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# Social entrepreneurship: Key issues and concepts

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## 1. A beginning

Entrepreneurship involves the identification, evaluation, and exploitation of opportunities (Shane & Venkataraman, 2000). In this sense, opportunities represent occasions to bring new products or services into existence such that individuals or organizations are able to sell new outputs at prices higher than their cost of production. (For an excellent review of opportunities and entrepreneurship, see Eckhardt & Shane, 2003.) The implication, of course, in this definition is that the fundamental mission of entrepreneurial activities involves profit generation, and these profits help entrepreneurs to build personal wealth.

In recent years social entrepreneurship, a sub-discipline within the field of entrepreneurship, has gained increasing attention from entrepreneurship scholars. Social entrepreneurship involves the recognition, evaluation, and exploitation of opportunities that result in social value – the basic and long-standing needs of society – as opposed to personal or shareholder wealth (Austin, Stevenson, & Wei-Skillern, 2006). Social value has little to do with profits but instead involves the fulfillment of basic and long-standing needs such as providing food, water, shelter, education, and medical services to those members of society who are in need.

A number of groups and organizations have recognized socially-oriented ventures. *Fast Company*, for example, recently recognized Better World Books, an organization that addresses the global literacy problem by helping fund community reading programs via sales of donated books, for outstanding social entrepreneurship. As another example, the Manhattan Institute Award for Social Entrepreneurship honors leaders who develop solutions for pressing social problems. Recently, the Manhattan Institute recognized the Houston-based Prison Entrepreneurship Program for its work providing prisoners with the skills needed to start new ventures upon their release, along with other worthy organizations.

Even some of the most renowned capitalists have embraced, and served as champions for, social entrepreneurship. Perhaps the most notable example involves Bill Gates, the founder of Microsoft. In a recent speech at the World Economic Forum in Switzerland, Mr. Gates championed a new form of capitalism: “Such a system would have a twin mission: making profits and also improving lives for those who don’t fully benefit from market forces.” (For more information on this speech, see Guth, 2008, p. A1.)

In the remainder of this article, we review research in social entrepreneurship to better understand how this concept has developed over time. In so doing, we illustrate how social entrepreneurship differs from the traditional conceptualization of entrepreneurship. We also provide some ideas for future research in the domain of social entrepreneurship.

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## 2. Social entrepreneurship: What is it?

Despite the emergence of social entrepreneurship in both the academic and business worlds, there remains some tension in the academic literature regarding its exact definition. This tension, though, is consistent with similar issues in the broader entrepreneurship literature (Peredo & McLean, 2006). As Venkataraman (1997, p. 120) noted, “there are fundamentally different conceptions and interpretations of the concept of entrepreneur and the entrepreneurial role, consensus on a definition of the field in terms of the entrepreneur is perhaps an impossibility.”

To better understand social entrepreneurship, Austin et al. (2006) distinguished between two types of entrepreneurship. In their framework, commercial entrepreneurship represents the identification, evaluation, and exploitation of opportunities that result in profits. In contrast, social entrepreneurship refers to the identification, evaluation, and exploitation of opportunities that result in social value. Opportunity awareness and recognition reflect an entrepreneur’s ability to detect when either supply or demand for a value-creating product or service exists (Kirzner, 1973). Social entrepreneurs have an acute understanding of social needs, and then fulfill these needs through creative organization. This focus on social value is consistent across various definitions of social entrepreneurship (e.g., Peredo & McLean, 2006; Shaw & Carter, 2007). Other than this focus on social value as opposed to private wealth, the definitions of commercial and social entrepreneurship are quite similar. These similarities underlie Dees’ (1998, p. 2) declaration that “[s]ocial entrepreneurs are one species in the genus entrepreneur.”

More formally, Austin et al. (p. 2) define social entrepreneurship as “innovative, social value creating activity that can occur within or across the nonprofit, business, or government sectors.” There are two important points worth noting about this definition. First, the definition explicitly notes the role of innovation. Social entrepreneurship presumably involves applying a new technology or approach in an effort to create social value. This focus on innovation is consistent with the Schumpeterian view of entrepreneurship which emphasizes the role of innovation in entrepreneurship; social entrepreneurs, then, may be viewed as social innovators (Casson, 2005). Dees (1998, p. 4) confirms the role of innovation by suggesting that social entrepreneurs “play the role of change agents in the social sector by...engaging in a process of continuous innovation, adaptation, and learning.” Second, the definition highlights the various contexts in which social entrepreneurship may take place. So-

cial entrepreneurship might involve individual entrepreneurs, new or existing organizations (both non-profit or for profit), or governments. In other words, there is no single type of social entrepreneur.

According to Austin et al. (2006), there are at least three primary ways to distinguish between commercial and social entrepreneurship. First, new commercial and social ventures differ in terms of overall mission. (For an overview of mission statements in the entrepreneurship context, see O’Gorman & Doran, 1999.) While commercial entrepreneurs are primarily concerned with private gains, social entrepreneurs are more concerned with creating social value. Of course, commercial entrepreneurs may produce social value in the process of creating private gains, and social entrepreneurs may produce private gains in the process of creating social value (Emerson & Twersky, 1996). Despite these potential secondary gains, these two types of organizations are driven by two very different missions.

Directly related to their differences in missions, commercial and social entrepreneurship differ dramatically in terms of performance measurement (Austin et al., 2006). In commercial entrepreneurship, performance is typically measured in terms of financial performance. Examples of such financial performance measures include profitability (i.e., return on assets, return on equity) and sales growth. (For a more comprehensive review of such performance measures, see Murphy, Trailer, & Hill, 1996.) Because financial performance metrics are standardized, they can be recognized and appreciated by entrepreneurs and investors.

In contrast, performance measures for social entrepreneurship are less standardized and more idiosyncratic to the particular organization. For example, take a new venture formed to provide educational services to children in inner cities. How would the leaders of this venture assess performance? Using profitability as a performance measure would most likely not prove useful, as the mission of the organization does not involve producing monetary gains. Instead, a survey designed to assess the influence of the program on students’ test scores may prove more useful. In addition, growth in the number of students served might represent another indicator that the program is well received by the local community. While it remains difficult to evaluate the performance of a social venture, developing mechanisms that help to alleviate this issue represents an important task in establishing the legitimacy of social entrepreneurship as an area of academic inquiry (Mair & Marti, 2006). Our understanding of how to measure social value is lacking, yet new metrics exist to quantify value in the social sector (Young, 2006).

Third, commercial and social entrepreneurship differ in terms of resource mobilization (Austin et al., 2006). Perhaps the importance of this distinction is most obvious when considering financial resources. Commercial entrepreneurs have at their disposal one important factor when attempting to attract financial resources: the allure of potential returns. Angel investors and venture capitalists, for example, provide capital to commercial entrepreneurs with the hope that they will one day receive even more capital in return. (For an excellent overview of angel investors and venture capitalists, see Morrissette, 2007.) In addition to financial resources, resource mobilization also involves human resources. Commercial entrepreneurs are able to hire employees based on the same factor: potential returns. When individuals decide to work for commercial entrepreneurs, they typically do so based on the premise that their effort will result in financial rewards such as wages, benefits, future windfalls (i.e., stock options), or some combination of these rewards.

Without the allure of potential returns, social entrepreneurs may face more difficulties in mobilizing financial resources. Starting a new social venture requires identifying funding sources that are primarily interested in creating social – as opposed to economic – value. Fortunately, a more recent trend toward venture capital funding of social ventures has transformed social entrepreneurship. Philanthropic venture capital companies, such as Ashoka, the Acumen Fund, and Venture Philanthropy Partners, provide financial resources, consulting, and interorganizational relationships for new social ventures. Venture capital is being sought by social entrepreneurs to fund their operations because social organizations have suffered a decline in operating fund reserves (Boschee, 1995). For example, the Roberts Enterprise Development Fund assists social organizations by providing financing for organizational infrastructure, strategy, and business development.

This same principle also applies to locating human resources. Often, social ventures cannot afford to pay market rates for employees. Consequently, many social ventures rely on volunteers and employees who are more concerned with creating social value than earning and building private economic wealth. Finding employees with these motives, of course, remains difficult for social entrepreneurs.

### 3. Is social entrepreneurship really different?

Despite the differences between social and commercial entrepreneurship, some scholars claim that

there exists a continuum for which commercial and social entrepreneurship serve as anchors (Austin et al., 2006; Peredo & McLean, 2006). In other words, organizations can pursue commercial entrepreneurship, social entrepreneurship, or some combination of both. In fact, some scholars even refer to organizations that pursue both commercial and social objectives as *hybrids* (Davis, 1997). In a sense, then, these hybrids pursue two bottom lines, one of which deals with profits while the other deals with social value.

It is important to note, though, that not all agree with the notion that a person or organization can pursue two bottom lines and be considered social entrepreneurs. As Peredo and McLean (2006) suggest, for example, some firms engage in cause-related marketing as a mechanism to increase sales, profits, and shareholder wealth. It is difficult to argue that employing such tactics for a purely profitable objective indicates that one is a social entrepreneur. Peredo and McLean (2006, p. 62) note, for example, “It is tempting to say that only ventures willing to accept a significant reduction in their profits as a consequence of their pursuit of social goals should be considered examples of social entrepreneurship.” The authors quickly point out, though, that determining motive is difficult (if not impossible) and as such, this distinction is perhaps not important.

### 4. Future research

As noted earlier, social entrepreneurship has gained attention in many diverse fields, and this diversity has resulted in several definitions. An important agenda for the further development of social entrepreneurship research involves creating consensus across these fields as to the definition and key elements of the construct, as well as resolving some of the foundational debates. For example, social entrepreneurship has been characterized both broadly as an innovative social venture (Cochran, 2007; Dees & Anderson, 2003) and more narrowly as the use of market-based activities to solve social needs and generate earned income through innovation (Thompson, 2002). Establishing concrete definitions will help overcome the vagueness of the concept of social entrepreneurship, which places obstacles on research in the area. We can draw parallels to the development of the field of entrepreneurship, which began with and expanded beyond definitional and attribute-based descriptions. Therefore, multiple issues remain which, if addressed, may help social entrepreneurship research further progress.

First, having a social mission is a central attribute of a social venture, yet there are differences in the degree of its significance to the organization (Peredo & McLean, 2006). Social ventures may place different levels of importance on the social mission. For example, the social mission may be the major focus of an organization, or profit may be the major motive of an organization that happens to provide some social product or service (Alter, 2006). In fact, some argue that having a blended value (both social and profit) is important for social entrepreneurs (Emerson & Twersky, 1996), while others suggest economic value should be a limited concern for social entrepreneurs and the social mission must be central (Dees, 1998; Seelos & Mair, 2005). While there is debate over the necessity for social ventures to generate earned income, scholars seem to agree that social entrepreneurship includes both for-profit and not-for-profit ventures. Overall, this calls for more research into understanding how differences in importance of the social motive influence strategy and resources (Austin et al., 2006).

Another area for future research involves examining the characteristics of social entrepreneurs. Similar to early work in entrepreneurship, which compared characteristics of managers to those of entrepreneurs, research is needed to understand the personal characteristics and cognitive schemas of social entrepreneurs (Roper & Cheney, 2005). Because social entrepreneurship is mission-related, internal values and motivation largely drive the venture (Dees, 1998; Hemingway, 2005). For example, social entrepreneurs are often driven by their passion to meet the needs of a population (Bornstein, 2004), or by their personal values (Drayton, 2002; Hemingway, 2005), charisma (Roper & Cheney, 2005), and leadership skills (Thompson, Alvy, & Lees, 2000). Future research could also focus on the actions and behaviors of social entrepreneurs that help improve the performance of these ventures. As mentioned earlier, however, establishing consistent measures of social performance represents a critical development needed to examine this issue.

Two important actions which may shed light on social venture success involve social networking and venture capital fundraising. One research opportunity involves investigating the social networks of social entrepreneurs. Leadbeater's (1997) theory on social entrepreneurship suggests that social venturing begins as an individual mobilizes others toward a social goal using her social network. Thus, social capital is important to resource acquisition because human resources are needed to devote time and money to the organization, alliances are necessary to maintain operations, and community is

the source of value creation in social ventures (Thompson, 2002). In addition, the funding of social ventures is an important activity of social entrepreneurs. While a number of public organizations provide business consulting to social entrepreneurs, monetary resources are necessary to implement the ambitious social visions of social entrepreneurs. The latest trend toward venture capital funding of social ventures has created a new business model for social entrepreneurs, whereby the entrepreneur can trade operational control of the venture for financial support. While prior research has examined venture capital assessments for profit-seeking ventures (MacMillan, Siegel, & Narasimha, 1985; Shepherd, 1999), little is known about the decision rules that philanthropic venture capitalists use to select social ventures or how they actually influence venture outcomes (Austin et al., 2006; Cochran, 2007).

Finally, the majority of extant research on social entrepreneurship involves case studies (e.g., Alvord, Brown, & Letts, 2004; Emerson & Twersky, 1996; Thompson, 2002). Although there exists some broad, empirical research on social entrepreneurship, the lack of empirical studies has placed limits on our understanding of the important antecedents and outcomes of social entrepreneurship. Moving toward more rigorous empirical studies, and establishing major theoretical perspectives by which researchers may explore these questions, should benefit both practitioners and academics (Mair & Martí, 2006; Sharfman, Busenitz, Townsend, & Harkins, 2006). Roberts and Woods (2005) suggest, for example, that many social entrepreneurs are left without strategic patterns to implement due to lack of education. More research in the area, however, may help to provide the theory and evidence needed to educate and advise social entrepreneurs.

## 5. Final thoughts

The most provocative and striking element of social entrepreneurship has been its ability to combine elements of the business and volunteer sectors, yet this combination may also represent the greatest obstacle to the definition of the field. With its roots in both entrepreneurship and public policy, researchers and practitioners must lay out the important questions and key defining elements of social entrepreneurship. We believe researchers can work across disciplinary barriers to study this emerging phenomenon, and we provide a number of potential research ideas for that endeavor.

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