employees by facilitating assignments with social entrepreneurial organizations in developing

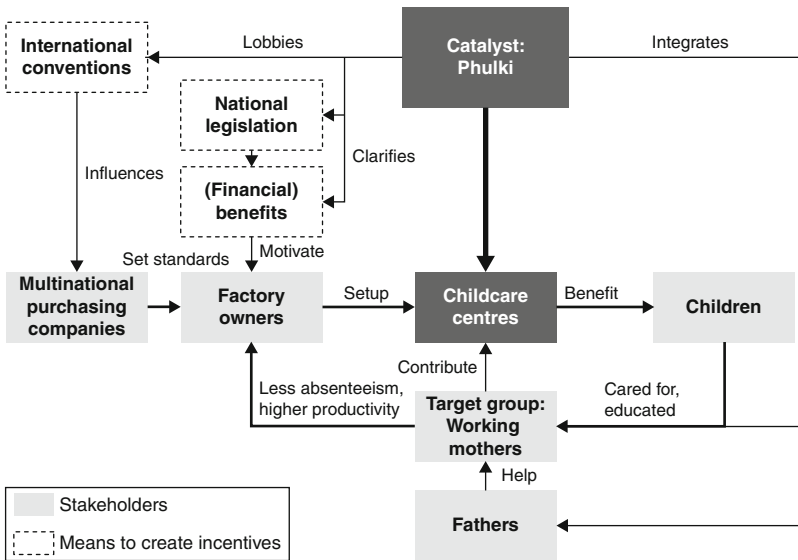


Figure 8.8 Phulki: incentive structures²⁰³

countries.²⁰⁴ According to AAB's founder, Matthew Farmer, AAB's mission can be described as: 'making a real difference to organizations, making a real difference to people's lives in a positive way in the developing world [and] being a successful business'.²⁰⁵

AAB combines social and financial objectives, which are explored in-depth in this case study of AAB's business model. First, the origin and development of AAB is described. Having understood its roots and current situation, the business model of the social entrepreneurial organization is then explored in detail.

Origin and development

The idea to organize professional and market leadership experience with the aim of fostering exchanges between the developed and the developing world was born out of Matthew Farmer's own experiences in Mexico in 2001.²⁰⁶ Having worked for six years in publishing and marketing services, and having assumed the job of a director for a subsidiary company, Farmer felt it was time for a career change and decided to pursue a Master of Business Administration (MBA) at IESE business school in Barcelona, in Spain.²⁰⁷ Before beginning the MBA, however, Farmer took some time off and travelled through developing countries. During this time he also volunteered to work for a microfinance organization for five weeks. He remembers the impressions he gathered during that time:

What I first of all realized was this business kind of approach to poverty I'd never really come across before. So I was very surprised by it ... But I was also pleasantly surprised that I was able to add value to an organization in a very different part of the world, different culture, doing something that was on the boundaries of what I would say I was capable of.²⁰⁸

Out of these experiences, Farmer formed the idea of creating this kind of learning experience for companies. Having started his MBA at IESE, he began developing his idea into a business plan with a team of fellow IESE students in 2002.²⁰⁹ The team tried to find an answer to the question: 'Can we create a business that makes a positive social impact?'²¹⁰ During the development phase of AAB, its founders had the opportunity to collaborate with Zurich Financial Services in 2003, learning from their experiences regarding their in-house 'India Program', a development and training programme for managers that involved working in India and as such helping the global community.²¹¹ Based

on these insights, the team developed AAB's product: 'International Outzone Experiences', broadening and packaging the processes of the India Program for application in other companies. In 2004, AAB was incorporated as a limited company in the UK with Matthew Farmer as the single shareholder.²¹² In 2005, Farmer was granted an award from UnLtd, the foundation for social entrepreneurs, which recognized AAB's efforts for organizations and people in the developing world.²¹³

Looking forward, Farmer sees some major challenges ahead for AAB.²¹⁴ Since the organization's product is quite sensitive to the economic cycle, he expects possible economic hardship during recessions, when many companies freeze their training budgets. Scaling up AAB's operations and managing growth across different countries is also perceived as a challenge, particularly as competitors might enter the field. Farmer also considers developing-world environments to be unpredictable. He wants to ensure that AAB genuinely adds value, but realizes, however, that: 'In some sense the ultimate success of these things is there is no need for you any more. That would be the vision. That's an interesting challenge. As a social business, in some senses, you actually want to do yourself out of business. How do you manage that?'²¹⁵

Business model

AAB's business model is described along the dimensions of value proposition, product design and market definition, internal and external value creation architecture as detailed for the other case studies. Particular focus is placed on the specific individual incentive strategies that are applied by AAB in each business model dimension.

Value proposition. The value proposition of a business model describes the benefit that stakeholders gain from the organization. AAB explicitly formulates different value propositions for its main stakeholders: the adopters (corporate clients in the developed world); the assignees (their employees who are sent on an assignment in the developing world); and the adoptees (organizations in the developing world offering assignments for assignees).²¹⁶ Generally, AAB applies the value proposition strategy of hybrid value creation, targeting both organizations in developing countries and companies and their employees in developed countries to deliver the overall value proposition.

To adopters or corporate clients, AAB's value proposition is effective leadership development.

To assignees or the clients' employees, AAB's value proposition is mainly the opportunity to 'stretch and test' themselves as individuals

by applying their skills in a very different environment, thus developing 'new leadership skills and self-awareness as a result of that experience'.²¹⁷

To adoptees or partner organizations in the developing world, AAB's value proposition is to send them a 'very skilled, talented, energetic, motivated individual with a lot of corporate best practice'²¹⁸ from the developed world, who works for them for a fixed period of time, to address issues that hinder the organization in achieving its full potential, and transfers know-how from the developed world to the organization.

Through offering these individual benefits to its main stakeholders, AAB acts as a catalyst for public goods provision. The public good catalyzed during the value creation of AAB, integrating contributions from all three main stakeholders, is an increase in the 'understanding between developed world society and developing world society'.²¹⁹ AAB catalyzes the provision of this public good by enabling and facilitating collaboration between all stakeholders. It brings knowledge and capacity to organizations in the developing world, helping them more to achieve their social mission, thereby also catalyzing public goods such as poverty reduction, health improvement and empowerment of the poor. In the developed world, the experiences made by assignees in the developing countries contribute to a better understanding of the situation and challenges prevailing in those countries. This knowledge might influence decisions and actions of future leaders, and as such contributes to even more public goods. This overall value proposition to society as a whole demonstrates the hybrid value creation strategy AAB applies. AAB acts as a catalyst for public good provision by combining social and financial objectives and creating a 'win-win-win' situation among its stakeholders: for the corporate clients and their employees, for the partner organizations in the developing countries, and also for itself as a for-profit organization.

Figure 8.9 demonstrates AAB's approach to delivering benefit to its three key stakeholders.

Product design and market definition. The business model dimension of product design and market definition describes how the organization implements its value proposition in specific products or product bundles, and which markets it targets. Farmer describes AAB's product as a 'method of learning', 'a leadership development assignment' or 'experience'.²²¹ Officially, AAB's products are branded as 'International Outzone Experiences', marketed as 'unique, powerful learning and development opportunities that take participants right out of their comfort zones'.²²²

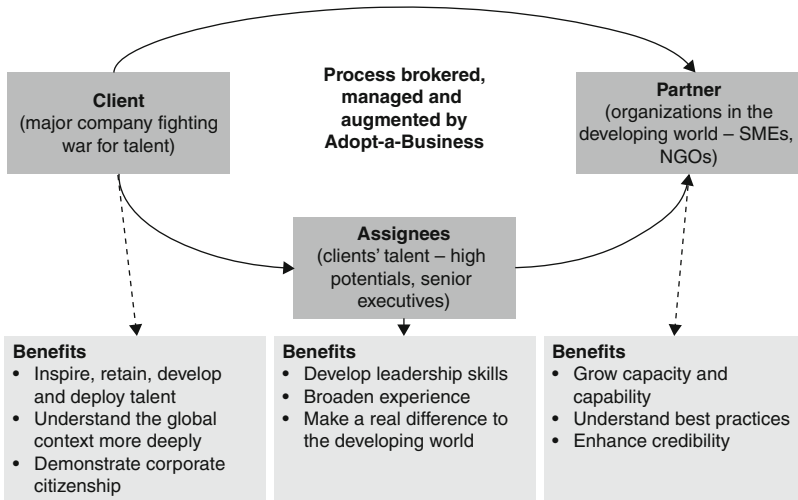


Figure 8.9 Adopt-a-Business Ltd: approach²²⁰

The approach promises to put assignees on an assignment with an organization in the developing world, and to steer their related learning with a customized curriculum and extensive coaching throughout the process. The learning achievable through an AAB outzone experience is summarized in Figure 8.10.

Sample assignments have included developing a marketing and communications strategy at a leading eye hospital for the poor; carrying out a strategic needs analysis of the business of a solar entrepreneur aiming to rid the world of kerosene lamps; and supporting strategic change within an organization that supports an organization supporting female entrepreneurs.²²⁴ AAB also offers assignments targeted specifically at senior executives, which are termed ‘Executive Pulse Assignments’.²²⁵ Examples of such assignments include facilitating conflict resolution between the clinical and administrative staff of a leading healthcare institution for the poor, and supporting organizational change at a regional NGO delivering social care and health programmes in Zambia.²²⁶ Recently, AAB has begun to offer advisory services to companies that plan to send their employees on assignments into the developing world, working with small businesses or social projects.²²⁷ A closer look at AAB’s product design, however, reveals that its product in fact consists of two, equally important, parts: the leadership training service to corporate customers and their employees, and the knowledge transfer and

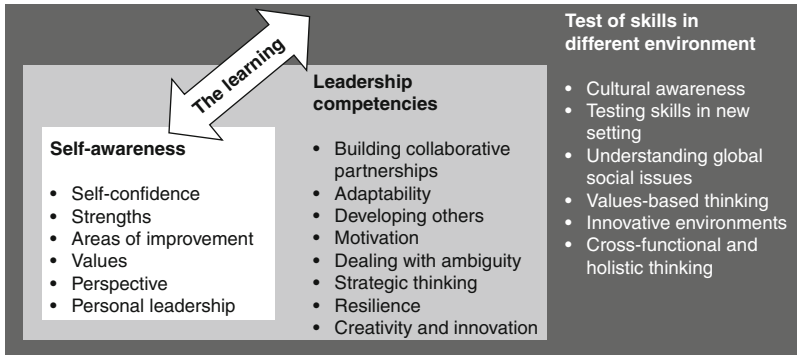


Figure 8.10 Adopt-a-Business Ltd: leadership development²²³

capacity building service to partner organizations in developing countries. Consequently, AAB applies a variation of the incentive strategy of ‘secondary product with unique selling proposition’, since both parts of AAB’s product together create the social value intended. This characteristic can be derived from the value proposition strategy of ‘hybrid social value creation’ that AAB applies.

Generally, AAB defines its market as the market for leadership training. As Farmer states: ‘We would position ourselves against the business field that is selling some form of four-week programme like an advanced management programme or a particular course aimed at high potential people. That’s the kind of market that we think we would be operating in.’

Geographically, AAB has its headquarters in the UK, its corporate customers in the UK and other European countries, and operates with partner organizations offering assignments in India and Africa. Meeting the demand from its corporate customers in the developed world for effective leadership training through project offers in the developed world, AAB applies the strategy of being a ‘bridge between offer and demand’.

Internal value creation architecture. The business model dimension of internal value creation architecture consists of the resources as building blocks and the value chain steps using the building blocks to form the final product or service. Both resources and value chain are embedded in the structural elements of the value creation architecture: the organizational, legal and ownership structures. The growth strategy describes the method of replicating the value creation. Each of these elements of the internal value creation architecture of AAB is described below.

According to Farmer, the most important resource of AAB is people, not only those who work for AAB, but also those who are sent on assignments and add value in a developing-country organization: 'For us as a company it's the people who are employed by the business. But for the whole model, then the quality of the people who we get through going out on assignments is clearly very important as well.'²²⁸

Farmer cites trust as an important resource to make all these people, who are located remotely, work efficiently together. This is enhanced by communication skills on the employees' side – that is, the ability to talk long-distance and still understand each other. To implement AAB's so-called theory of change ('How do we genuinely make the world a better place through what we're doing?'²²⁹), the organization has to choose the right people to send on assignments: ideally, senior executives from Fortune 500 companies who carry their learning and their understanding of the developing world back into their developed world companies and influence the behaviour of these companies for the better, thus benefiting not only developing countries but also the whole world: 'If we can pick really good people to go on these assignments who will stay in the corporate world and take on very senior leadership positions in the corporate world later in their careers, that will be the biggest win.'²³⁰

To fulfil this mission, Farmer considers emotional maturity to be another important resource in assignees. Since assignees and organizations in the developing world have to co-operate closely in order to create the social value intended, AAB applies a variation of the incentive strategy 'integration of current beneficiaries'. Regarding financial capital, AAB is now financed completely through clients' funds. In the beginning it received funding from three organizations.²³¹ Its income model is structured as follows: the corporate client pays a price per employee to be sent on assignment. A certain amount of that fee is charged by AAB at the outset to sustain their operations. The fee calculation for a corporate client is usually done on an annual basis. The fee covers the services performed by AAB, but it does not cover transportation, obtaining a visa or local living expenses, which are also not organized through AAB. The partner organizations in the developing countries usually pay for local accommodation and local transport. According to Farmer, 'That's kind of important that they have ownership, that it's not completely free of charge to them, because I don't believe that if it's free of charge it's as valued. So that's a control mechanism for us as much as anything.'²³²

Regarding physical capital, Farmer highlights the importance of communication technology.²³³ Social capital in the form of connectivity

also represents an important resource for AAB.²³⁴ A corporate client highlights the quality of AAB's contacts in the markets in which it operates.²³⁵

With regard to AAB's value creation, Figure 8.11 illustrates its different value chain steps. The company's value creation starts with networking and relationship building, with both potential corporate customers in the developed world and potential partner organizations in developing countries. On both sides, AAB is looking for organizations that find their work interesting and commit to sending their employees on a learning experience or employ them temporarily in a local project.²³⁷ Once AAB has won a new corporate customer, it begins to identify potential assignees among the customer's employees who might benefit from the learning experience. It does this through applications, workshops and interviews.²³⁸ After this more general initiation phase, the specific assignment phase begins, matching selected assignees with appropriate projects in co-operating organizations in developing countries.²³⁹ The next value creation step involves extensive preparation for the outzone experience, including coaching to define the learning objectives and a briefing clarification of practical issues such as itineraries and so on.²⁴⁰ The outzone experience itself usually lasts for two to five weeks and starts with a briefing by a local AAB consultant who advises the assignees about the local culture. The assignment involves working and delivering projects for the host organization, living alongside the local people, and undergoing a personal transformation experience.²⁴¹ Once the assignment is finished, a debriefing and feedback session takes place with the local AAB consultant. The outzone experience is followed up with extensive support for both the local partner organization that offered the assignment and the assignee returning home. Three to six months after the assignment, the assignee takes part in several debriefing and coaching sessions to evaluate the impact of and what has been learnt from the experience. Additionally, the assignee is invited to discuss his

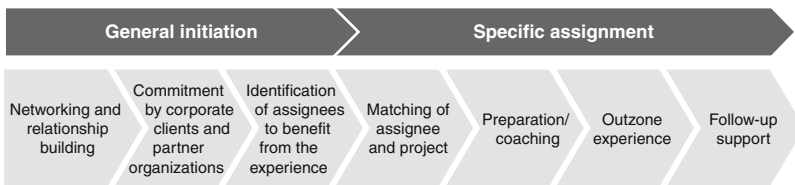


Figure 8.11 Adopt-a-Business Ltd: value chain²³⁶

experiences and attend workshops and meetings as part of the alumni network to further his learning experience.²⁴²

AAB's resources and value chain steps are embedded in its organizational, legal and ownership structure. AAB has operations in the UK, India and Africa. The headquarters in the UK employs three people; two full-time – one of them Matthew Farmer as managing director – and one part-time.²⁴³ Operations in India and Africa are run by associates: in India there is a team of three people, while the African operations are run by one person. Additionally, AAB is supported by a number of executive coaches and senior advisers. Regarding its legal entity, AAB is a company limited by shares, which are owned 100 per cent by Matthew Farmer as the only shareholder. The reason for choosing the legal structure of a limited company can again be traced back to the initial question: 'How can we create a business that provides social value?'²⁴⁴ Having at first operated without organizational structures, Farmer and his founding team faced the need to transfer its operations into some form of legal structure to be eligible for grant funding as a start-up company. Since the aim was to set up a business, the team explicitly considered business legal structures and finally decided on the company limited by shares.²⁴⁵ Farmer named a few reasons for making AAB a business.²⁴⁶ Apart from creating financial incentives to be derived from a successful business, Farmer wanted to create credibility, both among AAB's corporate clients (to be seen as a real professional company) and among partner organizations in the developing world (it needed to be a business itself in order to provide business skills).

Regarding AAB's growth strategy, Farmer states that 'our vision has always been a global vision'.²⁴⁷ Ideally, AAB's growth should happen organically. In the past, it was driven mainly by where it could get traction. Currently, Farmer is contemplating obtaining outside investment to grow AAB's operations and increase the organization's impact: 'one might consider that you need to be at a different scale in order to have the impact that you want'.²⁴⁸

Currently, AAB is pondering about expanding its services to corporate clients in the USA, Spain and other parts of Europe:²⁴⁹ 'You might open up a small office in the US; you might open up a small office in Germany. You might work in a much more networked way so you actually just find a representative and do a lot with flying backwards and forwards rather than opening infrastructure.'²⁵⁰ It is also considering expanding its partner organization network in developing countries to more African countries, and to Latin America and China.²⁵¹

External value creation architecture. The external value creation architecture is made up of those individuals, groups and institutions that control resources critical to the organization's operation. They can be customers and/or value creation partners.

AAB's operations are based mainly on its external value creation architecture. Its three key stakeholders – adopters, assignees and adoptees – can be defined as three different customer groups, since they all benefit from the organization's intermediary actions. Assignees from developed countries and partner organizations in developing countries are also value creation partners.

Farmer considers corporate clients as the most important partners, because: 'We can find partner organizations in the developing world more easily than we can find clients who are willing to pay money to send their people on experiences like this. The client is the most important person.'²⁵²

As his statement clarifies, AAB's dependency is higher in relation to corporate clients than to partner organizations for assignments. As such, this book first analyses how AAB motivates this stakeholder group to participate in the business model. Farmer stresses the need to create business-focused incentives for corporate customers: 'There have to be business reasons why they would want to send their people on an experience like this.'

Business incentives to buy AAB's services can be leadership development of those with high potential, or executives, an increase in motivation or even retention of staff because of the offer of social work, and naturally a better image of corporate responsibility. Julia Jameson, Director, Leadership Development, at AAB's customer Ernst & Young says that sending employees on AAB assignments has helped these individuals to increase their personal confidence of working in different environments.²⁵³ Phil Hodgkinson, Group Finance Director 2005–7 at HBOS, recalls how employees become more ambitious and more willing to take a risk in their career after an ABB assignment, which he considers to be a huge benefit for the organization: 'They come back as extraordinary people, people to whom this has been their life changing event, and most importantly from HBOS's point of view, individuals who will now consider a much broader range of career moves than they perhaps would have done before they went on the assignment.'²⁵⁴

Mandy Bunce, Executive Sponsor of the Top Talent Programme at IBM, highlights the importance of having assignees leave their comfort zones, which differentiates AAB's offer from similar programmes that IBM uses internally. Other key strengths of AAB that appeal to

corporate clients are its professional processes, network of contacts in developing countries, its focus on the learning experience through carefully matching employees and assignments, and exhaustively briefing and debriefing of assignees.²⁵⁵ An important incentive for corporate customers to use AAB's services instead of organizing similar assignments internally is the opportunity to use a large network of possible assignment partners. They do not have to establish and manage one single partnership themselves.²⁵⁶ AAB applies the incentive strategy of 'benefit clarification' to this stakeholder group, since it is highly innovative to convince companies in the developed world of the effectiveness of project assignments in non-profit organizations in the developing world as leadership training.

AAB also has to create incentives for individuals, to persuade the corporate clients' employees of the value of going on an assignment. Farmer points out that doing something meaningful and proving their high-potential characteristics by purposefully seeking stretching and challenging experiences often serves as an incentive for this group. Mike Jenkins, a senior manager with Ernst & Young, for example, who developed a business plan for Keystone, an organization that explores sustainable livelihoods for tribal communities in India, said that his team observed a positive change in his interactions after he returned from his assignment. One of his supervisors 'noticed a difference in the way he approaches situations'.²⁵⁷ Kate Slater, Communications Director of HBOS, developed a marketing strategy for Sankara Eye Institutions in India and aimed to overcome 'certain fears about tackling things that are challenging, difficult and unknown'.²⁵⁸ Another assignee stated that 'My Outzone Experience was (on every level) more than I had expected. I learned so much about myself – as much through work as outside of work – and made some friendships for life that I never anticipated.'²⁵⁹

For organizations in the developing world, Farmer states: 'Getting a skilled business volunteer is something that most organizations don't have much access to.'²⁶⁰ Therefore getting regular skilled support from those with high potential from developed-country companies is a strong incentive for developing-country organizations to co-operate with AAB. Partner organizations in the developing world can be social entrepreneurial organizations (most are), non-profit organizations or small business entrepreneurs. As Dr R. V. Ramani, of Sankara Eye Institutions, points out: 'You get someone from the other side of the globe, who is an expert in a particular field, coming with one single mind to observe what is happening here, and come out and say: these are the few things which could be added, and definitely you see the difference.'²⁶¹

Pratim Roy, from the partner organization Keystone, noticed significant organizational and structural improvements in his organization after hosting an AAB assignee. The stability AAB provides for partner organizations also serves as an incentive: instead of relying on just one partnership with a partner company in a developed country they experience less dependency because of AAB's client portfolio.²⁶² Another incentive for these organizations, according to Farmer, is the possibility of educating those with high potential and executives from the developed world about the issues in the developing world, and thus bring about changes in the actions of developed-country organizations:

I think there's also a sense that they want to participate much more in kind of the social vision of what we have. Inasmuch as if they are able to genuinely educate a future business leader in what the problems of the developing world and developing world society is all about, then in some senses they're achieving their wider social mission as well.²⁶³

Other value creation partners include UnLtd, Zurich Financial Services and AAB's advisory board. UnLtd is a foundation for social entrepreneurship that granted an award to Matthew Farmer in 2005, in combination with a financial contribution. Zurich Financial Services served as an example during the creation AAB's product as well as contributing funds to the organization through its community trust. AAB's advisory board is made up of individuals with corporate careers who serve as contacts with the corporate world, which is helpful for acquiring new clients. Apart from these, Farmer states: 'we don't have any sorts of ties with any intermediary organizations, or any formalized partnerships with anyone at this stage'.²⁶⁴

AAB's employees belong to the resources in the overlapping area between the internal and external value chains, since they have to co-operate to create the intended value. AAB motivates its employees first through their salary, which, according to Farmer, is 'as much as we would get paid in a good not-for-profit sector job'.²⁶⁵ In addition, the 'idea that a business addressing a social issue is a good way to go'²⁶⁶ serves as an incentive for AAB's employees to contribute their time and energy to its cause.

Figure 8.12 illustrates the incentive structure activated by AAB. It highlights how AAB catalyzes the provision of public goods by creating a win-win-win situation for corporate customers, partner organizations and assignees alike, resulting in mutual give and take among all stakeholders.

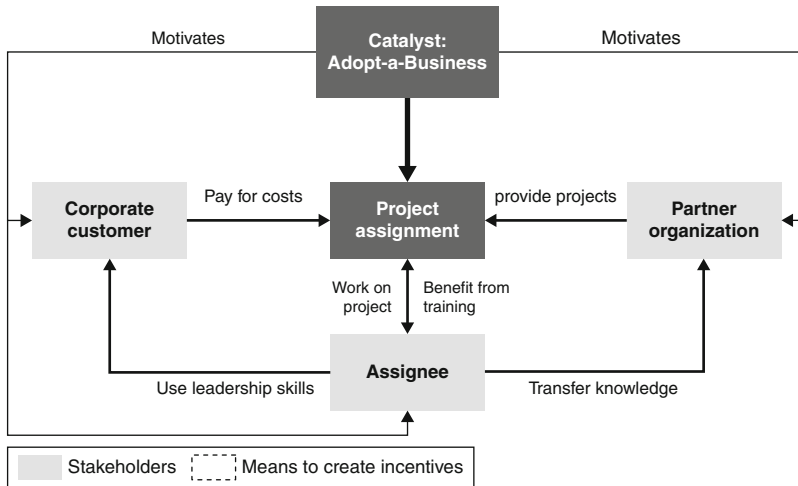


Figure 8.12 Adopt-a-Business Ltd: incentive structures²⁶⁷

Notes

1. See zu Knyphausen-Aufseß (1995), p. 217 *et seq.* and Borchardt and Göthlich (2006), p. 37. For an overview of historic case study application, see Hamel (1993), pp. 2–18. Case studies as a research method often face prejudice and reproaches, especially when compared to purely quantitative research, such as a lack of representativity and lack of generalizability; see, for example, Siggelkow (2007) and Wolf (2003), p. 160 for discussions of these prejudices and their counter-arguments. This book does not engage in the scientific discussion of case study research in general.
2. Meyer (2003), p. 475.
3. Yin (2003), p. 13.
4. Orum *et al.* (1991), p. 2.
5. Meyer (2003) p. 475; Yin (2003), p.2.
6. Yin (1981), p. 58 *et seq.*
7. 'Case studies are a common way to do qualitative inquiry. Case study research is neither new nor essentially qualitative'; Stake (2005), p. 443.
8. Hamel (1993), pp. 1 and 45.
9. Own illustration adapted from Yin (2003), p. 5.
10. Lee (1998), p. 54.
11. Yin (2003), p. 5 *et seq.*
12. Yin (2003), p. 9.
13. Meyer (2003), p. 478; Meyer and Kittel-Wegner (2002).
14. Lutz and Schmidt (1977), p. 231.
15. Orum *et al.* (1991), p. 2 and Yin (2003), p. 1 *et seq.*
16. Yin (2003), p. 1 and zu Knyphausen-Aufseß (1995), p. 222 *et seq.*
17. Yin (1993), p. 5.; zu Knyphausen-Aufseß (1995), p. 223.

18. Yin (2003), p. 3 *et seq.*, zu Knyphausen-Aufseß (1995), p. 223. According to zu Knyphausen-Aufseß, the difference between theory generation with explorative case studies and pure storytelling is that the researcher is guided by a research question in the first case; zu Knyphausen-Aufseß (1995), p. 223.
19. Meyer (2003), p. 476. For detailed insights on applying case studies for theory building, see Eisenhardt (1989); Eisenhardt (1991); Eisenhardt and Graebner (2007).
20. Meyer (2003), p. 476.
21. Siggelkow (2007), p. 21.
22. Siggelkow (2007), p. 21.
23. Yin (2003), p. 39. For single-case design, see, for example, Dyer and Wilkins (1991); Siggelkow (2007); Yin (2003), p. 39 *et seq.* For multiple-case design, see Eisenhardt (1989); Eisenhardt (1991); Eisenhardt and Graebner (2007); Yin (2003), p. 46 *et seq.*
24. Borchardt and Göthlich (2006), p. 41; Yin (2003), p. 39 *et seq.*
25. Borchardt and Göthlich (2006), p. 41.
26. Eisenhardt (1989), p. 541; Yin (2003), pp. 19 and 53.
27. Yin (2003), p. 47.
28. Borchardt and Göthlich (2006), p. 41. While statistical sampling known from quantitative research has the objective of generating a representative sample of the population to allow for statistical generalization of the research results, case study research selects its cases according to the criterion adequacy for the research question to be answered.
29. Mayring (1999), p. 29 *et seq.*; Yin (2003), p. 47 *et seq.* For an overview of different selection strategies, see Patton (2002), p. 230 *et seq.*
30. Yin (2003), p. 57 *et seq.*
31. Campbell (1975), p. 189; Flick (1995), p. 432.
32. 'Quality refers to what kind, to the essential character of something. Quantity refers to how much, how large, the amount of something'; Kvale (1996), p. 67. Regarding the strengths of qualitative data, see Miles and Huberman (1984), p. 10.
33. Zaugg (2002), p. 28.
34. For example, Eisenhardt (1989), p. 534; Yin (2003), p. 85 *et seq.*
35. Yin (2003), p. 87.
36. Yin (2003), p. 89.
37. See, for example, Bortz and Döring (2006), p. 314; Kruse (2007), p. 25 *et seq.*; Yin (2003), p. 90 *et seq.*
38. Mayer (2006), p. 36; Mayring (1999), p. 50 *et seq.*
39. Mayer (2006), p. 36.
40. For example, Albers *et al.* (2006), p. 383; Bortz and Döring (2006), p. 326 *et seq.*; Lamnek (2005), p. 138 *et seq.*
41. Borchardt and Göthlich (2006), p. 49; Yin (2003), p. 10.
42. Yin (2003), p. 33 *et seq.*
43. Yin (2003), p. 38; Meyer (2003), p. 477.
44. Yin (2003), p. 38.
45. Yin (2003), p. 35 *et seq.*; Bortz and Döring (2006), p. 328; Mayring (1999), p. 121. For further details on triangulation, see Flick (1995).
46. Lamnek (2005), p. 172 *et seq.*
47. Eisenhardt (1989), p. 542; Yin (1993); Yin (2003).

48. Siggelkow (2007), p. 22.
49. Yin (2003), p. 28 *et seq.*
50. Borchardt and Göthlich (2006), p. 41.
51. Own illustration.
52. Own illustration.
53. Yin (2003), p.97 *et seq.*
54. Eisenhardt (1989), pp. 534 and 537 *et seq.*
55. Hüttner and Schwarting (2002), p. 122 *et seq.*; Diekmann (1995), p. 414.
56. Three out of five interviews were used for the case study analysis, while the other two served as additional expert interviews, with the insights gained being used to enrich the description of individual incentive strategies.
57. In one case, the recording was not possible for technical reasons. In this case the recording and verbal transcription were replaced by handwritten notes and a content protocol.
58. Yin (2003), p. 87.
59. Zaugg (2002), p. 26.
60. BISS – Bürger in sozialen Schwierigkeiten eV (2007), p. 3.
61. BISS homepage, section 'Obdachlosigkeit in Zahlen'. Available at: <http://www.biss-magazin.de/>; accessed 18 August 2008.
62. As Nt 61 above.
63. Büchele and Walther (2008b), p. 18 and 20.
64. BISS homepage, section 'Termine/Aktionen'. Available at: <http://www.biss-magazin.de/>, accessed: 18 August 2008.
65. Case study interview with Hildegard Denninger (21 October 2008). A challenge in addition to the street paper represents Hildegard Denninger's and her companions' plan to found another social entrepreneurial organization: Hotel BISS, a self-sustaining first-class hotel in Munich to train underprivileged young people.
66. Case study interview with Hildegard Denninger (21 October 2008).
67. Case study interview with Hildegard Denninger (21 October 2008).
68. Case study interview with Hildegard Denninger (21 October 2008).
69. BISS – Bürger in sozialen Schwierigkeiten eV (2007), p. 3; and BISS homepage, section 'BISS – eine Münchner Erfolgsgeschichte'. Available at: <http://www.biss-magazin.de/>; accessed 18 August 2008.
70. Büchele and Walther (2008b), p. 18.
71. Büchele and Walther (2008b), p. 18.
72. Denninger (2008), p. 26.
73. Büchele and Walther (2008b), p. 18.
74. Büchele and Walther (2008a), p. 15 *et seq.*
75. Büchele and Walther (2008b), p. 18.
76. BISS – Bürger in sozialen Schwierigkeiten eV (2007), p. 1.
77. BISS – Bürger in sozialen Schwierigkeiten eV (2007), p. 3.
78. BISS – Bürger in sozialen Schwierigkeiten eV (2007), p. 3.
79. BISS – Bürger in sozialen Schwierigkeiten eV (2007), p. 3; and BISS homepage, section 'BISS – eine Münchner Erfolgsgeschichte'. Available at: <http://www.biss-magazin.de/>, accessed: 18 August 2008.
80. BISS – Bürger in sozialen Schwierigkeiten eV (1999), pp. 5 and 8.
81. BISS – Bürger in sozialen Schwierigkeiten eV (1999), p. 8.
82. BISS – Bürger in sozialen Schwierigkeiten eV (1999), p. 3 *et seq.*

83. Büchele and Walther (2008b), p. 20.
84. For the profit and loss statement 2007, see Denninger (2008), p. 26 *et seq.*
85. The street vendors keep 50 per cent of the selling price of the street paper. This makes up most of their salary, which is complemented by donations through sponsorships; see details in the external value creation architecture section.
86. Case study interview with Hildegard Denninger (21 October 2008).
87. Own illustration based on case study interview with Hildegard Denninger (21 October 2008).
88. BISS – Bürger in sozialen Schwierigkeiten eV (2007), p. 3.
89. Case study interview with Hildegard Denninger (21 October 2008).
90. BISS – Bürger in sozialen Schwierigkeiten eV (2007), p. 3 and BISS homepage, section 'BISS – eine Münchner Erfolgsgeschichte'. Available at: <http://www.biss-magazin.de/>; accessed 18 August 2008.
91. Denninger (2008), p. 27.
92. Denninger (2008), p. 26.
93. BISS – Bürger in sozialen Schwierigkeiten eV (2007), p. 3 and BISS homepage, section 'Die Struktur von BISS'. Available at: <http://www.biss-magazin.de/>; accessed 18 August 2008.
94. Case study interview with Hildegard Denninger (21 October 2008).
95. Case study interview with Hildegard Denninger (21 October 2008).
96. Own illustration adapted from Denninger (2008), p. 27.
97. Büchele and Walther (2008b), p. 20.
98. Büchele and Walther (2008b), p. 18.
99. Denninger (2008), p. 27.
100. Case study interview with Hildegard Denninger (21 October 2008).
101. Büchele and Walther (2008b), p. 18.
102. Case study interview with Hildegard Denninger (21 October 2008).
103. Büchele and Walther (2008a), p. 12.
104. Büchele and Walther (2008a), p. 12.
105. Büchele and Walther (2008a), p. 13.
106. Büchele and Walther (2008a), p. 13.
107. Büchele and Walther (2008a), p. 13. Kayser (2006) illustrates the daily life of BISS street vendors.
108. BISS – Bürger in sozialen Schwierigkeiten eV (1999), p. 3.
109. BISS – Bürger in sozialen Schwierigkeiten eV (1999), pp. 5 and 8.
110. Keil (2008), p. 21 *et seq.* and BISS – Bürger in sozialen Schwierigkeiten eV (2007), p. 4.
111. Case study interview with Hildegard Denninger (21 October 2008).
112. BISS – Bürger in sozialen Schwierigkeiten eV (2007), p. 3.
113. Case study interview with Hildegard Denninger (21 October 2008).
114. Case study interview with Hildegard Denninger (21 October 2008).
115. Case study interview with Hildegard Denninger (21 October 2008).
116. Keil (2003), p. 17.
117. Case study interview with Hildegard Denninger (21 October 2008).
118. Keil (2003), p. 17.
119. Case study interview with Hildegard Denninger (21 October 2008).
120. Own illustration.
121. Phulki homepage, section 'Phulki'. Available at: <http://www.phulki.org/phulki.asp#Vision>; accessed 23 October 2008.

122. Ashoka (1999), n.p.
123. Reddy (2001), n.p. The number of rural migrants who flood Dhaka, Bangladesh's capital city, each year exceeds one million; Ashoka (n.d.-b), n.p.
124. Ashoka (1999), n.p.
125. Ashoka (n.d.-b), n.p.
126. Ashoka (n.d.-b), n.p.
127. Ashoka (n.d.-b), n.p. and Phulki homepage, section 'Context'. Available at: <http://www.phulki.org/context.asp>; accessed 23 October 2008.
128. Reddy (2001), n.p.
129. Reddy (2001), n.p., and Ashoka (n.d.-b), n.p.
130. Ashoka (n.d.-b), n.p. 1.2 million women work in garment factories alone, Ashoka (n.d.-c), n.p.
131. Reddy (2001), n.p.
132. Phulki homepage, section 'Context'. Available at: <http://www.phulki.org/context.asp>; accessed 23 October 2008.
133. Reddy (2001), n.p., and Ashoka (1999), n.p.
134. Case study interview with Suraiya Haque (24 October 2008) and Ashoka (1999), n.p. For an overview of existing Bangladeshi legislation protecting the rights of women and children and regulating the garment industry, see Phulki homepage, section 'Context'. Available at: <http://www.phulki.org/context.asp>; accessed 23 October 2008. See also www.ilo.org.
135. Reddy (2001), n.p., Ashoka (1999), n.p., and case study interview with Suraiya Haque (24 October 2008).
136. The Schwab Foundation for Social Entrepreneurship (n.d.-s), n.p.
137. The Schwab Foundation for Social Entrepreneurship (n.d.-s), n.p.
138. Ashoka (n.d.-c), n.p.
139. Ashoka (n.d.-c), n.p., and The Schwab Foundation for Social Entrepreneurship (n.d.-s), n.p.
140. Reddy (2001), n.p.
141. Case study interview with Suraiya Haque (24 October 2008).
142. Case study interview with Suraiya Haque (24 October 2008).
143. Phulki homepage, section 'Vision'. Available at: <http://www.phulki.org/phulki.asp#Vision>; accessed 23 October 2008.
144. Ashoka (1999), n.p.
145. Phulki homepage, section 'Achievements'. Available at: <http://www.phulki.org/achievements.asp>; accessed 23 October 2008.
146. Case study interview with Suraiya Haque (24 October 2008).
147. Case study interview with Suraiya Haque (24 October 2008).
148. Case study interview with Suraiya Haque (24 October 2008).
149. Phulki homepage. Available at: <http://www.phulki.org/>; accessed 23 October 2008.
150. Own illustration adapted from Phulki; see Phulki homepage, section 'Programs'. Available at: <http://www.phulki.org/programs.asp>; accessed 23 October 2008.
151. Ashoka (n.d.-c), n.p.
152. Reddy (2001), n.p.
153. Phulki homepage, section 'Advocacy on Workplace Based Childcare Centre and Outreach Program'. Available at: http://www.phulki.org/advocacy_outreach_program.asp; accessed 23 October 2008.

154. Ashoka (n.d.-b), n.p.
155. Phulki homepage, section 'Other support services'. Available at: http://www.phulki.org/other_support_services.asp#fair_labour; accessed 23 October 2008.
156. Case study interview with Suraiya Haque (24 October 2008).
157. Phulki homepage, section 'Training services'. Available at: http://www.phulki.org/caregivers_eccd.asp; accessed 23 October 2008.
158. Phulki homepage, section 'Child-to-Child Approach'. Available at: http://www.phulki.org/child_child_approach.asp; accessed 23 October 2008.
159. As Nt 158 above.
160. Phulki homepage, section 'Prevention of violence against domestic girl workers'. Available at: http://www.phulki.org/domestic_girl_workers.asp; accessed 23 October 2008.
161. Phulki homepage, section 'Other support services'. Available at: http://www.phulki.org/other_support_services.asp#fair_labour; accessed 23 October 2008.
162. Ashoka (n.d.-c), n.p.
163. As Nt 161 above.
164. Phulki homepage, section 'Training services'. Available at: http://www.phulki.org/tot_cc_approach.asp; accessed 23 October 2008.
165. Case study interview with Suraiya Haque (24 October 2008) and The Global Fund for Children (2008).
166. Case study interview with Suraiya Haque (24 October 2008).
167. Case study interview with Suraiya Haque (24 October 2008).
168. Ashoka (n.d.-a), p. 2.
169. Case study interview with Suraiya Haque (24 October 2008). Funded activities include caregiver training, care centre management training and accountant training; Case study interview with Suraiya Haque (24 October 2008).
170. Case study interview with Suraiya Haque (24 October 2008).
171. Phulki homepage, section 'Community based childcare and development centres'. Available at: http://www.phulki.org/community_cc_develop_center.asp; accessed 23 October 2008.
172. Case study interview with Suraiya Haque (24 October 2008).
173. Own illustration based on case study interview with Suraiya Haque (24 October 2008).
174. Phulki homepage, section 'Other support services'. Available at: http://www.phulki.org/other_support_services.asp#fair_labour; accessed 23 October 2008.
175. Ashoka (n.d.-a), p. 2.
176. Ashoka (n.d.-a), p. 2, and Phulki homepage, section 'Community based childcare and development centres'. Available at: http://www.phulki.org/community_cc_develop_center.asp; accessed 23 October 2008.
177. Ashoka (1999), n.p.
178. Reddy (2001), n.p.
179. Phulki homepage, section 'Training services'. Available at: http://www.phulki.org/caregivers_eccd.asp; accessed 23 October 2008.
180. The Schwab Foundation for Social Entrepreneurship (n.d.-s), n.p.
181. Ashoka (n.d.-c), n.p.

182. Shaikh (n.d.), n.p.
183. Case study interview with Suraiya Haque (24 October 2008).
184. Ashoka (n.d.-c), n.p.
185. Case study interview with Suraiya Haque (24 October 2008).
186. Ashoka (n.d.-b), n.p.
187. Case study interview with Suraiya Haque (24 October 2008).
188. Ashoka (n.d.-c), n.p.
189. Ashoka (n.d.-a), p. 2.
190. The Schwab Foundation for Social Entrepreneurship (n.d.-s), n.p.
191. Case study interview Suraiya Haque (24 October 2008).
192. The Schwab Foundation for Social Entrepreneurship (n.d.-s), n.p.
193. Ashoka (n.d.-c), n.p.
194. Ashoka (n.d.-b), n.p.
195. Ashoka (n.d.-b), n.p.
196. Ashoka (n.d.-b), n.p.
197. Ashoka (n.d.-b), n.p.
198. Case study interview with Suraiya Haque (24 October 2008).
199. Case study interview with Suraiya Haque (24 October 2008).
200. The Global Fund for Children (2008), n.p.
201. Ashoka (n.d.-a), p. 3.
202. Ashoka (n.d.-a), p. 3.
203. Own illustration.
204. Adopt-a-Business homepage. Available at: <http://www.adopt-a-business.com/>; accessed 18 August 2008.
205. Case study interview with Matthew Farmer (15 September 2008).
206. Case study interview with Matthew Farmer (15 September 2008).
207. Case study interview with Matthew Farmer (15 September 2008).
208. Case study interview with Matthew Farmer (15 September 2008).
209. Case study interview with Matthew Farmer (15 September 2008); Social Investments (2008), n.p.
210. Adopt-a-Business homepage, section 'About us – Overview'. Available at: <http://www.adopt-a-business.com/about.asp>; accessed 18 August 2008.
211. Adopt-a-Business homepage, section 'About us – Overview'. Available at: <http://www.adopt-a-business.com/about.asp>; accessed 18 August 2008; Social Investments (2008), n.p.
212. Social Investments (2008), n.p.; Case study interview with Matthew Farmer (15 September 2008).
213. Social Investments (2008), n.p.
214. See, for the following, Case study interview with Matthew Farmer (15 September 2008).
215. Case study interview with Matthew Farmer (15 September 2008).
216. Case study interview with Matthew Farmer (15 September 2008).
217. Case study interview with Matthew Farmer (15 September 2008).
218. Case study interview with Matthew Farmer (15 September 2008).
219. Case study interview with Matthew Farmer (15 September 2008).
220. Farmer (2008), p. 2.
221. Case study interview with Matthew Farmer (15 September 2008).
222. Adopt-a-Business Ltd (2005), n.p.
223. Own illustration adapted from Farmer (2008), p. 5.

224. Farmer (2008), p. 7.; Adopt-a-Business Ltd (2005), n.p.
225. Farmer (2008), p. 3; Outzone Experiences are targeted at individuals with high potential.
226. Farmer (2008), p. 7.
227. Case study interview with Matthew Farmer (15 September 2008).
228. Case study interview with Matthew Farmer (15 September 2008).
229. Case study interview with Matthew Farmer (15 September 2008).
230. Case study interview with Matthew Farmer (15 September 2008).
231. Case study interview with Matthew Farmer (15 September 2008).
232. Case study interview with Matthew Farmer (15 September 2008).
233. Case study interview with Matthew Farmer (15 September 2008).
234. Case study interview with Matthew Farmer (15 September 2008).
235. Adopt-a-Business Ltd (2008), n.p.
236. Own illustration based on case study interview with Matthew Farmer (15 September 2008); Farmer (2008), p. 6.
237. Farmer (2008), p. 6.
238. Case study interview with Matthew Farmer (15 September 2008) and Farmer (2008), p. 6.
239. Farmer (2008), p. 6.
240. Farmer (2008), p. 6.
241. Farmer (2008), p. 6.
242. Farmer (2008), p. 6.
243. Case study interview with Matthew Farmer (15 September 2008).
244. Case study interview with Matthew Farmer (15 September 2008).
245. Case study interview with Matthew Farmer (15 September 2008).
246. Case study interview with Matthew Farmer (15 September 2008).
247. Case study interview with Matthew Farmer (15 September 2008).
248. Case study interview with Matthew Farmer (15 September 2008).
249. Case study interview with Matthew Farmer (15 September 2008).
250. Case study interview with Matthew Farmer (15 September 2008).
251. Case study interview with Matthew Farmer (15 September 2008).
252. Case study interview with Matthew Farmer (15 September 2008).
253. Adopt-a-Business Ltd (2008), n.p.
254. Adopt-a-Business Ltd (2008), n.p.
255. Adopt-a-Business Ltd (2008), n.p.
256. Case study interview with Matthew Farmer (15 September 2008).
257. Adopt-a-Business Ltd (2008), n.p.
258. Adopt-a-Business Ltd (2008), n.p.
259. For this and other statements of AAB assignees, Adopt-a-Business homepage, section 'Assignee – Overview'. Available at: <http://www.adopt-a-business.com/assigneeOverview.asp>; accessed 18 August 2008.
260. Case study interview Matthew Farmer (15 September 2008).
261. Adopt-a-Business Ltd (2008), n.p.
262. Case study interview with Matthew Farmer (15 September 2008).
263. Case study interview with Matthew Farmer (15 September 2008).
264. Case study interview with Matthew Farmer (15 September 2008).
265. Case study interview with Matthew Farmer (15 September 2008).
266. Case study interview with Matthew Farmer (15 September 2008).
267. Own illustration.

Part V

Conclusions and Implications

Introduction

Social entrepreneurship and its protagonists, the ‘unreasonable’ social entrepreneurs, have been introduced as a phenomenon that provides innovative solutions to the world’s most pressing problems such as poverty, health, education, unemployment, social integration and environment. This book aspires to contribute to the advancement of the phenomenon through research efforts analysing the role of social entrepreneurial organizations in public goods provision, and their strategies to fulfil this role.

The central results of the analysis are presented in aggregated form in the following pages. Subsequently, the implications and prospects are deduced from the results of this research. Finally, the implications for practice that can be drawn from this book are highlighted.

9

Conclusions and Implications

Social entrepreneurship and its protagonists, the ‘unreasonable’ social entrepreneurs, have been introduced as a phenomenon that provides innovative solutions to the world’s most pressing problems, such as poverty, health, education, unemployment, social integration and environment. This book aspires to contribute to the advancement of the phenomenon through research efforts analysing the role of social entrepreneurial organizations in public goods provision and their strategies to fulfil this role.

The central results of the analysis are presented below in aggregated form. Subsequently, the implications and future prospects for research are deduced from the results of this research. Finally, the implications for practice that can be drawn from this book are highlighted.

Summary of results

This investigation started out with the observation that, according to the existing literature, social entrepreneurial organizations contribute to the provision of public goods. This suggestion, however, has not yet been researched scientifically nor has it been analysed from a theoretical perspective. Consequently, the following research question was proposed *How do social entrepreneurial organizations contribute to the provision of public goods?*

This question can be divided into two, more detailed, questions: first, *What is the role of social entrepreneurial organizations in the provision of public goods?* and second, *Which strategies do social entrepreneurial organizations apply to contribute to the provision of public goods?* Thus the aim of this contribution was to analyse the role of social entrepreneurial organizations in public goods provision and to identify the strategies that enable them to do so.

Having clarified the research objective and research strategy in Part I, Part II laid the foundation for the investigation by thoroughly assessing the phenomenon of social entrepreneurship. To understand the roots, drivers and positioning of social entrepreneurship among the three sectors, its evolution and context were detailed first. Regarding its origin and development, it could be demonstrated that social entrepreneurship is not an entirely new phenomenon but has occurred in similar forms during times in the past when there was a low level of state activity regarding social concerns. A number of drivers were identified for the increasing interest and public acknowledgement of social entrepreneurship today. While developed countries face a growing demand for solutions to social and ecological problems for which welfare systems were not designed to cope, developing countries still lack adequate solutions to more and more threatening social and ecological difficulties. While these factors drive the demand for social entrepreneurial solutions, the improving conditions – that is, the growing ‘eco-system’ – for social entrepreneurs support the supply of these solutions.

Social entrepreneurship was positioned in society by analysing the similarities and differences in comparison with each of the three sectors into which society can be split, which developed as a result of social reforms. ‘Blurring’ features from all three sectors, social entrepreneurship combines public sector tasks with private sector entrepreneurial approaches and citizen sector private engagement and transparency.

Scientifically, social entrepreneurship is a new, interdisciplinary field of research that lacks a general definition. To create a working definition for social entrepreneurship, the constitutive terms of the phenomenon were analysed. Entrepreneurship itself is an interdisciplinary phenomenon that lacks an agreed definition and thus was shaped by several contributors such as Say, Schumpeter, Kirzner, Drucker and Stevenson, who each added defining dimensions of entrepreneurship from their own perspective. Opportunity recognition, innovation and transformation, organization, leadership and management, and the personal qualities of the entrepreneur emerged as defining characteristics of entrepreneurship, but the degree of certain characteristics is still under scientific discussion. A working definition of entrepreneurship emerged as a result of this analysis:

Entrepreneurship is the process of recognizing an opportunity by shifting resources from an area of lower to an area of higher productivity, involving

some element of innovation and risk, and driven by the objective of creating value and reaching a personal reward. This process is driven by an individual or a small team around a leading individual with certain enabling personal traits, who attracts necessary resources and implements the idea beyond an existing organization.

The 'social' part of the term social entrepreneurship can be defined broadly as the aim of creating or restoring welfare relating to prosperity, well-being and happiness human beings in society. Social needs in a society – that is, the desire to create or restore welfare for its citizens – emerge through collectively developed interests and the needs of society, and are thus subject to change over the course of time. The analysis of commonalities of and differences between entrepreneurship and social entrepreneurship brought together the insights from analysing both the term 'entrepreneurship' and the term 'social' and identified the social entrepreneur as being an entrepreneur who prioritizes social objectives above financial ones.

A second step towards the creation of a working definition of social entrepreneurship was the clarification of the different existing concepts and definitions of the term. A review of the various understandings of social entrepreneurship revealed that the term is used for different phenomena such as an efficiency increase in public or non-profit management, corporate citizenship, non-profit income generation and social entrepreneurial organizations. It was clarified that this book shares the latter understanding for the term. Bringing together the two schools of thought, social enterprise and social innovation, when analysing the phenomenon, demonstrates the two important characteristics of social entrepreneurship. Existing definitions of 'social entrepreneurship' and 'social entrepreneur' from both academia and practice share the main characteristics of 'social value creation/social impact', 'double/triple bottom line', 'innovation/pattern-breaking/new', 'use of business/entrepreneurial techniques', 'across sectors/disciplines/organizational forms'. The insights generated through analysing the evolution and context of social entrepreneurship as well as its constitutive terms and existing definitions led to the creation of a working definition for social entrepreneurship:

Social entrepreneurship is the process of creating and implementing an entrepreneurial solution to a social problem. A social problem is a situation or condition that endangers or hinders the welfare of human beings in society. The ultimate objective of social entrepreneurship is the final

solution to a social problem and thus the elimination of the need for the organization to exist. The process of social entrepreneurship is driven by a social entrepreneur, who recognizes an opportunity and creates a new social entrepreneurial organization that innovatively addresses this opportunity, often transforming whole or parts of existing systems and structures, by taking risks, employing business techniques and the market mechanism of supply and demand as well as mobilizing and combining unused resources to create a social impact. Social entrepreneurial organizations are independent of political or religious influence and do not depend on single large stakeholders, but are or exhibit the effort to become self-sustaining through their own operations.

The aim of Part III was to detail the theoretical perspectives to the analysis of social entrepreneurial strategies and to provide guidance for the factual-analytical and empirical research. The public goods theory served as the foundation to assess the characteristics of the goods and services that social entrepreneurial organizations offer. Public goods are goods and services with strong positive externalities, that share the characteristics of non-excludability and non-rivalry in consumption, causing people to hide their real consumption preferences for these goods and prefer to consume them as 'free riders' instead. This behaviour results in market failure for these goods, illustrated with the help of game theory, because of a lack of the resources necessary for their provision.

Having analysed the characteristics of public goods, the role of social entrepreneurial organizations in their provision could be identified: through generating individual benefits for their target group with positive externalities for society such as personal health, jobs, qualifications and so on, social entrepreneurial organizations act as catalyzts for the provision of goods with societal benefit – public goods such as poverty reduction and social integration. Social capital, being itself a public good, is both a condition – that is, a 'lubricant' – for social entrepreneurial activities, and a result of their efforts.

The challenges in public goods provision illustrated above raised the question: *What strategies do social entrepreneurial organizations use to act as a catalyzt of public goods provision?* With the public goods theory as a background, the resource dependency approach helped to develop a perspective on the strategies of social entrepreneurial organizations. Being based on the assumptions that resources constitute anything that an organization needs to operate properly, and that organizations depend on resource contributions from their environment, the resource

dependency theory proposes that organizations need to provide resource suppliers with incentives to motivate them to contribute to the organization.

This proposition is transferred to social entrepreneurial organizations as resource dependent organizations. After having analysed their resource needs and dependencies, the types of incentives they can use to attract resources to public goods provision were analysed. This analysis served as the basic perspective to identify incentive strategies that social entrepreneurial organizations use, through factual-analytical and empirical research. Together, the public goods theory and the resource dependency theory created the image of social entrepreneurial organizations as catalyzts for public goods provision that use incentive strategies to attract and motivate stakeholders' contributions to the public good. This perspective on the role of social entrepreneurial organizations guided the factual-analytical and the empirical research on social entrepreneurial incentive strategies.

Part IV aimed to identify, again through factual-analytical and empirical research, the incentive strategies that social entrepreneurial organizations create, both as individual strategies and as holistic business models. The concept business model, which proved to be particularly suitable for analysing social entrepreneurial organizations, served as a unit of analysis and to provide a useful structure. The business model dimensions of value proposition, product design and market definition, internal value creation architecture and external value creation architecture were deduced from existing business model definitions and adapted to the specifics of social entrepreneurial organizations. A database containing the business model details of thirty-four social entrepreneurial organizations, mainly from secondary data, was created to identify patterns in the strategic behaviour of these examples.¹ As a result, twenty individual incentive strategies could be identified and structured along the four business model dimensions.² Figure 9.1 gives an overview of the strategies identified and the examples of social entrepreneurial organizations used to illustrate each incentive strategy.

The exploration of individual incentive strategies among social entrepreneurial organizations opened out into the identification of clusters in these strategies. First, clusters could be identified by examining the application of incentive strategies. The application of a certain value proposition strategy seems to trigger other specific incentive strategies. Second, it could be seen that social entrepreneurial organizations that apply identical incentive strategies share similarities regarding the context in which they operate. Connections between certain

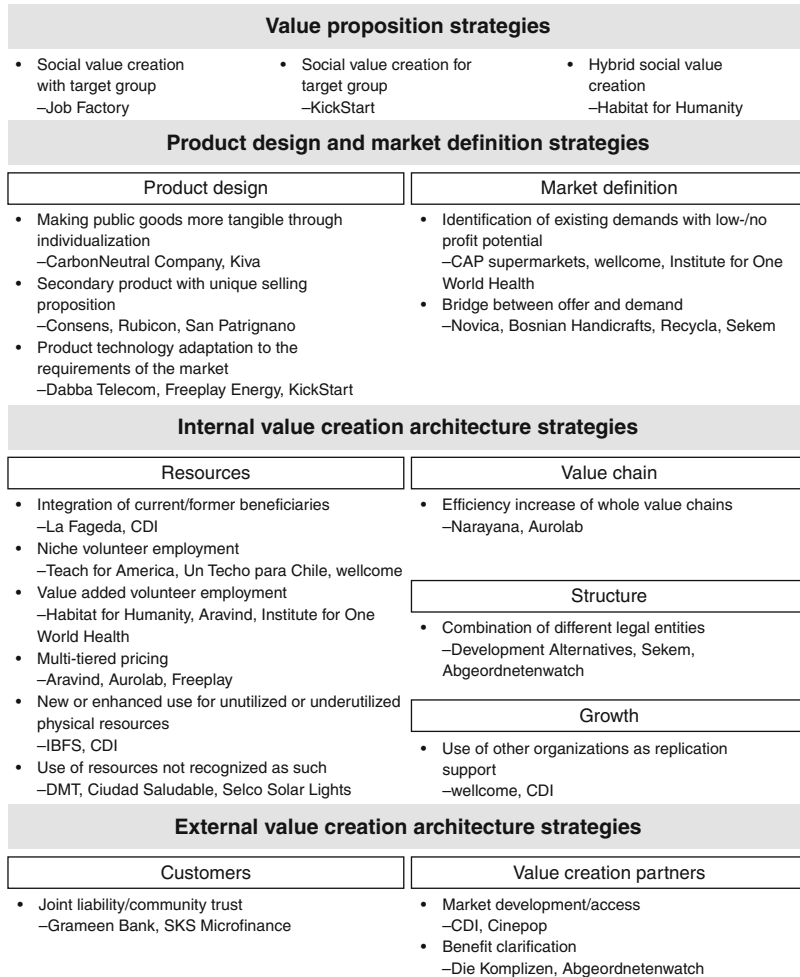


Figure 9.1 Overview of individual incentive strategies³

incentive strategies and the problem focus of the organization, such as health improvement, education or empowerment of the poor, could be revealed, as well as between certain incentive strategies and the development status of the country in which the organizations operate.

In a second step, the holistic incentive strategies of selected social entrepreneurial organizations, which had not been analysed as part of the factual-analytical research, were illustrated as case studies. Based on

several criteria, three case studies from different contexts were selected and analysed, based on both primary and secondary data. BISS eV, Phulki and Adopt-a-Business Ltd each represent one of the value proposition strategies detailed earlier. The origin and background of each case was introduced and their business models were examined using the four business model dimensions. Each case study concluded with an illustration of the interplay of incentives created or used by the social entrepreneurial organization, to demonstrate the innovative incentive structures created by these social entrepreneurs.

BISS eV, a German civic association, applies the value proposition strategy of social value creation with its target group. It aims to reintegrate homeless and poor people socially in a major German city by means of permanently employing them as street vendors of a street paper with USP, accompanied by supporting services relating to the target group's health and financial rehabilitation. Its innovative approach is based on the principle of 'quid pro quo', assuming that homeless and poor people can be reintegrated into society by contributing a certain amount of effort in return for BISS's services of employment and rehabilitation. BISS succeeded in creating incentive strategies that have led to the development of a sophisticated incentive structure including street paper buyers, donors and pro bono supporters.

Phulki, a non-profit organization in Bangladesh, applies the value proposition strategy of social value creation for the target group. It aims to provide childcare for the young children of working women, thereby catalyzing the provision of public goods such as the adherence to women's and children's rights, health and hygiene, and education. Addressing this issue is innovative in Bangladesh, but Phulki's major innovation is the detailed and multifaceted incentive structure it has created that integrates various stakeholders. Phulki mainly addresses garment factory owners and other employers, and convinces them of the positive cost-benefit ratio of opening a childcare facility in their factory, leading to increased loyalty and reduced absenteeism among the female workers. The incentive structure created by Phulki integrates multinational purchasing companies, local garment factories and other employers, working mothers and their children, their fathers and siblings as well as whole communities.

Adopt-a-Business, a UK-based limited company, applies the value proposition of hybrid social value creation. It aims to provide a leadership learning experience to future leaders of large multinational companies while at the same time transferring knowledge and best practices from developed countries to organizations in developing countries. The public

good catalyzed through this process can be described as increased mutual understanding between the developed and the developing world, especially on the part of the future leaders. The idea to package project work in developing countries as a leadership learning experience is innovative in the market for leadership development. Adopt-a-Business creates incentive strategies for each of its stakeholders, resulting in a 'win-win-win' incentive structure for all of them.

Recalling the research question that formed the starting point of this contribution: *How do social entrepreneurial organizations contribute to the provision of public goods? That is, What is the role of social entrepreneurial organizations in the provision of public goods? Which strategies do social entrepreneurial organizations apply to contribute to the provision of public goods?*, it becomes obvious that the research project has contributed to the understanding of the phenomenon of social entrepreneurship. The theoretical perspective of public goods theory and resource dependency theory defined the role of social entrepreneurial organizations as catalyzts for public goods provision that use incentive strategies to motivate stakeholder contributions. The factual-analytical database research identified twenty distinct incentive strategies that demonstrate the strategies each organization applies to fulfil their role. Eventually, the empirical case study research illustrated the catalyzt role and the holistic implementation of incentive strategies by three social entrepreneurial organizations.

Implications for research

The results of this contribution have several implications for research into the phenomenon of social entrepreneurship, and for future scientific investigations within this area of research.

The results of this research work contribute to the advancement of research on social entrepreneurship in three main ways. First, the analysis of both the constitutive elements of social entrepreneurship and existing definitions revealed the main characteristics of the phenomenon and allowed the generation of a clear-cut working definition of social entrepreneurship for this book. Being based on solid analysis, this definition contributes to the field of social entrepreneurship research and can thus serve as a starting point for further research projects.

A second contribution of this book to the field of social entrepreneurship is the rigorous application of existing theories as guiding perspectives for empirical research. By combining the general insights from public goods theory with those of the resource dependency theory

and transferring them to social entrepreneurial organizations, this book both bases its analyses on proven theories and advances those theories by applying them in a new interdisciplinary research field. Based on the theoretical perspectives, this book could specify value addition of social entrepreneurial organizations in public goods provision as benefits on two different levels – individual and societal – resulting in the identification of social entrepreneurial organizations as catalyzts of public goods provision. This result substantiates the notion of social entrepreneurs as providers of public goods in the existing literature.

Third, this book contributes to social entrepreneurship research by identifying incentives as the means by which social entrepreneurial organizations catalyze public goods. The multitude of individual and holistic incentive strategies identified demonstrates how diversely social entrepreneurial organizations apply incentives and incentive structures to catalyze public goods. From all the incentive strategies, the value proposition strategies are of particular importance, since they define the design of the remaining business model dimensions as well as the major stakeholders for the business model and the respective value proposition or incentives appealing to them. All social entrepreneurial organizations can be assigned to one of the following value proposition strategies: social value creation with the target group; social value creation for the target group; and hybrid social value creation. Consequently, the value proposition strategies of social entrepreneurial organizations can be used as a classification characteristic, representing a tool with which to classify social entrepreneurial organizations according to their general incentive strategy orientation. As the identification of certain clusters in incentive strategies implies, some of these appear to be particularly useful in combination with others, as well as with regard to a certain problem focus or development status. The case study analysis examining incentive strategies demonstrated both similarities and differences between the social entrepreneurial organizations studied. All three social entrepreneurial organizations are catalyzts for public goods provision and create incentive strategies to attract resources from stakeholders of their business models. How they achieve this in each case – that is, which public goods they catalyze and which specific incentive strategies they employ – is different for each organization and seems to depend on their particular context. As a result, the case study analysis both illustrated the heterogeneity of the phenomenon of social entrepreneurship and highlighted analogies in catalyzt roles for public goods provision and the use of incentives to motivate stakeholders' contributions to the public good. Based on the contributions of this research

work to the field of social entrepreneurship research, its results also have implications for further research projects in the field of social entrepreneurship.

Through the insights gained regarding the characteristics of public goods through public goods theory, social entrepreneurial organizations have been identified as catalyzts for public goods. Subsequently, this contribution embarked on researching *how* social entrepreneurial organizations fulfil this role in society; that is, which strategies they apply to catalyze public goods provision. Future research, however, can further build on the scientific insights regarding the catalyzt role played by social entrepreneurial organizations.

One possible area of investigation might be the relationship between social entrepreneurial organizations and other institutions with the aim of contributing to the public good. In particular, the interface with public authorities could be a special focus, investigating whether social entrepreneurial organizations complement these authorities or act as competitors to them.

Another interesting, though challenging, area of research regarding the catalyzt role could be the search for methods to measure the social entrepreneurial organizations' contribution to the public good. This would tie in with existing research efforts on social impact measurement. Before attempting to do this for whole nations, it might be useful to focus on the contribution of single social entrepreneurial organizations, or on the contribution of several social entrepreneurial organizations to one specific public good in a specified region. Measuring and quantifying the impact of social entrepreneurial organizations would help in evaluating social entrepreneurial organizations' contribution to society and compare individual organizations' effectiveness and efficiency.

The resource dependency theory was applied rigorously for the first time to the phenomenon of social entrepreneurship, and it showed that these organizations are dependent on certain resources and on the providers of these resources. In this book, the theory served as a means of exploring how social entrepreneurial organizations catalyze public goods, focusing in particular on the incentive approaches explained by the theory. Based on the rich potential of the resource dependency theory regarding other areas, further research could also focus on power and the power asymmetries of social entrepreneurial organizations.

The resources of social entrepreneurial organizations in general constitute an important area for further research. Research topics of value include investigating each of the different resource groups in detail – that is, focusing on the importance and challenges of volunteer

employment, or on access conditions and the relative importance of the different options for financial capital, or on the development and use of social capital. Comparing the different groups of resources and their dynamic importance during the life cycle of a social entrepreneurial organization could also be fruitful for further research. According to the resource dependency theory, resource needs lead to dependencies, which in the case of social entrepreneurship results in a multitude of stakeholder relations. Future research could focus on stakeholder diversity in social entrepreneurial organizations and their implications for management.

The identification of different incentive strategies offers a number of future research approaches. While this book focused on strategic patterns associated with the catalyzt role across different contexts, generating insights on incentive strategies within the same contexts could be an additional field of investigation that builds on the insights garnered in this book. The important insight that social entrepreneurial organizations can be classified according to their value proposition strategy, creating social value with or for their target group, or applying a hybrid model, can be used as a basis for engaging in specific prescriptive research for each of these groups of social enterprises. Acknowledging the differences between social entrepreneurial organizations will allow for more specific and targeted scientific recommendations for action.

This book pioneers the rigorous application of the business model as a unit of analysis. Using this foundation, future research projects on social entrepreneurship can also apply the business model as a unit of analysis for the investigation of other research questions.

With the aim of generating insights in the new research field of social entrepreneurship, investigating a complex research object to understand *how* social entrepreneurs are able to contribute to the public good, this contribution used qualitative research methods. Further research could build on these qualitative findings regarding the catalyzt role and incentive strategies to conduct quantitative research – that is, to generate quantitative insights on the types of public goods catalyzed in different contexts, or the types of strategies used among social entrepreneurial organizations.

Generally, social entrepreneurship, as a young and interdisciplinary field of research, requires much more rigorous investigation, using different theoretical perspectives and research methods. The first insights generated in this contribution serve as fertile soil to develop further scientific knowledge in this research field.

Implications for practice

The findings of this research project have implications for several practice groups concerned with social entrepreneurship: social entrepreneurial organizations and supporters of social entrepreneurial organizations as well as other institutions whose aim is to contribute to the public good.

As catalyzts for public goods, social entrepreneurs face the dilemma of tight resources and need to motivate all stakeholders to contribute to the public good. However, this research work identified twenty individual incentive strategies that social entrepreneurs use to attract stakeholders and to build stable and sustainable relationships with them. The application of some of these strategies was illustrated holistically with the help of case studies. These examples can serve as inspiration for other social entrepreneurs to learn and to develop their business models. They can look for adequate strategies in each business model dimension, be inspired about ways of creating incentives and motivating contributions, and learn from the holistic case studies about how business models can be designed around the different value proposition strategies.

While benefiting from the main results of this research project, social entrepreneurs can also benefit from the more methodological aspects. Since the book has detailed and applied the business model in a social entrepreneurial context as unit of analysis, social entrepreneurs themselves can use the business model as a tool to analyse their own organization as well as to explain their approach to stakeholders. The concept can also be used to develop and enhance organizations in specific business model dimensions.

Supporters of social entrepreneurial organizations, such as donors, foundations, venture capitalists or networks, can use the findings of this book to distinguish between different types of social entrepreneurial organizations. This allows them to offer even more tailored support – aligned, for example, with the specific needs of organizations applying different kinds of value proposition strategies that influence the design of their whole business model.

As catalyzts for the public good, social entrepreneurial organizations find innovative ways to attract stakeholders' contributions. Since they are usually not entitled to receive resources from taxes and other levies, they are very creative in generating strategies that attract resources on a quid pro quo basis, often using the market mechanism and thus ensuring the sustainability of both the strategies they create and their organizations to support the implementation of these strategies. As such,

social entrepreneurial organizations can be seen as incubators for public good provision strategies, developing new ways of dealing with current social and ecological challenges for which existing solutions were not designed. Other institutions that aim to contribute to the public good, such as national states, international organizations or non-profit organizations, can learn from the incentive strategies developed by social entrepreneurs. From the individual strategies and holistic case studies analysed and identified in this book, these institutions can learn to identify the relevant stakeholders as well as their incentives, and use them to create strategies that lead to stable and sustainable incentive structures, allowing for the provision of public goods by overcoming the market failures associated with them.

This book explored the solutions that social entrepreneurial organizations create to tackle today's global social and ecological problems. With more and more social entrepreneurial organizations scaling up their impact and even developing a global footprint, social entrepreneurship might become part of a new, emerging architecture constituted by a network of civil engagement driven organizations that build global normative structures in areas where individual states are not prepared to develop adequate solutions.

Notes

1. For two of the social entrepreneurial organizations analysed (Abgeordnetenwatch and wellcome), additional primary data was gathered during expert interviews with the founders.
2. Social entrepreneurial organizations analysed could demonstrate more than one strategy.
3. Own illustration.

Appendix Database of social entrepreneurial organizations (excerpt)

No.	Social entrepreneurship initiative	Social entrepreneur	Legal entity	Year founded	Country	Target country/countries	Website
1	Abgeordnetentwatch	Gregor Hackmack and Boris Hekele	eV and gGmbH	2004	Germany	developed	http://www.abgeordnetentwatch.de/
2	Aravind Eye Hospitals	Govindappa Venkataswamy	<i>no info</i>	1976	India	developing	http://www.aravind.org
3	Aurolab	David Green	non-profit charitable trust	1992	India	developing	http://www.aurolab.com
4	Bosnian Handicrafts	Lejla Radoncic	<i>no info</i>	1995	Bosnia and Herzegovina	connecting	http://www.bhcrafts.org/index.html
5	CAP supermarkets	Wolfgang Ullrich	eG	1999	Germany	developed	www.cap-market.de/
6	CarbonNeutral Company	Sue Welland and Dan Morrell	Limited	1997	UK	developed	www.carbonneutral.com/
7	Cinepop	Ariel Zylbersztejn	for-profit organization	2004	Mexico	developing	http://www.cinepop.com.mx
8	Ciudad Saludable	Antonia Ruiz	<i>no info</i>	1989	Peru	developing	http://www.ciudadsaludable.org/es/

Appendix Continued

No.	Social entrepreneurship initiative	Social entrepreneur	Legal entity	Year founded	Country	Target country/countries	Website
9	Committee for the Democratization of Information Technology (CDI)	Rodrigo Baggio	non-profit organization	1995	Brazil	developing	http://www.cdi.org.br/
10	Dabba Telecoms	Rael Lissoos	<i>no info</i>	<i>no info</i>	South Africa	developing	http://www.dabba.co.za/
11	Development Alternatives	Ashok Khosla	non-profit organization	1983	India	developing	http://www.devalit.org
12	Consens/Dialog im Dunkeln	Andreas Heinecke	GmbH	1998	Germany	developed	http://www.dialog-im-dunkeln.de/
13	Die Komplizen	Philip Scherenberg	gGmbH	<i>no info</i>	Germany	developed	http://www.die-komplizen.org/
14	DMT Mobile Toilets	Isaac Durojaiye a.k.a "Otunba Gaddafi"	Limited	1992	Nigeria	developing	http://www.dmttoilet.com
15	Freeplay Energy	Rory Stear, Christine Pearson	Plc	1996	UK	developed and developing	http://www.freeplayenergy.com
16	Grameen Bank	Muhammad Yunus	for-profit organization	1976	Bangladesh	developing	http://www.grameen-info.org/

17	Habitat for humanity	Millard and Linda Fuller	charity	1976	USA	developed and developing	https://www.habitat.org/
18	Institute for One World Health	Victoria Hale	non-profit organization	2000	USA	developing	http://www.Oneworldhealth.org
19	Interkultureller Bildungs- und Förderverein für Schüler & Studenten (IBFS)	Murat Vural	eV	2004	Germany	developed	http://www.ibfs-ev.org/index.php
20	Job Factory	Robert Roth	AG	2000	Switzerland	developed	http://www.jobfactory.ch/
21	KickStart	Martin Fisher and Nick Moon	<i>no info</i>	1991	Kenya	developing	http://www.kickstart.org
22	Kiva	Matt Flannery	501 c3 non-profit organization	2004	USA	connecting	http://www.kiva.org/
23	La Fageda	Cristóbal Colón	social cooperative	1982	Spain	developed	http://www.fageda.com/web/cat/main.xml
24	Narayana	Devi P. Shetty	<i>no info</i>	2001	India	developing	http://www.narayanahospitals.com/
25	Novica	Roberto Milk and Armenia Nercessian de Oliveira	for-profit organization	1998	USA	connecting	http://www.novica.com

(continued)

Appendix Continued

No.	Social entrepreneurship initiative	Social entrepreneur	Legal entity	Year founded	Country	Target country/countries	Website
26	Recycla	Victor and Pedro Nilo	Limited	2003	Chile	connecting	http://www.recycla.cl
27	Rubicon Programs, Inc.	Rick Aubry	Inc.	1973	USA	developed	http://www.rubiconprograms.org
28	San Patrignano Community	Andrea Muccioli	Società Agricola Cooperativa Sociale	1978	Italy	developed	http://www.sanpatrignano.org
29	Sekem	Ibrahim Abouleish and Helmy Abouleish	<i>no info</i>	1977	Egypt	connecting	http://www.sekem.com
30	Selco Solar Light	Harish Hande	Limited	1995	India	developing	http://www.selco-india.com
31	SKS Microfinance	Vikram Akula	Limited	1997	India	developing	http://www.sksindia.com/
32	Teach for America	Wendy Kopp	Inc.	1989	USA	developed	http://www.teachforamerica.org
33	Un Techo para Chile	Felipe Berrios	non-profit organization	1997	Chile	developing	http://www.untechoparachile.cl
34	wellcome	Rose Volz-Schmidt	gGmbH	2002	Germany	developed	http://www.wellcome-online.de

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