Reflections on Social Entrepreneurship: When being "Social" creates misunderstanding

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I am delighted to be able to join you in for this event and would like to thank the organizers for this opportunity to exchange perspectives and advance understanding of the theme of this day - social entrepreneurship. In that spirit, I want to share with you something that is troubling me more with each passing day – knowing that by making this confession from the outset of my presentation, colleagues who have kindly invited me will wonder how they ever made the mistake of asking me to speak to you.

My confession is the following: I am beginning to intensely dislike the term "social entrepreneurship" and the term used to refer to its starring actor- the "social entrepreneur*. I believe these terms may have served a useful purpose perhaps a decade ago. But at this point, both foster the notion that entrepreneurs-so-designated are just the same as the "do-gooders" and "volunteers" in our society - and that social entrepreneurship is just another word for "charity".

So this afternoon in the time that I have, I want to share some reflections that have evolved over more than 20 years of working with entrepreneurs around the world of all sorts. I will begin by clarifying the nature of entrepreneurial endeavor in general, and go on to highlight what I think are some of the myths that have cropped up around social entrepreneurship. I will also touch upon the role of governments in relation to social entrepreneurial initiatives, and throughout refer to examples of entrepreneurs and their organizations working to effect systems change to improve the world.

So let me begin by the following statement: Entrepreneurs, whether primarily commercial or “social” in orientation, are cut from the same cloth. So it seems appropriate to highlight the essence of entrepreneurial activity in general, and then distinguish those who are primarily driven by value appropriation and from those primarily driven by social value creation, keeping in mind that all entrepreneurs must do both – but in each case, the emphasis is different.

In any situation, business-as-usual -or the status quo- implies the existence of an equilibrium which, even if unsatisfactory and inefficient, is at that time the only option that exists. Thus people simply put up with the current shortcomings. The entrepreneur focuses on addressing that dissatisfactory equilibrium by providing an innovative solution – be it a new product, service or process. For example, Sergey Brin and Larry Page identified an unsatisfactory equilibrium in the slowness of the search engines that existed fifteen years ago. So as entrepreneurs, they exploited the opportunity by improving on search engine speed, among other things, and in so doing launched Google, raising the bar for all search engines and creating a massively successful commercial enterprise that has gone on to not only appropriate huge financial value for shareholders, but also we might argue create important social value given the numbers of times a day we use Google for free for all types of information.

Likewise, Jimmy Wales, identified an unsatisfactory equilibrium in access to credible information on current and historical people, places, events, ideas, movements and the like, and so he spearheaded the wildly popular Wikipedia as a free open-content encyclopedia which today is available in the world's leading ten languages. Jimmy is not however a commercial entrepreneur, as his intent is not to appropriate financial value for shareholders. His priority is to create massive social value for people all over the world.

The point is, the Sergey Brins, Larry Pages and Jimmy Wales of the world -all entrepreneurs- are driven by a perceived opportunity which they relentlessly pursue. They are not propelled primarily by money.

The difference between the Google and Wikipedia is that from Google's beginning, the perceived opportunity lay in creating a new or improved product or service <u>with the expectation that it would attract advertising dollars, generating financial profits for the creators and the investors</u>. As such, profit was essential to achieve massive uptake and market mainstreaming.

Entrepreneurs who are primarily driven by social value creation, however, are driven to address market and/or government failures. They work where business have failed to come up with innovative ways to design and deliver the goods and services needed to address social, economic and environmental challenges because the risks are too high in relation to the financial profits. Similarly, these are issues governments have been unable or unwilling to tackle – because of financial, political or bureaucratic constraints. These sorts of entrepreneurs – what we today call, social entrepreneurs

- are drawn to deal with such challenges, transforming the systems and practices that have stood in the way of pragmatic, equitable and sustainable solutions.

So, with this in mind, let me proceed to deconstruct some of the myths that have surrounded "social" entrepreneurship" keeping in mind that these entrepreneurs, like their commercial counterparts, are creating innovative, resourceful and highly scalable solutions using market based approaches to address the challenges that loom large before us. But for the so called "social" entrepreneur, their primary purpose is to change the world for the better, independent of whether they succeed in creating the next widget or web based platform that generates millions.

The first myth surrounding the social entrepreneur – indeed, any entrepreneur- is the **the lone ranger myth**. We have this idea that they single-handedly achieve their results. Nothing could be further from the truth. And much of that is because of the type of leadership they exercise. Kouzes and Posner, gurus on the subject, define leadership as "… the art of mobilizing others to want to struggle for shared aspirations. All leadership involves inspiration, vision, competence and interpersonal skills." And that is exactly what social entrepreneurs do. It takes courage, imagination and persistence to drive through the kinds of fundamental changes needed to respond to new challenges and opportunities. And that can only be done through a more open style of leadership that combines intellectual humility and personal confidence which doesn't confuse ambition with omniscience.

As a leader, enhancing the architecture of participation means imposing limits on one's ego, overcoming the know-it-all style of leadership that seems to be the default mode in most companies. You can think big without having to think of everything yourself. Dan Weiden, who set up one of the most respected advertising agencies and is known for its iconic work for Nike, including the tag line, “Just Do It”, notes that “Whatever day it is, something in the world changed overnight, and you better figure out what it is and what it means. You have to forget what you just did and what you just learned. You have to walk in stupid every day.”[1]

“Walking in stupid every day” means questioning personal and long-held assumptions, expertise and experience – the very cornerstones of what traditional careers are built upon. But the ability to “unlearn” also ushers in openness to creative, innovative and market-generating ideas that no one else has detected.

The nature of leadership in the organizations that social entrepreneurs set up is best captured by two of my favorite and iconoclastic business school teachers out of the University of Stockholm, Jonas Ridderstrale and Kjell Nordstrom. They note that “The traditional hierarchical firm won’t be a problem in the 21st century – it won’t be around. The new organization will be heterarchical – containing many hierarchies of different kinds. So forget organizational pyramids with the CEO sitting atop them. Who wants to work in pyramids, the greatest tombs ever created by man? Playgrounds must gradually replace pyramids.”

The second myth relates to the issue of “**scale**”. Over the last decade, one of the most frequently repeated concerns among social entrepreneurs, philanthropists, investors and public sector leaders has been the dearth of locally developed solutions

[1] «Americas 25 most fascinating entrepreneurs: Dan Weiden» by Warren Berger, **Inc.**, April 2004.

to social and environmental problems that have been able to massively and successfully expand to have large scale impact. This concern has now become a clarion call to action in the face of ever-increasing threats to people and the planet wrought by climate change—including pandemics, water and food and shortages, and energy crises—coupled with the poverty and human misery that ensue. Former President Bill Clinton specifically expressed the challenge of scale in reviewing school reform initiatives during his presidency noting that, “Nearly every problem has been solved by someone somewhere. The frustration is that we can’t seem to replicate [those solutions] anywhere else” (Olson, 1994).

Indeed, if one reviews the key selection criteria for the most widely known entities that search and select promising social entrepreneurs and their organizations, among the most important is “an explanation of how the organization will reach national or global scale” (Draper Richards Foundation, 2009) so that it improves the lives of significant numbers of people.

Despite E.F. Schumacher’s famous book *Small is Beautiful (Schumacher, 1973)*, no one would doubt that the size, breadth and scope of an organization is directly related to its impact—both positive and negative. To get some perspective of what ‘big’ can mean, we only need to look at the world’s currently leading company which according to the *Financial Tim*es, is ExxonMobil. This oil and gas giant operates in over 200 countries on an annual budget of 500 billion dollars. As much as we may question this multinational’s business ethics and environmental responsibility, the company has a significant impact on our lives and the environment in which we live.

Fortune 500 companies have influenced our mental constructs of what ‘scale’ needs to represent for social entrepreneurial ventures and those of us working to support them. It predominantly has come to mean growing one organization from a locally spawned start-up to a multi-country entity, preferably operating across continents.

But as we increasingly are coming to realize, these companies only have been able to bloat out to ‘ExxonMobil-esque’ size in large part because of the infrastructure or ecosystem—legal and fiscal—that governments have put in place to support their mega size, not to mention the critical involvement of financial markets including shareholders and consumers without which companies could not survive.

Additionally, our ideas of what scale means has also been influenced by New Economy entrepreneurs. Over the last two decades, we have witnessed a period of enormous accumulation of wealth, power and technology, mainly in the North. The last century and the beginning of the twenty-first have been characterized by the triumph of market economics. Business entrepreneurs made millions and shaped the aspirations of a worldwide public who dreamed of emulating them.

These entrepreneurial giants and their companies became household names practically overnight—Bill Gates, Richard Branson, Warren Buffett, George Soros, Ted Turner—followed by a younger generation that includes Jeff Skoll, Pierre Omidyar, Sergey Brin, Larry Page and others. But the wealth generated benefited primarily educated and skilled populations. The New Economy was unable to bring in the majority of the world’s population.

Fortunately, the most successful architects of the New Economy also had a social vision. Indeed, they are a main reason that social entrepreneurship has emerged on the global stage with such force and fanfare. How these moguls went about implementing their respective visions is well detailed in Matthew Bishop and Matthew Green's book, *Philanthrocapitalism: How the Rich Can Save the World and Why We Should Let Them*. They describe how these pioneers are using their entrepreneurial skills and some of their capital to make a difference. And there is much to be celebrated as a result of their efforts, not the least of which is the practically viral global spread of the notion of entrepreneurship for social value creation.

Naturally, in seeking to tackle insurmountable social and environmental problems, these hugely powerful and wealthy individuals turned to the experience of growing their own companies to achieve their current global reach and impact. Hence, initially, conversations about achieving scale for impact were characterized by an emphasis on growing a single organization.

But the last few years have seen a substantive shift in that conversation. While the importance of scale is still at the forefront of many discussions, what has changed is the recognition that there are different ways to strengthen and spread a successful social innovation. The corporate model may not apply to scaling such innovations.

For one, success in the business world equals owning and selling a great product or service and being better than one's competitors at delivering them. And while a small or medium sized company can certainly be profitable, if you want to grow profits in the business world, you have to dominate market share through size. Just consider Microsoft, Wal-Mart, Toyota, Coca Cola, Shell, Starbucks, McDonald's, The Gap and even The Body Shop.

As I have mentioned previously, one of the salient differences between social and commercial entrepreneurs is that the former is primarily driven to create value for society, and the latter is primarily focused on appropriating value for shareholders and managers, although each must do some of the other as a wholly social value creating venture will not be sustainable, and a wholly value appropriating venture will not be legitimate.

As a consequence, the central unit of analysis for commercial business is the company because it is the locus of appropriation of rents through residual control rights over resources. This is not the case for social entrepreneurs. The central unit of analysis is not the organization—it is the sustainable solution and its underlying business model. The point is, one can scale a social venture to huge size and not make a dent in the issue. It is this realization that has triggered our conception of what 'achieving scale' actually means in relation to systemic social change.

This point of view is reinforced by history. The massive social changes that have taken place have never been solely attributed to a single organization. For example, the environmental movement, the women's movement, the civil rights movement and the 2008 election of US President Barack Obama—plus unfortunately, the terrorist movement—have not occurred because a single organization grew to huge scale. These movements occur because of a coming together of many who united around a common cause. And so what we need to think about is how do we scale a movement whereby all entrepreneurs and their organizations, indeed, all corporate entities, balance value appropriation and social value creation goals from the outset as they pursue their innovative approaches. That is frankly why I am in the business school at Oxford and why I teach at Columbia Business School in New York City. I want to influence the business leaders of tomorrow, i.e. MBA students so that wherever they land they are committed to ensuring we no longer have this dichotomy between the commercial enterprise and the social enterprise, because all enterprises with be social enterprises with the good of society utmost in their commercial activities.

And now a third myth–the **"everyone is a change-maker"** myth. Everyone is NOT a change-maker. The world would be in more of a mess than it is if that was the case. One of the messages I continuously reiterate to MBA students at Oxford and at Columbia Business School is the following: It is okay NOT to be a maverick. It's okay NOT to be a social entrepreneur. Most of us are NOT change-makers or entrepreneurs. And thank heavens for that, having done nothing but live and breathe with entrepreneurs for several decades and found them to be wholly unreasonable and exhausting people- albeit wonderful and exciting.

The relationship between change-makers and non-change-makers is important and reciprocal. Non-change-makers are more comfortable thinking in a linear fashion. Think of the consultants at McKinsey and Bain, for example, or your typical engineer or MBA. Change-makers – entrepreneurs – because of their short attention spans – think laterally. That kind of thinking is key in a start up and when you are finding alternatives to the status quo, where there is a need to be flexible and see different alternatives when things don't work out as planned. But it can be catastrophic in a more mature organization where getting several hundred or several thousand people to stick to a plan is absolutely necessary to get anything done.

I would like to move onto a **fourth myth** – or perhaps not so much a myth as a misunderstanding of the nature of social entrepreneurship and the role of social entrepreneurs in society, a misunderstanding that is reflected in the way almost all governments seek to work with social entrepreneurs and their organizations. Basically, they confuse them with service delivery providers to be subcontracted, much the same way they relate to charities and NGOs to carry out the work the state cannot do, or does not choose to. However, as we have noted, entrepreneurs are change agents, system's changers. They challenge the status quo – but unlike advocacy organizations that focus their efforts on influencing others in government or business so that changes are made, these types of entrepreneurs lead by example. Rather than investing all their time pressuring others to do something about a problem, they focus on finding solutions to that problem. Muhammad Yunus didn't run around waving banners that read "Banks are unfair to the poor" or create lobbying groups to promote pro poor financial policy changes. He created microfinance instead and provided a solution. So, much like commercial entrepreneurs who are the innovators in the business sector, social entrepreneurs are the innovators of the public sector. Governments should create the needed support systems to allow them to experiment, innovate, and grow.

There are two more myths that I will touch on before wrapping up. The fifth myth – or in this case again perhaps it is more a misunderstanding of the nature of social entrepreneurship than a myth - is that the work of all social entrepreneurs is **focused**

on the poor and marginalized. And the sixth myth, and closely perhaps related to the previous one, is that all **social enterprises should be non-profit**.

So let's look at the proposition that the activities of social entrepreneurs are focused on the poor and marginalized. Indeed, for the most part, this is true and can be backed by research evidence. However, helping these populations is NOT the defining characteristic of social entrepreneurship, contrary to what some think. The role of these entrepreneurs is to respond to under provision or under consumption of goods that are beneficial to society, including quality education, vaccinations, clean environments, different types of technology, etc- what economist call "neglected positive externalities".

There are many areas of neglected positive externalities where governments and the commercial private sector do not step up to the plate to deliver them, many times because they have not identified the opportunities or because they simply don't have the bandwidth or the interest. For example, the positive externalities involved with renewable energy production in terms of slowing down climate change were invisible a decade ago. Indeed, commercial entrepreneurs oriented towards value appropriation did not act on those opportunities because of the low likelihood of financial return. And so it fell to social entrepreneurs and their organizations to tackle that neglected positive externality by providing a solution to it, while alerting society's members to the importance of these externalities so they can then be internalized in future actions. Today, all sorts of commercial entrepreneurs are involved in renewables, because of the value appropriation possibilities.

And here I want to highlight an example of an entrepreneur – if you will, a “social entrepreneur” and his organization to provide insight as to how these entrepreneurs create markets where there were none, i.e. how they respond to neglected positive externalities; the nature of what to them means achieving “scale and impact” which as you will see, is quite different from the commercial enterprise, and why the myth that social enterprises are charities is simply false and more to the point, detrimental to advance the practice of entrepreneurship in the public interest.

Jeff Mendelsohn set out to transform the paper industry, one of the most polluting and resource intensive industries in the world. It is responsible for over a third of worldwide timber harvest and over 40% of all landfill waste in the U.S. To change that behavior, he founded New Leaf Paper as a for-profit social enterprise in 1998.

The company embedded its social and environmental values into every product line and every business relationship. New Leaf Paper's innovative strategy is solving the classic "chicken or the egg" dilemma in the paper industry, in which both the supply side and the demand side of the market are unable to change their behavior. Leveraging the strength and clarity of the company's mission, New Leaf Paper developed a market for truly environmentally responsible papers and served this market through leading product innovation. Just over a decade later, New Leaf Paper’s sales are over $30 million.

New Leaf Paper items are manufactured 100 percent with renewable energy, making it the first paper company in the U.S. to adhere to this practice. Jeff notes that paper is one of the most visible purchases businesses make, and paper made with wind power and biogas energy helps reduce customers' carbon emissions footprint in a measurable way. The company develops mostly white paper, creating product lines that look like any other paper. The difference is in the ingredients. There is a hierarchy of preferred fibers that New Leaf clearly articulates, based on environmental impact. Post-consumer waste is at the top of the list, followed by agricultural products, which include cereal straws and corn stalks that are otherwise burned. Pre-consumer waste is the on the list, including unsold magazines and mill scraps. Sustainably harvested virgin fiber is last, including Forest Stewardship Council certified wood and non-wood sources such as hemp and kenaf.

New Leaf Paper set out to model the behavior it hopes to see in its competition and in the paper industry in general. Jeff acknowledges that New Leaf' is a "David" in comparison to the "Goliaths" of mainstream paper multinationals. But his strategy is one of continuous leadership and innovation in driving better and better environmental specifications in New Leaf's products without losing sight of meeting the demands of the marketplace. And his strategy is working. Mainstream paper companies, noting the market for New Leaf Paper, are rapidly assuming similar production models, copying New Leaf's approach. Jeff acknowledges that he cannot compete with these giants. But that is not his purpose. Ultimately, scaling New Leaf may mean its appropriation by mainstream companies- but in that way, the company will prove to have far greater impact than growing New Leaf as an organization, even if it means achieving scale through self-immolation. Note that this outcome would be anathema for commercial companies whose success depends on achieving scale through their organization's market dominance. In sum, Jeff Mendelsohn and New

Leaf Paper are a perfect example of how giving up control of the business model can be essential to achieving impact.

And using this example as a launch pad from which to wrap up, let's go back to the scale issue and the multiple challenges involved in moving the scale discourse from one that focuses on the organization as the unit of analysis to one that zeroes in on the issue and the business model.

For one, the 'scaling to the issue' approach for social entrepreneurs – whether the issue is climate change, water scarcity, homelessness, poverty, human rights, education, health, etc. - requires joining up with others to create a movement. It means giving up 'ownership' of the issue, and that is a tough call given the existence of egos. But more importantly perhaps is the reality that for the most part, philanthropists and investors fund <u>organizations,</u> not movements. That tendency drives social entrepreneurial ventures to work hard to differentiate themselves from others doing similar or complementary work—even when the issues addressed are huge.

Then there is the ever-present challenge of capital. While social entrepreneurial ventures are set up as for-profit and non-profits, every entrepreneurial venture begins as a non-profit, whether intentionally or not. For those set up as non-profits "on purpose", the 'philanthrocapitalists' have provided the critical capital to stimulate the initial growth of highly promising innovative ventures—capital that no risk averse, profit- seeking individual or group would have provided. The problem is, just as these highly successful entrepreneurs would have never scaled their companies on philanthropy alone, it is also evident that enterprises that set out to drive systemic social change will be hard pressed to achieve their goals on the back of philanthropic funding. Consequently, supporting non-profit social ventures seeking systemic change is about supporting the “ecosystem” that will underpin viral spread of the model through alliances and partnerships. Donors, too, need to let go of the ego and recognize that they have to form alliances and partnerships to fund and support the change they seek.

Conversely, investors seeking some financial return on a social investment must be immensely patient and in it for the long haul. So far, social investors seeking financial returns are looking for the ‘next microfinance’. Will it be the emerging clean tech industry? Perhaps base of pyramid markets? What people tend to forget is that the first IPO in microfinance took place more than 30 years after the industry first began to form, and that trail was pioneered by initially small social enterprises that kept perfecting their business models. These industries don’t emerge in a New York minute, much as everyone would like. Make no mistake. Scaling an organization is tough. But scaling the entities involved in the supporting ecosystem that makes change happen is immensely harder. And that is the challenge before us.

In conclusion, while our global economy is in shambles, and as nations worry about how to cope with the fallout of greed, irresponsible financial practices and minimum fiscal oversight, and people fear for their families and their future – we have the opportunity to rebuild our economy from its ashes and shape an economy that combines markets and values. The business of the 21st century must can no longer afford to dichotomize how it makes itsr money from how it improves society. The entrepreneurs we today call “social entrepreneurs” work precisely at the market fringe neglected by mainstream companies – because the perceived risks are too high in comparison to potential financial returns. And in responding to these opportunities, they are the harbingers of the new business models and what could hopefully be a way of combining markets and meaning, something we have lost sight of over the last few decades and which has come home to roost this past year.

It is our responsibility to ensure we do not rebuild 21st century business on the foundations of the corporate models that have dominated the last 20 years, but that we seek to draw inspiration from the growing number of mavericks who know that all of us want to work for a company that is fundamentally innovative, morally compelling and philosophically positive.