Defining and Distinguishing Social Entrepreneurship

Paul Miesing
School of Business
UAlbany-SUNY
Albany, New York
Learning Objectives

• To comprehend the meaning and nature of entrepreneurship, in general
• To understand what constitutes social entrepreneurship
• To recognize the similarities and differences between business entrepreneurship and social entrepreneurship
• To understand what motivates social entrepreneurs to pursue their mission
• To envision and follow the social entrepreneurship process – who the actors are, what resources are required, what relationships must be developed, and which contextual factors are at play
What is Entrepreneurship?

- “A disciplined, systematic process of applying creativity and innovation to the needs and opportunities in the marketplace”
- From the French verb “entreprendre” meaning “to undertake”
- Understanding how opportunities create something new:
  - Can be either through an existing organization or a new venture
  - In either case, success comes from creation and innovation
- In other words: Entrepreneurs recognize opportunity, innovate, and seek results – “Just get it done!”
  - Pursue opportunities without being limited by resources (“resourceful”) by taking considerable initiative and risk-taking
Characteristics of Successful Entrepreneurs

- **Passion for the Business:**
  - Typically the entrepreneur believes that the business will positively influence people’s lives

- **Product/Customer Focus:**
  - Stems from the fact that most entrepreneurs are, at heart, craftspeople

- **Tenacity Despite Failure:**
  - In spite of naturally high failure rate, able to persevere through setbacks

- **Execution Intelligence:**
  - Can fashion a solid business idea into a viable business by resource identification, acquisition, marshaling
... and some Psychological Characteristics

- Creative and innovative
- Value achievement over money
- Independent
- Confident in ability to succeed
- Sense of control over destiny
- Tolerate ambiguity
- Desire for responsibility
- Prefer moderate levels of risk
- Desire immediate feedback
- High level of energy
- Future orientation
- Skilled at organizing
## For-Profit vs. Non-Profit Organizations

<table>
<thead>
<tr>
<th>Key Areas</th>
<th>For-Profit Organizations</th>
<th>Non-Profit Organizations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mission</strong></td>
<td>Profit</td>
<td>Create social value</td>
</tr>
<tr>
<td><strong>Goals</strong></td>
<td>Clear, distinct</td>
<td>Multiple, different priorities</td>
</tr>
<tr>
<td><strong>Stakeholders</strong></td>
<td>Shareholders</td>
<td>Multiple</td>
</tr>
<tr>
<td><strong>Stakeholder interests</strong></td>
<td>Economic</td>
<td>Highly divergent, often intangible</td>
</tr>
<tr>
<td><strong>Political influence</strong></td>
<td>Minimal, indirect through PACs</td>
<td>Highly influenced by legal authority</td>
</tr>
<tr>
<td><strong>Funding</strong></td>
<td>Generate own resources</td>
<td>Often depend on donations</td>
</tr>
<tr>
<td><strong>Performance measures</strong></td>
<td>Financial/tangible</td>
<td>Social impact</td>
</tr>
<tr>
<td><strong>Recipient of service</strong></td>
<td>Paying customer</td>
<td>Typically non-paying beneficiary</td>
</tr>
<tr>
<td><strong>Risk</strong></td>
<td>Willing to take a chance</td>
<td>Generally risk-averse</td>
</tr>
<tr>
<td><strong>Management</strong></td>
<td>Experienced in revenue generation</td>
<td>Lack necessary “business” skills, experience</td>
</tr>
</tbody>
</table>
Funding Non-Profit Organizations

• Main sources:
  o Earned income (about half the total) – Include commercial endeavors separately incorporated, Co-branding and licensing, JV, etc.
  o Donations – Philanthropy, grants, sponsorship, (about one-fifth)
  o Endowments (e.g., interest)
  o Government (usually provides the balance)

• Different types:
  o Social welfare = half government; <1/3 earned
  o Arts groups = half donated
  o Health = less than 6% donated
  o Religious institutions: no government funding
What is Social Entrepreneurship?

At the nexus

The Social Enterprise “Zone”

Government

Private Businesses

Non-Profits and NGOs

Can complement but not replace:
- social policy
- economic policy
- trade unions
- political activism
- political parties
What is Social Entrepreneurship? (Cont’d.)

• Applying the mindset, processes, tools, and techniques of business entrepreneurship to the pursuit of a social and/or environmental mission

• Brings to bear the passion, ingenuity, innovativeness, perseverance, planning, boot-strapping abilities, and focus on growth that are characteristic of business entrepreneurs to the work of meeting society’s most pressing challenges

• Embodies the enterprising spirit of the private sector and uses the power of economic markets to generate and deliver solutions to problems
What is a Social Enterprise?

• A business with a social mission whose surpluses are principally reinvested in the business or in the community for that purpose rather than being driven by the need to maximize profits for shareholders and owners:
  o Profitability – financially self-sufficient
  o Mission-Driven – social impact
  o Sustainability – environmental impact

• Activities:
  o Offer social or environmental goods or services
  o Trade to provide (or cross-subsidize) such goods or services
  o Work for social benefit (social value creation)
What is a Social Enterprise? (Cont’d.)

• The desired outcome of a for-profit business is already known: to make a profit
• The desired impact of a social enterprise are not obvious and so the goals need to be established first

Set Social and Financial Goals → Select Business Idea Based on Goals → Business Plan → Start Business → $ Returns → Social Impact
A Social Entrepreneur is Transformative

• Mission to create and sustain social (not just private) value
• Recognize and relentlessly pursue new opportunities to serve that mission
• Continuous innovation, adaptation, and learning
• Act boldly without being limited by current resources
• Exhibit a heightened sense of accountability to stakeholders and outcomes created
• Change is the norm!

• Neighborhood, urban, and rural renewal and regeneration
• Public service delivery, reform
• Social and economic inclusion
• Active citizenship
• Enhanced livelihoods and employability for underserved
• Reasonable-cost, good-quality, socially-useful, environmentally-friendly goods and services
• Mobilize public and private resources for social justice and economic opportunity
Myths About Social Entrepreneurs

- Social entrepreneurs are against business
  - No! Many social entrepreneurs come from business and have succeeded in business

- The difference between business and social entrepreneurship is greed
  - No! Assumes that all business entrepreneurs are greedy, and that none are philanthropic

- Social entrepreneurs are born, not made
  - No! Implies that only innate traits determine who does what

- Social entrepreneurs have it easy; customers will buy their products just because the company represents a great cause
  - No! Social mission will get a business only so far
Myths About Social Entrepreneurs (Cont’d.)

• Social entrepreneurs don’t need to worry much about bottom-line financial results
  – *No!* The social value of an enterprise is only one of many criteria for success

• Starting a social enterprise requires minimal investment
  – *No!* Social enterprise costs more than you think

• Social entrepreneurs should quit fund-raising and rely on earned income alone
  – *No!* The social enterprise is usually not a non-profit’s only activity

• Scaling to a national level should be the goal of every social entrepreneur
  – *No!* Bigger is not necessarily better
## Business Entrepreneur = Social Entrepreneur

### Clusters of Performance

<table>
<thead>
<tr>
<th>Social Venture</th>
<th>Profit Status</th>
<th>Viability Target</th>
<th>Board Oversight</th>
<th>Manager Overseen</th>
<th>Exit Plan</th>
<th>Benchmark Met</th>
<th>Continue Operation</th>
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</thead>
<tbody>
<tr>
<td>Reliable Bottle Recycling</td>
<td>Profit</td>
<td>30% margin</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
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<td>Mr. Clean Janitorial</td>
<td>Break-even</td>
<td>Break-even</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
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<td>Sparkle Janitorial</td>
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<td>Break-even</td>
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<tr>
<td>Daily Deli</td>
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<td>Blooms Fresh Floral²</td>
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<td>Laser-net Toner Recycle</td>
<td>Loss</td>
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<td>Pure Water Bottling</td>
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</tr>
</tbody>
</table>

¹ Closed because its primary customer base relocated; ² The Board placed under strict time frames to achieve viability.

Business Entrepreneur = Social Entrepreneur
(Cont’d.)

1. Mission, Possible: Have an overriding mission that addresses the service orientation
2. Metrics Matter: It is critical that social ventures measure their overall value
3. Develop a Business Plan: Detail the products or services offered
4. Dare to be Different: Make choices that distinguish you from competing offerings
5. Know Thy Market: Increase the customer base or repeat sales by entering a niche or vacuum

6. Hire for Talent, Pay for Performance: Give managers what they deserve
7. It’s Who You Know: Create and maintain linkages and networks
8. Establish Financial Oversight: Provide governance and control
9. Manage Risk Carefully: Little capital and technical skills, low overhead, easily learned ... and have sufficient capital to see the venture through the first few years
10. Obey the Law and Abide by Ethical Principles
Barriers to Social Enterprise Strategies

- Tactical problems consume managerial attention (“firefighting”)
- Multiple, conflicting, or unclear goals
- Lack of board consensus on activities
- No agreement on measuring performance
- Poor cost information at the activity, program, and recipient levels
- Tougher competition for high-quality employees
- Volunteers often staff operations
- Increasingly complex and contradictory demands from stakeholders
- Growing maze of regulatory constraints and demands
- Legacy attitudes, activities, and facilities severely constrain future direction
- Inability to make tradeoffs
- Chasing cash results in “mission creep”
Limits and Contradictions of Social Enterprise

1. Businesses can fail, jobs and services can be lost
2. Surpluses can be small, negative, or unreliable
3. Local markets offer limited growth opportunities
4. Partnerships with government – especially contract-based relationships – can be asymmetrical and create dependency
5. May not provide universal coverage of their services
Limits and Contradictions of Social Enterprise (Cont’d.)

6. Very difficult to balance the need for business expertise with social cause

7. Private sector can claim “unfair competition”

8. Political left is concerned that social enterprise can displace unionized government services

9. Movement leaders seek to mainstream social enterprise yet retain its autonomy

10. Social enterprise leaders are in short supply!
Conclusions

• No longer “business as usual”
• Social enterprises are change agents that achieve the “triple bottom line”
• Profits, people, and planet are ambiguous objectives with hard to measure “social benefits”
• The differences between for-profits and social enterprises as well as internal contradictions of social enterprises challenge their success
• Still, social enterprises should run their ventures with the same strategic imperatives, similar entrepreneurial frameworks, and strong leadership that for-profits do
• For more information and sources, see http://pinterest.com/mgt460/where-do-you-stack-up/
Course Purpose

• Summarize key principles of social entrepreneurship
• Identify the challenges and opportunities of social entrepreneurship
• Use evidence to analyze, evaluate, and exploit a social opportunity for an entrepreneurial venture
• Apply business functions to create and sustain a social venture
• Prepare a business plan for a social enterprise
Questions?