

# *Capitalism and Morality*

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## **SOCIAL ENTREPRENEURSHIP IN AN INTERNATIONAL CONTEXT**

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### **Introduction**

In the late twentieth century, social entrepreneurship experienced its greatest growth as one of the alternatives to government and traditional social programs for helping the poor and disadvantaged in countries throughout the world. The purpose of this article is to explain social entrepreneurship conceptually, show how it is used internationally as an instrument of change, and to discuss factors that can potentially limit its effectiveness.

In the last decades of the twentieth century, many of the world's nations began to abandon government-controlled economies in favor of free market economic systems. In several countries, the change led to an increased number of entrepreneurs and new businesses. A parallel movement during this period was the growing number of non-government organizations, or NGO's. While NGO's are not a new concept, their recent growth occurred because of a belief that neither government nor the traditional private sector could solve all economic or social problems. (Bornstein, 2004). A manifestation of this conviction was a series of conferences and summits held in the 1990's on economic development one of whose outcomes eventually became known as the Millennium Development Goals. In 2000, the United Nations unanimously adopted a resolution called The Millennium Declaration, which called for initiatives for a more peaceful, just, and prosperous world. The General Assembly of the United Nations recognized the Millennium Development Goals as part of the road map for implementing the Millennium Declaration ([www.worldbank.org](http://www.worldbank.org)., December, 2005). The Goals are:

1. Eradicate extreme poverty and hunger.
2. Achieve universal primary education.
3. Promote gender equality and empower women.
4. Reduce child mortality.
5. Improve maternal health.
6. Combat HIV/AIDS, malaria, and other diseases.

7. Ensure environmental sustainability.
8. Develop a global partnership for development ([www.unitednations.org](http://www.unitednations.org), December, 2005).

The target year for achieving these goals is 2015. NGO's have a part to play in attaining them.

Many NGO's use a traditional charity model, that is, a not-for-profit organization established for a specific purpose which usually relies on funding from outside sources, such as government grants or private contributions. An organization may attempt to earn some revenue from the selling of goods or the providing of services, but these efforts are often fund raisers and not an intrinsic part of the organization's mission. However, some NGO's use the social entrepreneurship model, and while their mission may be similar to a traditional charity, the way they achieve it differs greatly (Boschee, 2001).

### **Social Entrepreneurship and Its Variations**

The term, "entrepreneur," originated in French economics early in the 18<sup>th</sup> century. Literally, it meant someone who undertook a significant project or activity. Later, it more narrowly came to mean someone who stimulated economic progress by finding new and better ways of doing things (Dees, Emerson, and Economy, 2002). Peter Drucker felt that an individual who starts a business similar to existing businesses was not an entrepreneur. Rather the entrepreneur, "... searches for change, responds to it, and exploits it as an opportunity" (Drucker, 2002).

There is not a universally agreed upon definition of social entrepreneurship. Mair and Marti (2005) researched the issue and found several definitions. However, while there is not a common term, the definitions share some similarities in a few key points:

1. Social entrepreneurship organizations are not necessarily not-for-profit organizations. They are more focused on solving social problems than generating a profit, however that goal does not preclude them from attaining profitability. The possibility of wealth is a means to an end and not an end unto itself (Dees, Emerson, and Economy 2002).
2. Social entrepreneurship organizations may be involved in business type activities, e.g. running a bank or selling a product or service, but the goal is social change rather than profitability alone.
3. Social entrepreneurship organizations attempt to generate all, or at least a portion, of their revenue from earned income rather than relying primarily on contributions, fund-raisers, or grants as traditional social agencies do. Thus, they often provide products or services.
4. While they attempt to be business-like, the success of such organizations is more difficult to measure than traditional businesses that use profitability as a common criterion of success. However, that difference does not preclude the use of evaluative rubrics. The Research Institute on Social Entrepreneurship (RISE) at Columbia University has developed such a mechanism, but the criteria used vary with the type of organization. An organization devoted to improving the economic well being of women may use different criteria than one attempting to reduce drug abuse. A distinctive aspect of some organization is the "double bottom line" which uses both financial and social criteria to measure the success of an organization (RISE, 2003). The double bottom line can be a challenge for managers of social entrepreneurs. Roy Soards, a social entrepreneur in

Portland, Oregon said, “In my 14 years as a social entrepreneur...the double bottom line pull between mission and money has never stopped. I don’t believe it should, because it’s the ongoing dynamic that gives a successful social enterprise its heart and soul.” (Pomerantz, 2004).

Internationally, social entrepreneurship organizations exist in various forms. An example that uses a traditional business structure and the double bottom line is Grameen Bank in Bangladesh. Founded in 1976 by Muhammad Yunus, an economics professor at the University of Chittagong, the goals of this organization were to reduce poverty and provide opportunities for the poor to start their own businesses, many of them home-based. The bank was started with funding from the government of Bangladesh. Today, the government owns 10% of the bank. The other 90% is owned by the rural poor whom it serves. If the borrowers’ businesses begin to prosper, the borrowers are encouraged to invest in the bank. Most of the loans are microloans, i.e. loans often deemed too small for traditional banks. The businesses established do not make the borrowers wealthy by Western standards, but the borrowers are freed from begging or government assistance to survive. Grameen Bank now has over 2.6 million borrowers, 95% of whom are women, and it operates almost 1,200 branches throughout Bangladesh. It has expanded its services to provide home loans for the poor and is also a major investor in Grameen Telephone, which is developing telephone service for rural areas. Despite its success, Grameen Bank has been criticized for its unusual method of loaning money (Adri and Sultana, 2004). Borrowers must organize themselves into homogeneous groups of five. Loans are not made to all five initially; they are made to two members. When those two have made payments, the others receive their loans. While encouraging fiscal discipline, such groups also help to reinforce the members’ efforts as entrepreneurs and to provide mutual support and shared ideas (Mair and Marti, 2005).

Product driven social entrepreneurship organizations can also be successful. An example is Shri Mahala Griha Udyog Lijjat Papad, a co-operative in India that makes papads, a crispy bread. Founded forty years ago by six women as a way to provide a living for poor and often uneducated women (who in many cases were the sole wage earners for their families), the co-operative now has 41,000 women who produce the product and are joint owners. Revenues have grown from a few hundred dollars to over \$65 million annually and now include sales to the United States, United Kingdom, and the Middle East. Women prepare the papads at home and deliver them to 62 distribution centers located throughout India. Little technology is used in production, since it would replace jobs. The co-operative uses the double bottom line concept, as it believes profits are essential to maintaining its infrastructure (Naik, 2005).

Social entrepreneurship organizations are not unique to developing nations. An example in the United States is Skookum Abatement Services in western Washington state. Skookum’s mission is to create employment options for at-risk individuals, principally the mentally and physically retarded, developmentally disabled, but also those on welfare. Asbestos abatement (removal) is a hot and potentially dangerous business requiring workers to be properly trained, have discipline, and be equipped with proper safety equipment. Skookum provides the training, has a strict safety code, work ethic, and provides that necessary safety equipment. Over the years, Skookum has earned a reputation for high quality work, and though a social agency, it earns a profit. Its employees are well paid, many earning more than \$70,000 per year. In addition to providing good incomes, Skookum instills workers with a sense of accomplishment they did not possess previously. Skookum is also the only abatement firm in Washington state to earn ISO 9000 certification for quality standards and ISO 14000 certification for environmental standards, both difficult credentials to achieve (Boschee, 2001).

## **Funding Social Entrepreneurship Organizations**

As noted earlier, social entrepreneurship organizations often utilize a double bottom line in managing their operations with self-sustainability as a goal. Start up funds may come from various sources. Grameen Bank received initial funding from the federal government of Bangladesh (Mair and Marti, 2005). Internationally, other organizations have received funding from regional or local governments; still others have been funded through the private sector via traditional sources, such as foundations or wealthy individuals. However, the funding of some social entrepreneurship organizations, particularly in early stage development, may take a more entrepreneurial bent. Initially developed in the United States in the 1960's, the concept of venture philanthropy organizations gained strong momentum in the 1990's. Venture philanthropy organizations share similarities with for-profit venture capital (VC) firms who target for investment early stage (i.e. young) businesses with high growth potential. VC's invest in those firms for relatively short time periods, often three to five years, with the goal of earning a rapid rate of return on their investment. As part of that process, VC's take a major, although not necessarily majority, financial interest in the firms during that time. They also are actively engaged in the management of the firms, usually occupying seats on the board of directors during the investment period. Once their investment goals are reached, the VC's depart and look for other investments. Funding for other stages in a business's life may come from other sources, such as banks or other institutional investors (Morino and Shore, 2004).

While venture philanthropy organizations use a model similar to their for-profit counterparts, they are not usually expecting a financial return from their investment. However, unlike traditional foundations, they are more actively involved with the organizations in which they invest. This involvement takes the form of strategic assistance, which can include long-term planning, board and executive recruitment, coaching, help in raising additional capital, assuming board membership roles, and accessing networks of other organizations and individuals which may be beneficial. Like their for-profit counterparts, venture philanthropy organizations also perform due diligence on prospective firms, including evaluating their mission, core products or services, financial statement, and management team (Morino and Shore, 2004).

Such an approach is somewhat controversial. Some financial recipients who have worked with venture philanthropy organizations resent the requirement of board membership, feeling that it is undue intrusion. Still others feel the venture philanthropy model of intense involvement for a relatively limited amount of time and then disengagement is counterproductive in the long term. Defenders argue that the approach makes organizations receiving funding more effective and more accountable for their efforts (Billitteri, 2000).

### **Limiting Factors**

While the social entrepreneurship model can be an effective NGO model for improving the well being of individuals, as with any entrepreneurial model, the mere creation of such an organization does not guarantee success. Some traditional charities have attempted to become social entrepreneurship organizations and failed, because they did not fully grasp the basic concept and how to make it work. Others failed because they attempted to diversify into services about which they knew little instead of building on their core competencies. Still others failed because they did not understand what their core competencies were (Boschee, 1995).

External problems may also limit the success of social entrepreneurship organizations and NGO's in general. Even though many may have not-for-profit status, social entrepreneurship organizations are still in the private sector and are treated as businesses by most governments.

Government regulation may prevent the organizations from being able to fulfill their mission. A 2004 study by the World Bank found that, in many cases, businesses face more regulation in developing countries than in the developed world. For example, in both Haiti and the Democratic Republic of the Congo, it may take up to 200 days for a registration request to establish a business to be approved by the federal government. In contrast, such a request takes 48 hours in Australia. Enforcement of regulations may also be cumbersome. So, enforcement of a commercial contract may take up to 1,500 days in Guatemala, but only 39 days in the Netherlands (Rizvi, 2004).

In many developing countries, property rights are also cumbersome or do not truly protect rightful owners. This makes it difficult for organizations to acquire resources that are necessary for use in fulfilling their mission. Because of the cumbersome nature of such regulations, land is bought and sold without deeds or other proper proof of ownership. It has been estimated that \$9.3 trillion in land value, largely in the hands of the world's poor, lies unused as potential collateral to spur investment and growth for both for-profit and not-for-profit organizations (deSoto, 2000).

Social entrepreneurship organizations are not a cure for all the world's problems. Such organizations cannot prevent corruption in government or the misuse of power. However, as the examples in this article demonstrate, if administered effectively, they can benefit people at the grass roots level and beyond. The benefits are not always financial. Such organizations can provide personal skills, improve education, and enhance self-worth. Societies grow with the contributions of many, and social entrepreneurship has the potential to make an effective contribution to that growth.

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