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Social entrepreneurship: Creating new business models to serve the poor

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Abstract The term “social entrepreneurship” (SE) is used to refer to the rapidly growing number of organizations that have created models for efficiently catering to basic human needs that existing markets and institutions have failed to satisfy. Social entrepreneurship combines the resourcefulness of traditional entrepreneurship with a mission to change society. One social entrepreneur, Ibrahim Abouleish, recently received the “Alternative Nobel Prize” for his Sekem initiative; in 2004, e-Bay founder Jeff Skoll donated 4.4 million pounds to set up a social entrepreneurship research center; and many social entrepreneurs have mingled with their business counterparts at the World Economic Forum in Davos. Social entrepreneurship offers insights that may stimulate ideas for more socially acceptable and sustainable business strategies and organizational forms. Because it contributes directly to internationally recognized sustainable development (SD) goals, social entrepreneurship may also encourage established corporations to take on greater social responsibility.

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1. Services are failing the poor

Human needs and wants are fundamental drivers of companies’ decisions as to which products or services to produce. Yet, despite the seemingly unlimited nature of human needs, companies struggle to find new markets and value propositions, and for large corporations the quest for growth has become a holy grail. Two fundamental rules seem to apply. First, in industrialized

countries, many people are unwilling to pay enough for certain products and services they want. This is a fact that became painfully clear to some “dotcom” startups in the nineties: While the free services they offered were used by millions, they found it impossible to implement fees for their services when venture capital dried up. Second, the very basic needs of millions of people in non-industrialized countries remain unmet, mainly because these potential customers are willing but unable to pay for products and services that would satisfy their needs. However, that is not the only reason why those unsatisfied needs have failed to attract the business com-

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munity in search of new markets. [The World Bank \(2003\)](#) maintains that services to satisfy basic human needs, particularly those that contribute to health and education, are failing poor people in terms of access, quality, and affordability. The main reason for this failure appears to be the fact that public spending does not reach the poor and, if it does, service provision is often inefficient and of poor quality.

Increasingly, corporations are expected to take responsibility for meeting social and environmental challenges more proactively, so as to achieve a more sustainable pattern of development. The most widely used definition of sustainable development (SD) is one put forward by the [World Commission on Environment and Development \(1987\)](#), which says that SD is: "Development that meets the needs of the present without compromising the ability of future generations to meet their own needs." To operationalize this definition, the United Nations defined a set of Millennium Development Goals (MDGs), based on a resolution adopted by the General Assembly in September 2000. These MDGs comprise eight specific, quantifiable and monitorable goals (with 18 targets and 48 specific indicators) for development and poverty eradication by 2015. Goals include human rights, health, education, and environmental issues. The efficiencies of markets, combined with the resources and managerial expertise of large multinationals, are considered crucial success factors in achieving these goals. As [Margolis and Walsh \(2003\)](#) point out, "Manifest human misery and undeniable corporate ingenuity should remind us that our central challenge may lie in blending the two." United Nations Secretary-General Kofi Annan, in his address to the World Economic Forum on January 31, 1999, called on global business leaders to embrace a set of shared values and principles in the areas of human rights, labor standards, and environmental practices. [Kell and Levin \(2002\)](#) describe the formation of a Global Compact network consisting of several hundred companies, dozens of NGOs, major international labor federations, and several UN agencies to collaborate in creating a more stable, equitable, and inclusive global market by making shared values and principles an integral part of business activity everywhere. Likewise, the [European Commission \(2002\)](#) has called for more direct corporate social responsibility (CSR) as a business contribution to sustainable development. Despite these welcome commitments, the [United Nations Development Programme Human Development Report \(2003\)](#)

provides evidence that, for many people on this planet, life remains grim, and hope for improving their situation is frail.

2. A new phenomenon: Social entrepreneurship (SE)

A growing number of initiatives all over the globe seem to be defying the obstacles that have prevented businesses from providing services to the poor. Collectively, those initiatives constitute a phenomenon that has been dubbed "social entrepreneurship". 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. The following three case examples set the stage for an attempt to provide a perspective on the field:

2.1. Case 1: The Institute for OneWorld Health (USA)

Victoria Hale, a research scientist with Genentech and former reviewer of New Drug Applications for the Food and Drug Administration, was aware of the economic and logistical barriers that prevented pharmaceutical companies from developing drugs for Third World countries. To overcome these barriers, she founded OneWorld Health as the first US non-profit pharmaceutical company. OneWorld Health has adopted an entrepreneurial business model to deliver medicines to those most in need in developing countries. It aims to redesign the whole value chain of drug delivery, and so challenges traditional profitability thinking, which seems incompatible with developing the much needed cures.

Large philanthropic organizations and governments provide much of the initial funding. Being a non-profit company is an enabling structure for social value creation, as OneWorld Health can access capital that business entrepreneurs usually cannot. OneWorld Health has established a new set of partnerships aimed at creating value for everyone involved. Biotechnology companies find an attractive outlet for intellectual property that might otherwise remain idle because it does not meet their criteria for financial returns to bringing the medicines to market. Compassionate research and development efforts attract scientists and volunteers willing to donate time, effort, and knowledge to the project. Companies strive to utilize and integrate the scientific and manufacturing capacity of the developing world to deliver affordable, effective, and appropriate new medicines where they are most needed.

2.2. Case 2: Sekem (Egypt)

Founded by Ibrahim Abouleish in 1977 on a piece of desert land north of Cairo, Sekem, has grown from the vision of a single individual to a multi-business firm that not only creates economic, social, and cultural value, but also has a significant impact on Egyptian society. Profits from Sekem's businesses fund institutions such as schools, an adult education center, and a medical center. Sekem also plans to open a university for holistic education in the second half of 2004. These institutions cater directly to basic human needs; furthermore, Sekem fills an institutional void in Egypt by providing structures that people trust and that help them to escape the poverty trap and gain control over their lives. On the environmental front, Sekem has pioneered biodynamic agriculture in Egypt. It has deployed a new system of plant protection for cotton, which has led to a ban on crop dusting throughout Egypt. By 2000, pesticide use in Egyptian cotton fields had fallen by more than 90%. In 2003, Ibrahim Abouleish received the Right Livelihood Award in recognition of his achievements in integrating commercial success with social and cultural development. The jury saw in Sekem a "blueprint for the healthy corporation of the 21st century." Founded in 1980, the Right Livelihood Awards are presented annually in the Swedish Parliament and are often referred to as the "Alternative Nobel Prizes." Their purpose is to strengthen positive social forces, and to honor and support those offering practical and exemplary answers to the most urgent challenges facing the world today.

2.3. Case 3: Grameen Bank (Bangladesh)

Muhammad Yunus, an economics professor, believes that the poor have skills that remain un- or under-utilized, mainly because existing institutions and policies fail to offer the support these people require. He founded the Grameen Bank in 1976 to supply credit to those who would not qualify as customers of established banks. Today, Grameen operates 1191 branches, serving over 3 million poor people in 43,459 villages in Bangladesh. Grameen Bank grants unsecured loans to the poor in rural Bangladesh. It differs from other lending institutions on three counts. First, priority is given to designing the system so that the loans can be repaid, and on time. Second, only the poorest villagers, the landless, are eligible. Third, the bank makes efforts to lend primarily to women, who are not only economically but also socially impoverished.

The loan disbursement design is unique. To qualify for a loan, a villager must demonstrate that her family assets are below a certain threshold. She is not required to put up collateral; instead, she must join a five-member group and a forty-member center, and attend a weekly meeting. She must also share responsibility for the loans granted to the other members of her group; it is the group, not the bank, which initially evaluates loan requests. Defaulters would spoil things for everybody, so group members must choose their partners wisely. The Grameen Bank has been profitable from the outset, and has inspired a global micro-credit movement that has spread to 65 developing countries, reaching 17 million borrowers.

3. What does it all mean?

What these examples and many other entrepreneurial initiatives all over the globe have in common is that they challenge the status quo and our conventional thinking about what is feasible. Often, the complexity, scale, and scope of the world's environmental and social problems and challenges seem overwhelming, tempting us to resign ourselves and doubt the capabilities of our institutions to improve things. Nevertheless, inspired entrepreneurs have shown us new paths and solutions, basing their designs on local needs rather than on the centralized assumptions of large institutions about what needs to be done. SE has thus attracted the attention of academia, international organizations, charities, and corporations, in efforts to better understand the phenomenon and to replicate and scale some of the new models and processes for value creation. However, the lack of a theory of SE may be a barrier to the full recognition and more focused support that might be needed to enable these initiatives to grow to a scale where they can make a substantial contribution to eradicating poverty in all its forms.

What seems to be a common feature of SE is its primarily social mission. The greatest challenge in understanding SE, though, lies in defining the boundaries of what we mean by "social." First of all, there is no such thing as "non-social" entrepreneurship; in fact, Reynolds, Bygrave, Autio, Cox, and Hay (2002) report that traditional entrepreneurship creates the majority of jobs in developed countries—certainly an important social function. Based on our research, we offer the following definition of SE:

Social entrepreneurship creates new models for the provision of products and services that cater

directly to basic human needs that remain unsatisfied by current economic or social institutions.

Like business entrepreneurship, SE recognizes and acts upon what others miss: opportunities to improve systems, create solutions, and invent new approaches. Venkataraman (1997), studying traditional entrepreneurship, sees the creation of social wealth as a by-product of economic value created by entrepreneurs. In SE, by contrast, social value creation appears to be the primary objective, while economic value creation is often a by-product that allows the organization to achieve sustainability and self-sufficiency. In fact, for SE, economic value creation, in the sense of being able to capture part of the created value in financial terms, is often limited, mainly because the “customers” SE serves may be willing but are often unable to pay for even a small part of the products and services provided.

While SE traditionally has been studied in the US, many initiatives operate in developing countries that have no structures or resources to enable or support traditional entrepreneurship. Accordingly, SE creates novel business models, organizational structures, and strategies for brokering between very limited and disparate resources to create social value. It therefore relies on individuals who are exceptionally skilled at mustering and mobilizing resources: human, financial, and political.

4. Social entrepreneurship in support of sustainable development goals

The issue is further complicated by the fact that the term “social” means very different things to different people, depending on their personal and cultural backgrounds. Which “social needs” should have priority? Without an overarching objective, it is impossible to decide whether using resources to help the homeless in Paris creates as much social value as feeding hungry children in Kabul. Unless we set boundaries to the scope of SE, it may be impossible to define the unique characteristics that differentiate it from traditional or business entrepreneurship. We can overcome this ambiguity by studying SE through the lens of a widely recognized and global goal that integrates social needs to which many institutions and businesses have committed themselves: the goal of achieving sustainable development (Seelos & Mair, 2004).

In this perspective, extending our earlier definition, we define SE as entrepreneurship that creates new models for the provision of products and services that cater directly to the social needs underlying sustainable development goals such as

the MDGs. SE often creates tremendous value when catering to very basic humanitarian needs such as providing medicines or food, which can be a matter of life or death for those who receive them. The Institute of OneWorldHealth is an example of this. Often, SE initiatives act as trusted institutions orchestrating the fair distribution of scarce resources, as in the case of the Grameen Bank. They also safeguard the needs of future generations by instituting more environmentally friendly practices. Sekem, for instance, has changed the way cotton is produced in Egypt, avoiding the application of thousands of tons of pesticides. Apart from the many initiatives in industrialized countries (particularly in the US), clusters of SE exist in Latin America (Brazil, Ecuador), and especially in South-east Asia (Bangladesh and India), where SE plays an important role in society, providing vital public infrastructures and services. For example, BRAC (the world’s largest NGO, established in Bangladesh in 1972) uses a holistic concept to alleviate poverty and empower the poor. Its multifaceted development organization is made up of companies and institutions engaged in such diverse activities as poultry farming, land and housing, banking, and education.

To make a significant contribution to SD, social entrepreneurship must reach a critical mass of initiatives around the globe. The scale and scope of SE ultimately depends on the number of individuals who choose to become entrepreneurs with a primarily social mission. It has been suggested that SE depends on very specific and scarce individual characteristics. Attempts to define the characteristics of the typical social entrepreneur tend to portray a social hero with “entrepreneurial talent.” Bill Drayton (2002), the founder of Ashoka, considers SE the result of very special personal traits shared by only a small percentage of the population; traits that go beyond altruistic motivation and reflect a determination to change the whole of society. The lack of empirical data makes it difficult to assess whether these personal characteristics stand in the way of achieving scale. The following observations support the view that the number of potential social entrepreneurs may be larger than suspected. Most social entrepreneurs do not even know they are one until they receive an award or are recognized by organizations such as Ashoka or the Schwab Foundation. They therefore do not perceive themselves as being different from other entrepreneurs. From our experience of teaching SE at a leading European business school and conversations with students and faculty from other schools, it would appear that MBAs increasingly see their professional activity in terms of

personal values and making a contribution to society. Students feel that SE would allow them to use their management and business knowledge, but in a social context. SE may thus support a wide range of motivations, including the opportunity to make financial profit, as in the case of both Sekem and the Grameen Bank. As stated previously, SE is a structure that allows individuals to strike their own balance between the desire to make a social contribution and the personal need to capture an economic return from professional activity, across a wide range of possible ratios (Seelos & Mair, 2004).

5. Social entrepreneurship: New partners for corporations and institutions?

Social entrepreneurship, seen as a field of experimentation and innovation, has the potential to contribute new insights to the discipline of entrepreneurship, and also to the wider social sector. The interfaces between SE, CSR efforts, and public institutions offer great potential for discovering new forms of collaborative value creation in support of sustainable development.

5.1. Public institutions and social entrepreneurship

Increasingly, we see examples of overlap and collaboration between SE and international organizations, NGOs, and development institutions. The "Development Marketplace" is a World Bank program promoting innovative development ideas by means of early-stage seed funding. The World Bank brings social entrepreneurs with poverty-fighting ideas into contact with partners that have the resources to help them implement their vision. In 2003, World Bank President James Wolfensohn awarded more than US\$6 million in seed money to be shared among 47 small-scale, innovative development projects in 27 countries. In his opening remarks, he said:

"What we recognize very acutely here in the Bank is that there is no way that we as an institution can be the effective transmitter of all the ideas to people in poverty and people that need assistance. And, therefore, what is crucial is to have proposals which can be replicated and can be handled at the field level and can, in fact, allow us to scale up with simple ideas well executed that can be carried from one place to another and one country to another and one region to another."

Many organizations, such as Ashoka or the Schwab Foundation, directly support SE by providing seed capital and access to crucial support

networks. SE efforts that cater to very basic human needs, in particular, often depend on foundations, at least initially, until their "customers" can make a contribution to the value created. More research is needed to more accurately define how the public sector can best collaborate with and support SE, given the variety of challenges involved in achieving SD goals.

5.2. An exciting opportunity for enlightened corporate social responsibility

Linking SE and CSR efforts could be a very promising model in terms of impact on achieving MDGs. To date, most CSR projects have concentrated on communities in developed countries, where achieving MDGs is much less of a critical issue. This is due to the notion of corporate citizenship and the fact that most corporations operate principally in developed countries. In less developed countries, implementation of CSR efforts may be facilitated, and may gain credibility and effectiveness, through collaboration with local forms of SE. This is particularly true for foreign companies that either wish to contribute to SD, or have an interest in developing a future market for their own products and services. A smart way for corporations to think about CSR is in terms of competing for topic ownership; for example, a corporation may pick an MDG whereby, with its particular resources and capabilities, the corporation can make a significant contribution. By building partnerships with local entrepreneurs, the company may then engage in real projects that match specific, relevant needs to corporate resources. Hart and Christensen (2002) highlight how some companies have started to tap into the market of social needs. However, individual entrepreneurs are usually much better than companies at scanning for opportunities and building up grassroots efforts from very limited capital. By using corporate funding instead of purely philanthropic sources of capital, entrepreneurs could tap into an additional pool of corporate knowledge, managerial skills, and capabilities to implement SE efforts. This type of relationship between social entrepreneurs and corporations would use CSR budgets to invest in developing new markets by turning people with basic needs into customers and building the necessary trust needed to acquire an operations license. Since entrepreneurs are very good at starting new initiatives, but not necessarily at managing organizations or projects once they reach a certain size, companies could, at some stage, take ownership of the projects and free up

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the entrepreneurs to start new ventures. This would allow them to become serial social entrepreneurs, and so boost the scale and scope of SE until it reaches a critical mass.

Social entrepreneurship paves the way to a future that may allow coming generations to satisfy their needs better than we are able to satisfy even the basic needs of today's population. It gives the managers of global corporations a unique opportunity to learn and create new collaborative efforts that are in the corporations' own economic interest, while at the same time creating social value for those who need it most.

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