

Enterprising Social Innovation: Focusing Research on the Most Intriguing Form of Social Entrepreneurship

by J. Gregory Dees and Beth Battle Anderson, Duke University

Editors Note: This is an edited excerpt from a longer paper by the same authors entitled "Framing a Theory of Social Entrepreneurship: Building on Two Schools of Practice and Thought." The original paper was published in Research on Social Entrepreneurship: Understanding and Contributing to an Emerging Field, ARNOVA Occasional Paper Series, vol. 1 no. 3, edited by Rachel Mosher-Williams, 2006. See Jerr Boschee's column "Social Entrepreneurs on Common Ground" in this issue for a reaction from a long-time spokesperson for the "social enterprise" school.

As a field of intellectual inquiry, social entrepreneurship is still in its infancy. We do not yet have the deep, rich explanatory or prescriptive theories that characterize a more mature academic field. The existing literature focuses primarily on practical considerations, with many descriptive case studies, stories of lessons learned, and "how to" guides. However, the field is ripe for theory development. Our goal in this paper is to help set the agenda for that theory-building process by suggesting a way of framing this new field of inquiry that is guided by both practical and intellectual considerations.

We are not proposing a comprehensive new definition of "social entrepreneurship" that would be embraced by everyone in the field, nor do we intend

to reconcile differences in perspective, as continued debate and discourse is likely to be productive. We only contend that, for academic purposes, the study of social entrepreneurship should focus on "enterprising social innovation." We should focus on social entrepreneurs who carry out innovations that blend methods from the worlds of business and philanthropy to create social value that is sustainable and has the potential for large-scale impact. A few elements of this simple description merit further explanation.

Carry out innovations. This language reinforces the distinction between inventors and innovators. Inventors come up with ideas; innovators put them into practice. Some people play both roles, but an entrepreneur must at least do the latter. These innovations represent what economist Joseph Schumpeter called "new combinations," including the creation of a new good or service as well as producing and delivering an existing good or service in a new way or to a new market.

Blending methods from business and philanthropy. In order to be considered "enterprising," the innovation must involve some business-inspired elements, whether through the adaptation of business methods to create or enhance social value, the operation of a social-purpose business, or the formation of

NEW PARADIGMS

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Editor's Letter:

Dear Reader,

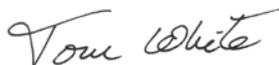
I'm proud to feature discussions from US and Canada that reflect the current thinking and opportunity for growth and development of the field of social enterprise. This change in thinking is reflected in the updated SER tagline, which now reads: "Innovative Business Solutions for Social Entrepreneurs".

As reflected in the articles in this issue, social enterprise is not limited to a nonprofit form of business—that form is a means to a social end. SER serves nonprofit and for-profit entrepreneurs whose activities are expressly devoted to, and whose enterprises are integrally involved with, using business methods to solve social problems in innovative ways. Depending on the organizational goals, market served and the type of financial capital available, a for-profit model may be as viable an option as a nonprofit. And for-profit models may be more readily scalable than nonprofit models.

In Greg Dees and Beth Battle Anderson's lead feature article, "Enterprising Social Innovation", they recommend that academics and practitioners alike focus on "*carrying out innovations that blend methods from the worlds of business and philanthropy to create social value that is sustainable and has the potential for large-scale impact.*" This has been and will continue to be the editorial focus of SER, reporting on the successes and failures along the shifting borderlines of the changing nonprofit and business sectors.

To keep up with these changes, the SEReporter.com web site will soon be changing to incorporate more practitioner-generated content from readers like you. Please look for blogs, wikis, newsfeeds and other Web 2.0 benefits that will offer frequently updated content from other North American social entrepreneurs like yourself. And I hope that you will consider contributing your suggestions, blog entries and articles to help build the field and ensure that SER reflects current obstacles and opportunities for today's social entrepreneurs.

Best wishes,



Tom White

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Social Entrepreneurs on Common Ground: Creating a framework for the next generation of practitioners

by Jerr Boschee

Bear with me, now. Practitioners notoriously resist academics — but there’s a movement afoot that deserves our attention.

In their recent essay “Framing a Theory of Social Entrepreneurship,” [excerpted in this issue of SER] Greg Dees and Beth Battle Anderson point out that “social entrepreneurship has been gaining momentum as an academic subject.” But they also issue a caution. “Even with this flurry of activity, social entrepreneurship is still in its infancy” as a field of intellectual inquiry. “We do not yet have the deep, rich explanatory or prescriptive theories that characterize a more mature academic field.”

Why should that matter to practitioners?

Because we have an extraordinary opportunity to invigorate academic research and ultimately benefit the field. Greg and Beth argue that we should abandon the typical academic approach of “building management practice from theory” to one of “building management theory from practice.”

What a breath of fresh air! An academic approach rooted in practical experiences rather than theory!

Unfortunately, before much progress can be made, Greg and Beth emphasize that it’s “crucial to define the domain in a felicitous way” and that “the best way of framing this new field lies at the intersection of the two dominant schools of practice and thought: the Social Enterprise School and the Social Innovation School.”

I couldn’t agree more.

Terminology can be vexing. Anybody who’s been around “social entrepreneurship” for more than a few years knows it well. The phrase began to appear in the late 1980s and early 1990s and by the time of the first National Gathering for Social Entrepreneurs in 1998 there were two competing definitions.

Earlier that year, Greg had published an influential essay identifying five principal characteristics of “social entrepreneurship”: “Social entrepreneurs play the role of change agents in the social sector,” he wrote, “by adopt-

ing a mission to create and sustain social value (not just private value); recognizing and relentlessly pursuing new opportunities to serve that mission; engaging in a process of continuous innovation, adaptation, and learning; acting boldly without being limited by resources currently in hand; and exhibiting a heightened sense of accountability to the constituencies served and for the outcomes created.”

A few years later, I collaborated with Jim McClurg of the Social Enterprise Alliance to argue an opposing view, insisting that earned revenue is the *sine qua non* of social entrepreneurship. “Here is the gist of the problem,”

we wrote. “Unless a nonprofit organization is generating *earned* revenue from its activities, it is *not* acting in an entrepreneurial manner. It may be doing good and wonderful things, creating new and vibrant programs: But it is *innovative*, not *entrepreneurial*. Why is the distinction so important? Because only earned income will ever allow a nonprofit to become sustainable or self-sufficient.”

And there things stood, until three years ago.

On a March afternoon in 2004, Greg and I stood in an aisle in The Nelson Mandela Lecture Theatre at Oxford during the inaugural Skoll World Forum on Social Entrepreneurship. We had both been plenary session speakers during the previous two days, along with more than two dozen others from all over the globe, and there were more than 400 people in the audience from 20-plus countries and five continents.

And it seemed, to me at least, that during our conversation Greg and I found common ground, a place I described two years later in my book *Migrating from Innovation to Entrepreneurship: How Nonprofits are Moving toward Sustainability and Self-Sufficiency*:

“Social innovators around the world have begun to reach a disquieting conclusion: Inspired vision, impassioned leadership, enthusiastic volunteers, government subsidies and a phalanx of donors are not always enough.

“They serve admirably while innovators transform

Jerr Boschee's column about entrepreneurial marketing is a regular monthly feature of the Social Enterprise Reporter

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Bringing Models to Scale: BC Social Enterprise Fund and Social Investors Spur Growth in Canadian Nonprofit Sector

by Tom White

Jason Mogus, CEO of **Communicopia**, is a Partner and Board Member with **BC Technology Social Venture Partners** (SVP). As an SVP Board Member, he helped to co-found the **BC Social Enterprise Fund** (BCSEF), along with Fund partners **Vancity Credit Union** and the **Vancouver Foundation**.

At the recent **Second Canadian Conference on Social Enterprise** (CCSE) in Vancouver, Mogus and the BCSEF partners announced the Fund's 2007 investees. One of these investees, **United We Can** (UWC), was among the group of five organizations that split \$250,000 in the first round of funding in 2005.

Additional BCSEF 2007 investees include:

Potluck Café and Catering — a social enterprise catering company operating in Vancouver's Downtown Eastside.

The Cleaning Solution — a janitorial service of the Canadian Mental Health Association managed by and employing people living with mental illness.

Xá:ytem — an interpretive center east of Vancouver on the site of a 9,000 year old ancient Aboriginal village.

Starworks — a project of the Developmental Disabilities Association created to employ people with developmental disabilities to perform light labor and assembly work.

UBU Meets the VCs

An art college grad at UWC designed an Urban Binning Unit for people in Vancouver called binners, who collect cans and bottles. Said Mogus, "These guys walk all over town making a living at it. But the carts fall apart and Safeway isn't happy [to supply carts]. We gave UWC a fairly small grant last time to take it to the next level, which they've done. Their UBU folds up, holds many more cans and can tow behind a bike. So we've given them a larger grant because they've proven themselves, just as other venture capitalists (VC) would expect from a business. VC's say 'I'll give you \$X if you'll do A, B, and C'.



Jason Mogus, CEO of Communicopia

You come back and say 'I did A, B, and C, now can I get \$X plus \$Y?'. And the VC says, 'Yes, sure! You've proven you can manage this money well'."

Mogus has been a Social Venture Partner for three years and this year is focusing his energies on SVP's sponsorship of the CCSSE and an invitation-only funders' meeting. "VanCity does lots of granting and some investment in social enterprise," said Mogus, "and the Vancouver Foundation, Canada's largest community foundation, was interested in doing more social enterprise funding. They approached BCTSVP because we have our finger on the pulse of social enterprise and are doing good due diligence on deals."

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Looking for Successful Models

“The **Enterprising NonProfits Program** [the CCSE secretariat] gives grants for business planning and consulting for groups that are looking to startup. “But,” said Mogus, “there was no financing for successful social enterprises at a certain scale that were looking to grow. That’s what the BCSEF was created to do: we want winners with models that are already showing success, and we want to give really large sums of capital, as well as expertise to help these winners get to scale. We also wanted to push the envelope and be more flexible than traditional vehicles allowed, for example we made a grant to a for-profit.”

Four out of five of the 2005 BCSEF investees did very well. “One of them,” said Mogus, “sadly, is no longer with us. And that’s what happens when you’re in the risk capital game. What we learned from the first year’s investees was that the due diligence process was extremely valuable for *all* the organizations. In 2005 we got letters from organizations that didn’t receive any money, saying “thank you for the support of going through that process.” This year we’ve put much more focus on the management team and their capabilities. VCs invest in a management team and that same kind of focus needs to be put on this kind of investing.”

That’s why the CCSE is so important in developing nonprofit management capability. “A lot of social entrepreneurs are isolated and lack the training and skills development resources we get in the business sec-

tor,” said Mogus. “It takes a network of capable people to make a business successful, no matter how smart you are.”

VCs invest in a management team and that same kind of focus needs to be put on this kind of investing. — Jason Mogus

Partners in Enterprise

SVP grantees are split between more traditional charities needing money, board support or other help to get them off the ground, and social enterprises. These enterprises have “resonated with our seventy partners,” said Mogus, “who tend to be business people who have started and run their own companies. We found there was a real resonance of both expertise and an interest in doing philanthropy in a new way.

“When you’re talking about an organization that’s doing enterprise, they have the same issues that a company has—inventory, pricing, staff management, strategic partnerships, diversifying funding sources. We found that a number of our SVPs were very interested in social enterprise as a model for delivering social services, because it was something they knew a lot about—running a sustainable enterprise—and they had an affinity for the approach—a kind of do it yourself model. As the slogan of one of our investee organizations says: “It’s a hand up, not a hand out.”

Some nonprofits are jumping in with both feet and some are dipping a toe in, but the organizations Mogus comes in contact with are looking at

social enterprise as a way to create the independence and sustainability that the sector desperately needs. “A lot of groups already do it,” said Mogus, “but they haven’t flown a flag above their office saying ‘We’re a social enterprise’. It’s just a smart way of diversifying your funding. In any exciting new movement there’s a lot of energy and some of what one would call hype. But there’s also a definite trend towards entrepreneurship, innovation and marketability.”

Stepping in to Support Social Entrepreneurs

In Vancouver, it’s now past the stage where social enterprise is exotic. A lot of people on the sidelines are curious as to where they might step in. Information, understanding, relationship building and trust are critical for public support. So how can local businesses work with social enterprises? “Get your business or purchasing manager to check out the **Social Purchasing Portal** at www.sppvancouver.org,” says Mogus, “and join the ranks of many other well known businesses that are helping create social benefit by spending the exact same dollars that they’re currently spending. Local businesses can also join an SVP Chapter. It’s a great way to introduce yourself to social enterprise investing and a due diligence network. A big question people have is how do I know who to give to and how do I know who’s good or successful. SVP does that for a living and we’re good at it and the cost of entry is pretty low at \$5000 per year. Another way to get involved is to get on a Board of Directors at an organization in your interest area to speak to your passion.”

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Financial Partners in Social Renewal

Joel Solomon is President of **Renewal Partners** and Executive Director of the **Endswell Foundation**. He is Vice-Chair of **Tides Canada Foundation**, where the Endswell Fund is administered, and is also a Donor Sponsor of the CCSE.

Solomon has taken a strategy of leveraging every part of the Endswell/Renewal Partners portfolio for social impact, whether it's social investing, social sector support, or charity. "When we started Renewal Partners and the Endswell Foundation," said Solomon, "there was no national public charity in Canada that was focused on social enterprise. We felt that our endowment was too small to create a permanent legacy and wouldn't have much impact if we just gave away the earnings. So Endswell became an incubator of Tides Canada in 2001, making it our largest single grantee, with a long term commitment. At a certain point we switched roles and committed to doing the bulk of our grant making through Tides."

Solomon had an early model for social entrepreneurship in Drummond Pike, founder of the **Tides Foundation** in the U.S. Pike helped to create the social enterprise model for foundations, because Tides was designed to create its own revenue flow through selling services. "I found that really attractive," said Solomon, "and felt that kind of model allowed a different kind of empowerment for a not-for-profit, because it wasn't dependent on grants."

The Meaning of Social Finance

Tim Draimin, Executive Director of Tides Canada Foundation, has made Social Finance one of its primary program areas. What does social finance or social investing mean? For Solomon it means that, "whether you're a for-profit or a non-profit, society and nature have to be taken into account. The business of creating goods and services and the business of serving society need to have values and societal purpose as part of their goals. That's our premise. There has to be, first and foremost, some kind of social purpose and vision to our investments. We would like to say that moderate profits, with social and environmental factors taken into account, are more desirable than maximum profits where you ignore those factors."

The current framework doesn't have all the solutions in it. That's where social enterprise can have a real impact.
— Joel Solomon

Real Estate Ventures in Vancouver's Downtown East Side

Solomon came out of a real estate background, and as an example of Renewal Partner's social investing he pointed to two real estate ventures. "Two of the floors of our new offices, next door to the old Woodward's Department Store, will be a non-profit multi-tenant shared space. Our ownership position in the building will devote its profit margins, after recoupment of capital, to Tides



Joel Solomon, President of Renewal Partners and Executive Director of the Endswell Foundation
Photo Credit: Jaime Kowal

Canada for its Social Justice Fund for Social Enterprise.

And we recently bought a little building with two other foundations in town for **Pivot Legal Society**, a hard-hitting social justice law firm that works on behalf of residents of the Downtown East Side. Pivot will gain 25% ownership in the building after they pay their rent for five years. And, in partnership with Vancity, we're making a loan for Pivot to launch a for-profit coop law firm (the first of its kind) whose profits are driven to the social justice entity. On the real estate side, there are many such social venture models across continent."

Solomon is personally committed to the "cause" of social enterprise. "It started with my concerns and analysis about the state and direction of the world. I'm the child of a very successful shopping mall developer and saw what you can accomplish when maximizing profit is the sole

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concern. I was dissatisfied with that model. That caused me to go to the nonprofit sector but I soon realized that everywhere I looked there was a struggle for money and survival.

“Over time, I’ve really questioned the divide between the “church and state” of non-profit and for-profit and how effectively (or ineffectively) the notion of ‘not-for-profit’ has balanced the power of so much capital. It seemed natural to me to use my business skills to try to bridge the gap between them. People are coming to realize that certain societal challenges are so large that the current framework doesn’t have all the solutions in it. That’s where social enterprise can have a real impact.”

Social Entrepreneurs on Common Ground

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their dreams into fledgling programs and steer their organizations through early growing pains. But there comes a time, albeit reluctantly, when most founders and their followers begin to understand that living from year to year does not ensure the future — and that is the moment when they begin migrating from innovation to entrepreneurship. It is one thing to design, develop and carry out a new program, quite another to sustain it. So they begin turning toward commercial markets, gradually exploring the possibilities of *earned* income, many for the first time, and often with reluctance given their uneasiness about the profit motive.”

In other words, social innovation

A Delicate Balance

Many Canadians are concerned that they may be abandoning the collective provision of the public good if they consider financial models other than provision of social services by the state. “That’s a delicate edge to walk,” said Solomon. “I don’t want to end up enabling the public sector to withdraw further. I hope that we are helping to build a stronger voice for turning the tide on government’s withdrawal. We’re looking for a series of successful social enterprises and have made investments with ten of them now. If those stories are told, that voice becomes more real to the media and the public.”

Solomon will soon be a citizen on both sides of the line and has moved to BC permanently. “I think

and social enterprise are siblings, and I applaud Greg and Beth for recommending future research be conducted at the point where they intersect — because it’s at the moment of intersection that genuine sustainability and self-sufficiency become possible.

Social innovators are vital to any hopes we have to address the ills of the world. There’s nothing more inspiring than a person with a system-changing idea who summons the chutzpah and the courage to thrust it into existence and nurture it for as long as it takes.

But social enterprise is the tool that can move social innovators toward sustainability and self-sufficiency, and it’s time we put aside our warring definitions of “social entrepreneurship” and work together to create the virtuous circle academ-

of myself more as a North American citizen,” he said. “I’ve come to believe that I can ultimately have a bigger impact by helping move the social enterprise sector as a whole.” ■

Resources:

Enterprising Non-Profits (organizer and host of Canadian Conference on Social Enterprise)

➔ www.enterprisingnonprofits.ca

BC Technology Social Venture Partners ➔ www.bctsvp.com.

THE BC Social Enterprise Report February 2007 ➔ www.enterprisingnonprofits.ca/%7Edocuments/se_conference/cdnsocialent-4p-low.pdf

BC Social Enterprise Fund video on 2007 investees ➔ www.enterprisingnonprofits.ca/~DOCUMENTS/NEWS/bcsefidraft03.wmv

Tom White is Editor and Publisher of the *Social Enterprise Reporter*:

ics and practitioners alike can covet: Start with practitioners, build theory from their experiences — and create a strategic framework for the next generation of practitioners. ■



Jerr Boschee has spent the past quarter century as an advisor to social entrepreneurs in the United States and elsewhere. To date he has delivered seminars or taught master classes in 41 states and 14 countries and has long been recognized as one of the founders of the social enterprise movement worldwide. Mr. Boschee is Executive Director of The Institute for Social Entrepreneurs ➔ www.socialent.org, which he created in 1999, and is the former President and CEO of The National Center for Social Entrepreneurs. Please direct your comments to ✉ jerr@orbis.net.

The Quest for the Holy Grail: Financial Analysis for Social Enterprise

by Michael Whitehead-Bust and Vincent Dawans

There is an elephant in the corner of this room. And we're going to talk about it.

As we go about our work with a wide range of social enterprises throughout the country, we have seen a significant and important Achilles heel that many in the room would rather not talk about: the quality of the financial and accounting systems by which we evaluate the financial performance of social enterprises.

While many nonprofit organizations survive with legacy financial systems that offer limited insight into the true economic performance of their programs, when social enterprise strategies are introduced into the system, the distortions and lack of accurate financial data takes on new significance. Unfortunately many nonprofit executives, board members, consultants, and funders fail to see these problems. We believe this is due, in part, to the lack of discourse in the field about the importance of accounting systems that support managerial and strategic decision making.

Social enterprises have unique needs when it comes to financial management. Although there are many flavors of social enterprises, they have common needs that come from their hybrid nature, incorporating market discipline to achieve objectives traditionally found in the nonprofit sector.

The Limitations of Fund Accounting

We are all familiar with the reality of operating with a variety of funders, with a wide range of specific interests and unique restrictions. The accounting systems that evolve to meet these requirements severely limit nonprofits' ability to meaningfully analyze the relative financial performance of different programs.

In addition, grants are most often structured as one-year investments, and foundation risk-tolerance is low, so riskier programmatic models requiring long-term investments are difficult to get funded. The typically long lead-times in securing funding for programs force nonprofit managers to employ rigid and non-adaptive programmatic models rather than flexible models that respond to changing environmental realities.

The systems that evolve to meet these requirements are often rudimentary and basic. They start that way and then incrementally grow and change from the distorted beginnings. Managers become used to the system which satisfies the basic needs of reporting to funders while meeting audit requirements, but lose sight of how important meaningful financial analysis can be to effective managerial and strategic decision making.

Evolving Definitions and Translations

Funders and investors in social enterprises review financial documents without ever questioning the source or methodology behind the documents. In the field of social enterprise there exists no common definition of profit. Two years ago while leading a session at the **National Gathering of Social Entrepreneurs**, we asked attendees to raise their hands if they operated a profitable social enterprise—roughly 80% of the people in the room raised their hands. We then asked for a show of hands of those who believed that other peoples' social enterprises were profitable—not one hand went up.

The social enterprise movement can trace some of its roots back to innovative nonprofit managers who couldn't resist moving away from straightforward wealth distribution models in order to experiment with more complex wealth creation models. They challenged themselves in developing new models to achieve their social mission based on wealth-creation instead of wealth distribution. But they soon found that a greater challenge was to convince their peers and funding community that they were not selling out to the enemy. In order to obtain funding, many were forced to translate their innovative models into more traditional models in order to attract more traditional foundation funders. Unfortunately, the approach has led to financial systems that have become further overwhelmed by the task of reconciling financial data for compliance reporting purpose, and even less able to provide nonprofit managers with the financial information they truly need to manage their social enterprises effectively.

The good news is that we don't have to dodge cata-

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pulting cows or survive the Nights Who Say “Ni” on our quest for effective solutions that balance compliance and managerial demands of financial systems. Nor do we need to continue galloping through the forest with coconuts clapping to convince us we’re on our horse (ref. *Monty Python and the Holy Grail*.) The lack of appropriate financial management is mostly reflected in two areas of financial management: general financial reporting (financial statements) and product/service costing.

Financial Statements

Basic financial statements such as the statement of activities (profit and loss) and statement of financial position (balance sheet) are often the first and only financial information available to describe the financial performance of a social enterprise. It is rare that a social enterprise operates independently and offers only one product or service for sale. Most often there are multiple products and/or services, and the social enterprise is either embedded within a parent nonprofit that operates other more traditional programmatic activities, or is a controlled subsidiary of a parent nonprofit.

In any of these cases, the financial data and analysis is built upon the existing finance and accounting systems which were designed primarily with compliance reporting requirements in mind. The resulting financial statements include distortions that often significantly impact the ability to analyze the financial performance of social enterprises.

Some of the most common causes of distortions include:

- Infrastructure costs including facilities and equipment which may be donated or purchased through grant dollars, but which go unrecognized in the financial analysis of the start-up and initial operations either via depreciation charges or rent or lease payments.

The grant-centric/compliance-oriented approach limits the clarity of the market feedback mechanism that is at the heart of many social enterprises

- The lack of effective inventory measurement systems is particularly striking with social enterprises involved in retail or manufacturing. It is often the result of the total cost of acquired material or retail products either being booked without regard to the level of sales, or worse, a complete omission of any sort of material costs as a result of it being born by a third-party (e.g. the cost of furniture sold by a social enterprise not reflected in its financial statement, but born by a separate woodwork workshop program run by its parent organization).

- Overhead and support costs, including accounting and legal fees, rent, staff time (parent organization staff time spent in oversight or management of the social enterprise), utilities, phone, etc., that any business should incur, but which are carried on the books of the parent nonprofit organization, and not billed down to the social enterprise.

- Ineffective shared cost accounting methodology. It is quite common for social enterprises to rely upon

the shared cost allocation methodologies of the parent nonprofit, which have often been designed from a compliance perspective rather than a managerial perspective, and don't adequately assign costs to the activities that cause them to be incurred.

Product/Service Cost Accounting

As much as accurate financial statements are essential to evaluating a social enterprise's general financial health, their use is limited when it comes to making strategic decisions related to specific products and services within the social enterprise.

Cost accounting involves not only the ability to properly account for all expenses, but also to trace and assign these expenses to the delivery of particular products or services (or particular programmatic activities). Shared, overhead, or indirect expenses are usually the most problematic. A high ratio of shared expenses in relation to direct expenses is the result of either a high level of integration between activities (usually a good thing) or a limited ability or perceived need to categorize expenses at the source in a more detailed manner.

Nonprofit organizations have traditionally used a grant-driven approach to booking and assigning such expenses: expenses are categorized as overhead and assigned to particular grants according to what funders are willing to pay for. Efforts to properly allocate expenses to particular programmatic activities are therefore limited to expense categories that funders will not cover as overhead expenses.

Although one can argue the extent to which nonprofit organizations could benefit from an alternative approach that would not

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distort the actual cost of particular programmatic activities, in the case of social enterprise there is no arguing that this grant-centric approach is unsuitable—primarily because the grant-centric/compliance-oriented approach limits the clarity of the market feedback mechanism that is at the heart of many social enterprises. But more importantly, a social enterprise's ability to grow and mature to a point where it generates significant social impact is directly linked to accurate measurements of the actual costs of its products and services, which can in turn be compared to the social and environmental impacts resulting from their delivery.

Whether its core social value comes from the nature of its products and services (e.g. **Benetech's** reading machines for the blind) or from the activities linked to the production of particular products and services (e.g. **Greyston Bakery's** focus on employing the chronically unemployed), a social enterprise's business model is usually anchored around a revenue-generating model. Many social enterprises are also launched by nonprofit organizations in parallel with traditional programs, with organizational resources being shared between the social enterprise and other programmatic activities. Therefore, to be effective, social enterprise financial systems have to meet the dual challenge of products and services diversity combined with shared expenses between business and other programmatic activities.

Growing a social enterprise without accurate costing information is perilous at best. Social entrepreneurs are at risk of designing their growth strategy around certain products and

services that turn out to be unsustainable at higher production levels because hidden subsidies and shared costs have not been taken into consideration. They might in fact choose to sideline better candidates because their perceived cost has been artificially inflated by incorrect allocation of overhead expenses. Inaccurate costing is doubly damaging in the sense that it makes less sustainable products look more sustainable and vice versa.

There is great power in social enterprise to stimulate lasting and ever-expanding social and environmental change. We are firm believers in the positive impacts that social enterprise strategies can have on diverse aspects of nonprofit organizations' performance—operationally, culturally, financially. There are examples of social enterprises operating with sophisticated and effective financial systems, however as a field we have neglected discussion of effective tools for strategic and managerial analysis of financial performance for too long. ■

This article is the first of a three-part series. The subsequent articles will focus on specific tools and techniques relating to the effective construction and evaluation of financial statements, and cost accounting and shared cost allocation strategies.

Resources:

- ➔ www.foxhallconsulting.com
- ➔ virtueventures.com



Michael Whitehead-Bust is a Founding Partner of Foxhall Consulting Services, and has extensive experience in both the not-for-profit and for-profit sectors.

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Vincent Dawans is a Partner of Virtue Ventures LLC, a small, innovative firm rooted in practice and committed to furthering the field of social entrepreneurship through action-research, technical services and its own initiatives.

Through the course of his work he has had to review too many financial statements, which explains his unhealthy obsession with making sense out of them. He has worked with social enterprises to create financial reporting that better reflects decision-making around business and social objectives. Dawans holds an MBA from the ICHEC Business School, Brussels, Belgium.

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cross-sector partnerships. Moreover, the development of new theory gets particularly interesting when the affiliative, altruistic, or expressive motivations common to philanthropy are mixed with the economic motivations commonly associated with business and markets. If these elements are not needed to achieve social impact, the organization could be run purely as a business, which poses few interesting intellectual issues beyond the discovery of the opportunity. It is the substantive mix of both business and philanthropic methods that is most challenging and intellectually

intriguing.

To explore this area a little further, it is helpful to consider what we have called the “Social Enterprise Spectrum.”

(See Table 1 below)

This spectrum describes the full range of business models available to social entrepreneurs, from purely philanthropic to purely commercial, with many variations in between. Philanthropic methods are involved anytime an organization falls short of the far right side on at least one dimension of the spectrum, indicating some form of subsidy or sacrifice. Excluding purely philanthropic or purely commercial ventures is not a major sacrifice in scope because very few social-purpose organizations

exist at either extreme.

To create social value. The primary intention has to be the creation of benefits for society. There are numerous ways in which a social entrepreneur might create social value. In a previous paper on “For-Profit Social Ventures,” we proposed that a simplified version of Harvard Strategy professor Michael Porter’s “value chain” framework could be used to identify the major activities through which a business can create social value. This same framework could be extended beyond the for-profit sector to provide a basic framework for ways in which enterprising social innovation might blend philanthropic and business methods to cre-

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Table 1: Social Enterprise Spectrum

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Purely Charitable		←————→	Purely Commercial	
Motives, Methods & Goals	Appeal to goodwill Mission-driven Social value creation	Mixed motives Balance of mission and market Social and economic value	Appeal to self-interest Market-driven Economic value creation	
Key Stakeholders				
Targeted Customers	Pay nothing	Subsidized rates, and/or mix of full payers and those who pay nothing	Pay full market rates	
Capital Providers	Donations and Grants	Below-market capital and/or mix of donations and market rates capital	Market rate capital	
Work Force	Volunteers	Below-market wages and/or mix of volunteers and fully paid staff	Market rate compensation	
Suppliers	Make in-kind donations	Special discounts and/or mix of in-kind and full price	Charge full market prices	

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Social Value Chain



ate or enhance social value.

Social entrepreneurs may create social value at any of these steps in the process. Fair trade organizations create social value in how and from whom they purchase the goods they sell. Other social ventures create value through employing disadvantaged populations. With hospice care, the social value is inherent in the design of the value or service. A “green” dry cleaner may create social value through an environmentally friendly production process. A micro-enterprise lender creates social value by making loans to people who otherwise would not have access to the capital they need.

Is sustainable and has the potential for large-scale impact.

This form of social entrepreneurship is not about temporary charitable relief or unique efforts of limited scope. It is about creating value that is likely to be sustained and scaled over time. Sustainable impact might be achieved through some kind of systemic change or major social transformation, such as the way in which the hospice movement fundamentally changed medical care for those who are dying. It might also be accomplished simply by intervening in a way that has a lasting impact in the lives of those affected. The innovation involved should also be capable, in principle, of achieving a scale of impact that is commensurate with the overall societal need or the magnitude of the societal problem

being addressed. Potential scalability will be the most difficult element to judge, since few enterprising social innovations have actually achieved large scale.

The following brief examples illustrate the range of cases that fall into the scope of this concept.

Delancey Street Foundation.

Mimi Silbert envisioned a new kind of rehabilitation program for substance abusers, former felons, and other who have hit rock bottom. She decided to create a place for them to live and work together, and to be empowered to become their own solutions. Delancey Street residents work in businesses that help support the organization while personally gaining an education, marketable skills, responsibility, dignity, and integrity. The program is delivered with no government funding and at no charge to the clients, and since 1971 has successfully graduated over 14,000 individuals into society as successful taxpaying citizens.

Grameen Bank. Muhammad Yunus wanted to address poverty in Bangladesh. Based on engaging with and listening to poor villagers, he came up with the idea of making very small, “micro-enterprise” loans, using local peer groups to enhance the social impact and make the model economically viable. He designed this new program and created Grameen Bank, a for-profit organization owned almost exclusively by the borrowers, to deliver

it. Grameen relied heavily on grants and below-market capital through its major growth stage, but it has since renounced these kinds of subsidies.

Virginia Eastern Shore

Corporation. In an effort to develop a new model for conservation, The Nature Conservancy (TNC) launched the Virginia Eastern Shore Corporation as a for-profit business in a rural region with communities struggling to overcome significant poverty. The business plan outlined four goals: job creation, environmental protection, replicability, and profitability. The leaders raised \$1.225 million in equity and \$1.5 million in debt with a plan that forecasted profitability along with the creation of 57 new businesses and 273 new jobs by the end of five years. Though in the end this venture failed, it affirmed the need for hybrid solutions and provided an example from which TNC and others could learn valuable lessons.

Habitat for Humanity.

Though Habitat has been brilliant at mobilizing philanthropic resources (money, volunteer time, in-kind donations of building supplies, etc.), it incorporates a crucial business-inspired element in marketing its homes to the economically disadvantaged. Families who receive a Habitat-built home pay a mortgage. It is a modest mortgage, with zero interest, but a mortgage nonetheless. Habitat uses this business tool not because it needs the money, but because pay-

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ing a mortgage gives the recipient a greater sense of ownership and responsibility, creating social value beyond the fundamental provision of housing.

Theoretical Issues Raised by Enterprising Social Innovation

Enterprising social innovation challenges the old dividing line between markets and non-markets. As illustrated earlier with the social enterprise spectrum, social entrepreneurs face a wide continuum of choices, not a dichotomy. And both ends of this spectrum can be thought of as markets. Anyone who has raised money knows they are “marketing” their organization or cause to prospective donors. This philanthropic market may differ from typical commercial markets with regard to motivations and the way value is assessed, but it is a market nonetheless. Social entrepreneurs have to decide how they will approach the markets for resources and the markets for their services or goods. To what extent and in what ways will they rely on philanthropic or “expressive” motivations as opposed to more self-interested motivations common in commercial markets? A theory of this kind of social entrepreneurship will require us to pay closer attention to the degree and type of market interaction that a social entrepreneur might want to consider. Some literature exists on these kinds of hybrid entrepreneurial activities, but it is just emerging. Much more work is needed.

Selected Theoretically Interesting Questions. Framing this new field of social entrepreneur-

ship to focus on ventures that blend business and philanthropic methods raises some very intriguing theoretical questions, questions that could have implications for economics and social theory broadly conceived. Here are some of the most important.

By focusing on enterprising social innovation, we can provide practical guidance to pioneering social entrepreneurs, raise intellectually challenging questions, and address a topic that could prove crucial for society

- *Aligning Market Dynamics with Social Outcomes.* How and under what conditions can commercial markets be aligned with social purposes? When commercial market forces are not aligned with social impact, how can philanthropic methods help soften pressure to compromise social mission? In what ways can philanthropic market forces undermine intended social impact? How is it possible to “internalize” social costs and benefits? In what ways could commercial market-based approaches undermine the creation of social value?

- *Strengths and Limits of Different Economic Strategies.* What are the strengths and limits of different economic strategies with regard to sustaining the organization, scaling the innovation, and promoting systemic change? Are social enterprises with a greater degree of commercial

activity more sustainable? Are they more scalable than their more philanthropic counterparts? What are the corresponding strengths and limits of using philanthropic funding strategies?

- *Role of Different Legal Forms of Organization.* What are the conditions that allow social entrepreneurs to adopt a for-profit form of organization? How can the social mission be protected from potential financial pressure to compromise on social value in favor of profits? When is it better to adopt a nonprofit form, or create a “hybrid value chain” drawing on the strengths of both forms of organizations? Should we create new legal forms of organization, such as Britain’s community interest company, to facilitate social entrepreneurship?

- *Bias toward Commercial Market Solutions.* Should social entrepreneurs have a bias toward commercial market-based solutions, moving to the right side of the social enterprise spectrum? If so, why and when? Once the profitability of a social enterprise reaches market levels, should social entrepreneurs be willing to turn the market over to more traditional for-profit competitors? What are the risks and limits of a strategic push toward the commercial side of the spectrum?

- *Competitive Advantage of Social Orientation.* How can commitment to social impact create a competitive advantage, rather than disadvantage, relative to potential profit-seeking competitors? Could such a commitment allow a social entrepreneur to see opportunities that others miss? Could it inspire innovations that others do not have an incentive to create? How can it be used to attract and motivate employ-

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ees, reward investors, or reinforce customer loyalty?

- *Market Discipline and Accountability.* Under what conditions, if any, can a social entrepreneur count on market discipline to assure high levels of performance? In what ways can the use of philanthropic methods buffer an organization from commercial market “discipline”? When is this buffering helpful for protecting the social mission? In the absence of market discipline, how can social entrepreneurs assure that they are creating social value cost effectively?

- *Efficient Capital Markets.* How do the “capital markets” work for enterprising social innovation? How well do these markets direct capital to its optimal economic and social uses? Is there a process of capital market discipline through which more effective social enterprises thrive and the less effective are driven out of business? When a so-called “double bottom line” is involved, how does an investor decide what is an optimal mix of economic and social return? How can social entrepreneurs and supporters measure and reinforce the social impact as rigorously as they do financial results?

Concluding Thoughts

Proponents of social entrepreneurs have tended to fall into one of two camps: those who focus on using commercial enterprise for social purposes and those who focus more on promoting innovative solutions to social problems. In this paper, we have argued that academics should look at the intersection of these two camps. By focusing on

enterprising social innovation, we can provide practical guidance to pioneering social entrepreneurs, raise intellectually challenging questions, and address a topic that could prove crucial for society.

Thus, we are proposing that universities and individual researchers invest significant resources and energy to explore in depth a new field that involves solutions to social problems that cut across the old boundaries between business and the social sector. This arena is where the most valuable pearls of knowledge will be found, and the territory is relatively uncharted and tends to fall through the cracks between business schools and nonprofit management programs.

Society seems headed down a path of blurring sector boundaries, and we would do well to understand better what might lie ahead.

This cross-sector focus is congruent with several forces at work in society now. We are on the verge of adopting a new perspective on how private citizens, in the role of social entrepreneurs, can make significant contributions to providing sustainable solutions to social problems. The idea of creating innovative, market-oriented approaches to addressing social problems or serving social needs has spread to many parts of the social sector, including health care, education, economic development, human services, the environment, and the arts.

Society seems headed down a path of blurring sector boundaries, and we would do well to understand

better what might lie ahead. If we do not deepen our knowledge of these kinds of approaches, we are likely to fumble around in the dark, making more mistakes than necessary. Success will depend on a better understanding of how to effectively combine elements from the business world and the social sector, and how to recognize the limits and risks. This arena is where we should focus most of our limited time and resources. Doing so will not only serve academia well; more importantly, it will be of great value to society. ■

Resources:

Center for the Advancement of Social Entrepreneurship (CASE) at Duke University's Fuqua School of Business

➔ www.caseatduke.org/

Research on Social Entrepreneurship: Understanding and Contributing to an Emerging Field, ARNOVA Occasional Paper Series, vol. 1 no. 3, edited by Rachel Mosher-Williams, 2006. Available at ➔ www.arnova.org/occ_paper_series.php.



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Ms. Anderson is a lecturer at Duke and has previous experience at Stanford Business School's Center for Social Innovation, McKinsey & Company, and several nonprofits. Both sit on a variety of advisory boards and have served on the selection committee for the Fast Company / Monitor Group Social Capitalist Awards.

Social Enterprise Conference

March 4, Harvard Business School, Cambridge MA

➔ <http://socialenterpriseclub.com/conference/>

Broken Economies: Making Markets and Government

Work for all Communities

National Community Reinvestment Coalition Annual Conference

March 14–17, 2007 Washington D.C.

➔ www.ncrc.org/trainingandassist/annualConferences.php

2007 Community Development Venture Capital Alliance Annual Conference

March 21–23, Washington, DC

➔ www.cdvc.org/events/conference.php

National Dialogue on Reentry & Criminal Justice

March 27, San Francisco CA

Sponsored by Reentry Strategies Institute

➔ www.reentrystrategies.org/dialogue/

Skoll World Forum on Social Entrepreneurship

March 27–29, Saïd Business School, Oxford University, England

➔ www.skollfoundation.org/skollcentre/skoll_forum.asp

National Offender Workforce Development Conference

April 2–5, Charlotte, NC

➔ www.proworkdev.com

Social Entrepreneurship Pipeline: Educating and

Accelerating Emerging Social Entrepreneurs

April 12–13, Stern School of Business, New York University

Sponsored by the Berkley Center for Entrepreneurial Studies Fourth

Annual Conference of Social Entrepreneurs

➔ http://w4.stern.nyu.edu/berkley/social.cfm?doc_id=1868

Global Social Venture Competition

Social Enterprise Symposium

April 14, UC Berkeley CA

➔ <http://socialvc.net>

National Association of Community Development Extension

Professionals Annual Conference

April 16–19, Philadelphia PA

➔ <http://nacdep.net/confs/2007/Conference.htm>

Social Enterprise Alliance, 8th Gathering

April 17–19, 2007 Long Beach, CA

➔ www.se-alliance.org

Bring It Home: Building Communities on a Rock Foundation

2007 National Community Economic Development

April 18–21, 2007, St. John's NL

➔ www.ccednet-rcdec.ca/en/pages/conference_07.asp

Exploring Innovation: A Conference on Community Development Finance

May 2–4, St. Louis, MO

➔ www.stlouisfed.org/community/innovation/

California Association for Local Economic Development

Annual Conference & Spring Training:

Bringing Innovation & Leadership to Local Economic Development

May 2–4, Monterey, CA

➔ http://caled.org/2007_conference_info.shtml

LOHAS 11 Forum

May 14–16, Los Angeles, CA

➔ www.lohas.com

Association for Enterprise Opportunity Annual Conference

Microenterprise Development: The Rhythm of Successful Communities

May 15–18, Kansas City, MO

➔ www.microenterpriseworks.org/index.asp?bid=219

NonprofitCenters Network National Conference:

Collaborating for Success

May 16–18, San Francisco CA

➔ www.nonprofitcenters.org/events/

Cause Marketing Forum Conference

May 16–18, NYC

<http://causemarketingforum.com/conference.asp>

National Association of Workforce Development

Professionals

May 20–23, Reno NV

➔ www.nawdp.org/conference.htm

The Investors' Circle Spring Conference & Venture Fair

May 22–24, San Francisco CA

➔ www.investorscircle.net/index.php?tg=articles&topics=134

Community College National Center for Community

Engagement Annual Conference

Meeting the Challenge of Sustainability for the 21st Century

May 23–25, Scottsdale, AZ

➔ www.mc.maricopa.edu/other/engagement/2007Conf/ConfInfo.jsp

Annual Business Alliance for Local Living Economies

Conference

May 31–June 2, University of California, Berkeley CA

➔ www.livingeconomies.org/events/conference07

Community Development Society and National Rural

Development Partnership Annual Conference

June 17–20, Appleton, WI

➔ www.comm-dev.org