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Frederik Teufel

Social Entrepreneurship

Understanding a phenomenon and its nexus with current changes in philanthropy

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submitted to:
Department of Philosophy
University of Passau, Germany

submitted by:

Frederik Teufel

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Abstract

The phenomenon of Social Entrepreneurship refers to the application of an entrepreneurial process in order to achieve social goals. This adoption of traditional business principles has captured the fascination of social change activists around the world, and yet, a lack of understanding its characteristics such as value proposition, opportunity, innovation and the creation of value can be observed. At the same time, similar changes in the philanthropic sector are taking place, with the phenomenon of Venture Philanthropy pioneering a new model of financing social change by translating the conventional venture capital approach from the business world to the social sphere, turning philanthropists into social investors. These complementing phenomena show a new relation between the financing and executing side in the social sector and challenge traditional categories such as non-profit vs. for-profit by choosing hybrid organizational forms. As these changes advance, efforts towards the creation of a social capital market that build on these two phenomena can be observed in order to restructure the current system of financing social change, applying principles from the financial markets. These changes challenge the traditional dichotomy of social and economic value that defines our current understanding of capitalism.

Keywords: social entrepreneurship, philanthropy, social sector capital market

Contents

List of Figures

Abbreviations

ASCR	*Associação Saúde Criança Renascer*
BE	Business Entrepreneurship
BOVESPA	Brazil Stock Exchange (*Bolsa de Valores de São Paulo*)
CC	Corporate Citizenship
CEO	Chief Executive Officer
CP	Corporate Philanthropy
CSR	Corporate Social Responsibility
HD	Human Development
HIV/AIDS	Human Immunodeficiency Virus / Acquired Immune Deficiency Syndrome
INC.	Incorporated
LTD.	Limited
MDGs	Millennium Development Goals
NGO	Non-Governmental Organization
OECD	Organization for Economic Cooperation and Development
REDF	Roberts Enterprise Development Fund
RISE	Research Initiative on Social Entrepreneurship
SASIX	South African Social Investment Exchange
SE	Social Entrepreneurship
SEV	Socially Entrepreneurial Venture
SSE	Social Stock Exchange
SPO	Social Purpose Organizations
SROI	Social Return On Investment
UN	United Nations
UNDP	United Nations Development Programme
UNV	United Nations Volunteers
USA	United States of America
VP	Venture Philanthropy

1 Introduction

> The Norwegian Nobel Committee has decided to award the Nobel Peace Prize for 2006, divided into two equal parts, to **Muhammad Yunus** and **Grameen Bank** for their efforts to create economic and social development from below. Lasting peace can not be achieved unless large population groups find ways in which to break out of poverty. [...] Yunus's long-term vision is to eliminate poverty in the world. That vision can not be realised by means of micro-credit alone. But Muhammad Yunus and Grameen Bank have shown that, in the continuing efforts to achieve it, micro-credit must play major part. (The Nobel Peace Prize 2006 Press release, emphasis in original text)

When delivering his Nobel Lecture on 10 December 2006, Muhammad Yunus seized the moment of public attention and exposed his vision of how 21st century's global challenges are to be faced. His approach is the topic of this thesis: Social Entrepreneurship (SE). Because of its actuality, his speech will serve as an introduction for this paper and several aspects of it will be broached again below:

> I am in favour of strengthening the freedom of the market. At the same time, I am very unhappy about the conceptual restrictions imposed on the players in the market. This originates from the assumption that entrepreneurs are one-dimensional human beings, who are dedicated to one mission in their business lives to maximize profit. This interpretation of capitalism insulates the entrepreneurs from all political, emotional, social, spiritual, environmental dimensions of their lives.
> [...] Many of the world's problems exist because of this restriction on the players of free market. The world has not resolved the problem of crushing poverty that half of its population suffers. [...]
> By defining "entrepreneur" in a broader way we can change the character of capitalism radically, and solve many of the unresolved social and economic problems within the scope of free market. Let us suppose an entrepreneur, instead of having a single source of motivation (such as, maximizing profit), now has two sources of motivation, which are mutually exclusive, but equally compelling a) maximization of profit and b) doing good to people and the world. Each type of motivation will lead to a separate kind of business. Let us call the first type of business a profit-maximizing business, and the second type of business a social business. (Yunus 2006)

Bangladeshi economist Muhammad Yunus himself is considered a representative of this other type of entrepreneur, mostly referred to as 'social entrepreneur'. Various organizations in the emerging field of SE refer to him as an example of how SE is paving a new road in order to find solutions to current social problems. In agreement with Yunus, Professor Johanna Mair (2005, p. 2), a leading scholar in the field of SE from the University of Navarra, argues that

> […] social entrepreneurship, as a practice and a field for scholarly investigation, provides a unique opportunity to challenge, question, and rethink concepts and assumptions from different fields of management and business research.

However, it is crucial to mention that the phenomenon of SE is not only gaining increasing attention in the academic sphere; an overall exponential growth in public attention of SE can be observed over the past years as an internet search (www.google.com) shows: in June 2005 the term 'social entrepreneurship' produced 158,000 hits (Seelos and Mair 2005). In March 2007 this number had already grown to 1,100,000 hits, proving the public interest in the phenomenon.

This rise in attention comes from different fields such as politics, business, academia and civil society. This is due to the appealing approach implicit in the term SE: it refers to the application of an entrepreneurial approach in order to create social value. As conventional business entrepreneurship has been shaping with great success today's way of thinking and acting in the context of business and economic ventures, this expectation is translated by advocates of SE into the social sphere, regarding it as a promising approach to address global discomforts of the 21st century.

Therefore, people are attracted to social entrepreneurs for many of the same reasons that they find business entrepreneurs so compelling. Outstanding 20th century entrepreneurs such as Henry Ford, the founder of Ford Motor Company and father of the assembly line, or Bill Gates, the founder of Microsoft who introduced an easy accessible operating system for computers have influenced today's world in an unexpected way. They came up with revolutionary ideas and against all odds succeeded at creating new products and services that dramatically improved people's lives.

Globalization, capitalism, and entrepreneurship dominate the world today and might have generated as much wealth as problems, many of them remaining unsolved. Far too few people benefit from the grapes of these developments: an estimated 2.6 billion people, almost half of the population of the developing world, were still living on less than $US 2 a day in 2004 (World Bank 2007) and people are disappointed by the disability of large-scale government programs to find solutions to social challenges. Consequently, interest in and awareness of SE have been continuously rising over the last 10 years. In the spring 2007 issue of Stanford Social Innovation Review, Martin and Osberg (2007, p. 30) explained the particular attraction of SE as follows:

> The interest in social entrepreneurship transcends the phenomenon of popularity and fascination with people. Social entrepreneurship signals the imperative to drive social change, and it is that potential payoff, with its lasting, transformational benefit to society, that sets the field and its practitioners apart.

Because of its appealing concept, “SE has many champions and a notable lack of detractors” (Cho 2006, p. 34), resulting in a blurred general understanding of what SE is and what it hopes to achieve. Its advocates agree on its potential as a promising way to regenerate society in terms of finding effective solutions to address problems related to poverty, health, education and environment. As a result, SE is currently used as an umbrella term to describe the people, the ventures and the activities that create substantial social value by going new ways (Perrini 2006).

And yet, little research has been carried out about this phenomenon in order to provide a deeper understanding of those people whose motivation is according to Yunus, "doing good to people and the world". The phenomenon of SE only began to be theorized and discussed in the 1990s and no consensus has been reached yet on where the boundaries of this field are to be drawn or even if there should be boundaries. Consequently, when it comes to details about what is and what is not SE, no clear line can be observed; on the contrary, there is a lot of disagreement about this term (Dees 2001).

This leads to the question of what it takes to be considered socially entrepreneurial. What does it comprise and what not? In summary, there is a need to understand the phenomenon of SE as such and define its particularities.

Apparently, SE does not evolve as a separate phenomenon, but interacts with other players in the social sector whose actors are engaged in finding solutions to social problems. The nexus between SE and those actors financing social change is of particular interest. Therefore, this paper chose to analyze the field of philanthropy as a special source of resource for SE that corresponds to the role investors play in the conventional business world, enabling ventures to grow and strengthen by providing them with the necessary capital. The philanthropic landscape is currently experiencing massive changes which have gone more underreported in terms of public attention in comparison to the phenomenon of SE. An internet search in March 2007 of the term ‘venture philanthropy’ that may be considered the ‘other side of SE’ on the financial supply side, produced only 172,000 hits. The term ‘venture philanthropy’ already implies its proximity to the business world where venture capital acts, looking for the best investment opportunities in order to maximize their profit. The relation between these two phenomena is of particular significance as it provides a basis to deepen the understanding of SE and observe tendencies concerning the future structure of financing social change.

With entrepreneurship entering the social sector and business principles being adopted by philanthropic organizations, the issue of how demand and supply may be linked is receiving increasing attention. The underlying concept is known as the ‘social capital market’, an even newer concept that produced merely 13,000 hits in the same internet search. Yunus (2006) also presented his vision of such a social capital market in his Nobel Lecture:

> […] to connect investors with social businesses, we need to create social stock market where only the shares of social businesses will be traded. An investor will come to this stock-exchange with a clear intention of finding a social business, which has a mission of his liking. Anyone who wants to make money will go to the existing stock-market.

Again, this notion is inspired by the conventional business capital market and the legitimate question is, if the translation of functioning mechanisms from the business world to the social sphere is possible and how its *modus operandi* might look like.

Analyzing these aspects that can currently be observed with regards to finding sustainable solutions for social challenges, this paper aims to contribute to a better understanding of the phenomenon of SE and its nexus with current changes in philanthropy.

Pursuing this goal, the issue will be approached according to the following structure:

In the following part (The phenomenon of Social Entrepreneurship, p. 5 - 10), after presenting the main factors that contributed to SE's emergence, the vast field of SE with various supportive actors that influence its development will be outlined, providing an understanding of the context of SE.

In the third part (The definition and process of Social Entrepreneurship, p. 11 - 25), a definition of SE will be derived by analyzing the characteristics of what it takes to be considered entrepreneurial and how SE differs from its counterpart in the business world. These observations will be complemented by looking at individual characteristics that coin the genus entrepreneur. All those findings will be put into a larger process scheme before concluding with an analysis of the current state of how the creation of social value is being measured.

Part four (The case of two socially entrepreneurial ventures, p. 25 - 36) features two examples of SE, illustrating definition and process elaborated in the preceding part and therefore translating it from theory to practice. Due to its actuality and international recognition, the Grameen Bank was chosen as the first case study. The second case study is from a Brazilian social entrepreneur, Dr. Vera Cordeiro, whose pattern-breaking initiative in the area of child health care is considered socially entrepreneurial by various actors in the emerging field of SE.

After this SE centred part, the paper will proceed in the fifth part (Philanthropy – a source of resource for Social Entrepreneurship, p. 36 - 43) with analyzing the above mentioned specific source of resource of SE: philanthropy. After shedding light on the phenomenon of 'giving', current changes in the philanthropic sector will be analyzed in order to obtain an accurate understanding of the current state of philanthropy.

The new model of high-engaged philanthropy, Venture Philanthropy (VP), will be explained in the sixth part (Venture Philanthropy – the other side of Social Entrepreneurship, p. 43 - 51) in more detail and two short case studies will illustrate this new approach. The first case study will present the work of a pioneer supportive organization in the field of SE, Ashoka, whereas the second case shows the translation of business principles into the philanthropic sector, Echoing Green. These initiatives will put VP in the context of SE and illustrate why it may be considered the other side of SE.

The seventh part (Social Stock Exchange – connecting philanthropists and social entrepreneurs, p. 52 - 58) will concentrate on the notion of a social stock exchange as a mechanism to connect social entrepreneurs and philanthropists in the larger context of a social sector capital market where supply and demand in financial terms meet. The pioneering initiative of the Brazil stock exchange will be presented in order to analyze the viability of such an approach before drawing conclusions on the future of a social sector capital market.

The final part (Conclusion and Perspectives, p. 58 - 61) will summarize the observations made throughout the paper and draw conclusions of the changes analyzed with regards to the future.

2 Social Entrepreneurship

The term SE came up in the 1960s and 1970s in the literature on social change, but its current widespread use is due to its promotion in the 1980s and 1990s by SE pioneers such as Bill Drayton, the founder of the non-governmental organization (NGO) Ashoka – Innovators for the Public, and British author Charles Leadbeater and his book on 'The rise of the social entrepreneur' in 1997. David Bornstein's publication 'How to change the world: Social Entrepreneurs and the power of new ideas' (2004) marked the latest step in this tendency in terms of raising awareness of the phenomenon before Yunus and with him the phenomenon of SE was awarded the Nobel Peace Prize in 2006.

These people have strongly influenced the development of this phenomenon, as they observed changes in the social sector and used the term SE to describe and communicate their observations: entrepreneurial elements are enjoying increasing attention by actors in the social sector, making them more effective and efficient in the effort to finding solutions to social problems.

The next chapter will highlight the context in which SE emerged and present factors that influenced its development before introducing significant actors in the field of SE and elaborating a definition and a process scheme in the following part.

2.1 The emergence of Social Entrepreneurship

The emergence of SE is embedded in the larger context of changes in the social sector in the past decades. Lester Salamon, the founding director and principal research scientist at the Institute for Policy Studies at Johns Hopkins University (1994 cited in Bhagwati 2004, p. 36) observed a tendency within this sector that he called the “association revolution” with reference to the spread of NGOs:

> The upshot [of this “striking upsurge” in “organized voluntary activity and the creation of private, nonprofit, non-governmental organizations”] is a global third sector: a massive array of self-governing private organizations, not dedicated to distributing profits to shareholders or directors, pursuing public purposes outside the formal apparatus of the state.

Despite their magnitude, these changes have been underreported. The explosion of the ‘dot-coms’ gained major public attention, but millions have still not heard about the explosion of ‘dot-orgs’. (Bornstein 2004). Salamon (2003 cited in Nicholls 2006, p. 3) points out the significance of these changes by stating that

> […] the not-for-profit sector generated $1.3 trillion of aggregate expenditures in 1999, accounting for 5.1 per cent of the combined GDPs of the countries in which they operated. […] with nearly 40 million full-time equivalent workers and close to 200 million volunteers.

These organizations in the social sector grew in number and sophistication and comprise people who care and take action to serve others and cause needed change. In order to cause this change, a variety of different organizations, working with non-profit, for-profit sector, or often hybrid organizational structures, emerged in this social sector. Obviously, not all of these ventures can be defined socially entrepreneurial, but still such data proves that the social sector was experiencing massive changes and SE emerged as a substantial part of it. According to Bornstein (2004), there are and have always been social entrepreneurs. What has changed is the scale and reach of the social impact being generated, as well as the variety of approaches being employed.

The term ‘social’ entrepreneurship was not chosen by accident to describe this phenomenon, as it implies a close relation to conventional entrepreneurship in order to depict the translation of business principles into the social sector. This observation leads to the following question: if SE is regarded as the ‘social face’ of entrepreneurship, why has it only recently begun to develop, whilst its business face has been dominating the economic sector during the last centuries?

As Baumol reports (2002 cited in Drayton 2006, p. 46),

> […] from the time of ancient Rome to 1700 there was zero growth in per capita income in the West. And then, over the next three centuries, it grew, 20, 200, and 740 per cent.

According to this study, this dramatic take-off is a result of business becoming entrepreneurial and competitive. A profound change in the architecture of this economic half of society set in motion a compounding of innovation and its spread, whereas the social half of society remained rather stuck until roughly 1980.

The reason for this stagnancy is obvious: there was simply no pressure for the social sector to become structurally entrepreneurial and competitive in a country where the state took care of everything. It was easy to tax the new wealth being created by business to pay for the canals, roads, schools, and welfare systems. In addition, this money flowed through monopoly institutions, which try to avoid competition as it cannot long survive it. This is true for any sector: economic or social. The result was a social sector with poor performance, low repute and self-esteem, miserable salaries, etc. (Drayton 2006).

This was to change with the beginning of the crisis of the welfare state in the advanced economy, an increased competition within the nonprofit sector as a result of the 'association revolution', changes in the structures of philanthropic giving (Perrini 2006), and political shifts that relate to the advancement of globalization. The necessary pressure for the social sector to develop and reinvent itself had come up and entrepreneurship discovered its 'social face'. Due to outstanding examples such as Yunus and his Grameen Bank, social entrepreneurs have also been labelled "new social architects" (Lassiter 1997 cited in Martin 2004), referring to the need of creating new structures in the social sector.

During the 1980s, the welfare state in the developed nations started to face a change in the patterns of supplying public services, as privatization and decentralization substituted traditional structures. In Europe, these changes in public policy were led by Margaret Thatcher as a consequence of a general slowdown in national economic growth rates and high unemployment. But this shift away from the traditional welfare state approach to development and towards a neo-liberal approach with an emphasis on market forces as primary mechanisms for the distribution and redistribution of resources left an increasing number of social needs unfulfilled and a demand for new private providers arose in order to match socially relevant goals (Perrini 2006). This demand helps to understand the background of the above mentioned explosion of 'dot-orgs'.

This demand for new products and services in the social sector was accompanied by an increased competition within the nonprofit sector, due to changing funding conditions as public grants were cut. A rivalry for scarce resources was the consequence and conventional non-profits were forced to reinvent themselves in order to adapt. Therefore, they started to experiment with business management practices, using tools found in the for-profit sector, such as business planning or economic performance evaluation, to enhance their competitiveness in order to accomplish their work. As a consequence, new funding strategies were elaborated, leading to new hybrid organizational forms that mix elements from the non-profit and the for-profit sector (Perrini 2006).

This competition for scarce resources permitted philanthropic organizations to become more ambitious in terms of applying performance criteria, strategic thinking, a global scope, transparency and accountability for funding organizations in the social sector (Martin 2004). Nowadays, the philanthropic sector is experiencing a profound change in thinking, as it is no more looking only for ways to address needs; on the contrary, business expectations are translated to the philanthropic sector with donations being regarded as investments. Consequently, there is a tendency that philanthropy seeks to maximize its ‘social’ return on investment. These ambitions and expectations concerning the effective and efficient use of money relate to the emergence of SE as it claims to fulfil these criteria by applying business principles to their work. The relation between a specific philanthropic phenomenon, Venture Philanthropy (VP), and SE will be analyzed in more detail in part three of this paper.

In less developed countries where a welfare system had never been established, fearful governments used to block any effort towards such a change in social structures until the military regimes ended in most regions in the 1980s and the Berlin Wall fell in 1989. From then on, democracy, capitalism and with it entrepreneurship could spread all over the ‘second’ and ‘third’ world. Both the economic and the social sector began to become structurally entrepreneurial and competitive and grew with an unprecedented speed and energy (Robinson 2006).

Globalization with its revolutionary information technology has enormously increased the visibility of inequality and poverty in the world. As Jacqueline Novogratz, CEO of the venture philanthropy organization Acumen Fund explains the consequences of this newly-wired world in a panel speech at the Skoll World Forum on Social Entrepreneurship in March 2007: “for the first time in history, the rich can see how poor the poor really are – and the poor know how poor they are.”

The aggravation of inequality, paired with this explosion of perceived needs, reshape the social sector as well. Most people sense that these unjust conditions and its aggravation are a consequence of an unfair globalization. They search for meaning in traditional business activities and try to apply their entrepreneurial spirit to the social sector. New markets, so-called ‘bottom-of-the-pyramid’ markets, which target the disadvantaged part of the population, are beginning to be exploited (Martin 2004), further blurring traditional sector boundaries.

In summary, SE is a historically contingent phenomenon that is related to the transformation of the social sector in response to political and economic changes and the rise of globalization. The next chapter will present different actors engaged in the emerging field of SE that have influenced current interpretations of SE.

2.2 Actors in the emerging field of Social Entrepreneurship

When observing the different kinds of actors in what currently comprises the area of SE, it is remarkable that they come from all parts of society: business, academia, civil society and politics. This chapter will briefly introduce some exemplary actors from each field, providing a better understanding of their respective engagement in SE.

An increasing number of supportive organizations, which regard SE as a promising approach or even as a panacea to address social challenges, are being founded in order to promote the development of the field. These organizations have to be considered significant when trying to understand the phenomenon of SE, as they are the driving force which supports and promotes SE, and which are seeking to define the field and mobilize interest and resources. They have their own definitions of SE and apply different criteria to identify social entrepreneurs that often have to pass a rigorous process in order to be selected to join a network, membership, or fellowship (Grenier 2006).

Various examples of successful *businessmen* and a new generation of philanthropists engaging in such supportive organizations can be found in Europe and the USA. Usually, networks and support organizations are created to provide a diverse set of services that range from grant-giving and consultancy to elected membership communities.

The first example of such an organization dedicated to SE is Ashoka - Innovators for the Public, created in 1980 by Bill Drayton, a former McKinsey consultant, who applied his business knowledge to the social sector. Ashoka is considered the pioneer in SE and perhaps the most influential and well established network in the field of SE (Nicholls 2006). This organization will be analyzed in more detail in the case study of a venture philanthropy organization in chapter three.

In 1998, Professor Klaus Schwab, president and founder of the World Economic Forum, started the Schwab Foundation for Social Entrepreneurship "to encourage and foster entrepreneurs working for the public interest - to support them and provide them with access and funding to an international platform for experience that they might otherwise lack" (www.schwabfound.org). Selected social entrepreneurs have been invited to participate in the annual meetings of the World Economic Forum in Davos, Switzerland, for the last years in order to support the development of the field of SE.

In 1999, Jeff Skoll, co-founder of eBay, created the Skoll Foundation "to advance systemic change to benefit communities around the world by investing in, connecting and celebrating social entrepreneurs" (www.skollfoundation.org). It realizes the annual Skoll World Forum on Social Entrepreneurship that brings together practitioners and thought leaders in the emerging field of SE.

In the United Kingdom, the *government* encourages SE officially and the administration of a £100 million permanent endowment fund of the Millennium Awards Trust, established in 2003, was assigned to UnLtd. - The Foundation for Social Entrepreneurs (www.unltd.org.uk), to ensure that people across the UK will continue to benefit from this Lottery money for generations to come. Another example for the belief of British Government in SE as a promising approach is the Department of Health that established in 2006 a Social Enterprise Unit to "encourage innovation and entrepreneurialism in health and social care and pave the way for new services which better meet patients' and users' needs" (Department of Health Press release 2006).

In *academic attention*, “The Rise of the Social Entrepreneur” (Leadbeater, 1997) seems unstoppable: a review in 2002 pointed out that 75 per cent of articles on SE had been published in the last three years of a period of fifteen (Gentille). Within this period, a considerable number of teaching and research centres emerged at various renowned universities in North America and Europe, promoting academic study on this new phenomenon, in order to advance the understanding of SE and enable students to study SE and social innovation by integrating it into their curriculum. The Harvard Business School's Initiative on Social Enterprise pioneered this initiative in 1993 and gradually more universities started to dedicate resources to this field, just like the Center for Social Innovation at Stanford University (since 2000), the Center for Advancement of Social Entrepreneurship at Duke University's Fuqua School of Business (since 2002), the Research Initiative on Social Entrepreneurship at Columbia Business School (since 2002), the Skoll Center for Social Entrepreneurship at Saïd Business School at Oxford (since 2003), etc.

This growing interest in SE is a clear sign of the potential associated with this phenomenon, which has been institutionalized for more than 25 years as a field of practice, but as a field of research, it is still in its infancy. The following part will approach the phenomenon of SE by building its understanding on current theories of entrepreneurship in order to define the particularities of ‘social’ entrepreneurship in comparison to its conventional business cousin and analyze how these characteristics become manifest in the socially entrepreneurial process.

3 The definition and process of Social Entrepreneurship

As SE operates in different forms in a broad field all over the globe, a definition of SE is highly problematic. Are there common patterns that can be observed throughout these diverse initiatives all over the world? Some supplement hospital care to children from low-income communities in Rio de Janeiro (www.criancarenascer.org.br), while others teach aggressive men in Germany how to control anger by using boxing (www.hand-in.de)? It is important to bear this in mind in the effort to define SE and its characteristics as a global phenomenon, as

> […] the dominant definitions of social entrepreneurship in the UK may make no sense to actors in other countries, because they do not resonate with their personal experience and the history they look at to situate their observations. (Martin 2004, p. 9)

Current definitions of SE range from regarding it as belonging to theories pertinent to the nonprofit sector to a totally new, intersectorial field of study (Perrini 2006). The following two definitions are an example of the heterogeneity observed within the study of SE:

> Social Entrepreneurs are nonprofit executives who pay increasing attention to market forces without losing sight of their underlying mission, somehow balancing moral imperatives and the profit motives – and that balancing act is the heart and soul of the movement. (Boschee, 1998)

> It's a process whereby the creation of new business enterprise leads to social wealth enhancement so that both society and the entrepreneur benefit. These benefits include the creation of jobs, increased productivity, and enhanced national competitiveness and better quality of life. (MacMillan, 2003, cited in Perrini 2006)

These observations show that the phenomenon of SE is associated with different notions and expectations. Whereas Boschee regards it as pertinent to the non-profit sector, MacMillan associates SE to business ventures that act with a double bottom line by creating social and economic value.

In order to understand SE, this paper will define the term 'entrepreneurship' in the first place, creating a basis on which to analyze the process of 'social' entrepreneurship in contrast to the conventional business entrepreneurship and consequently understand characteristic aspects of the phenomenon. A definition of SE has to take into account the diversity of socially entrepreneurial phenomena while drawing certain boundaries to the concept. Absent such boundary setting, SE runs the risk of not living up to the expectations put into it, as a result of failed 'non-social' or 'non-entrepreneurial' efforts which claim to act within the concept of SE (Martin and Osberg, 2007).

3.1 Definition of entrepreneurship

The term entrepreneur, a loanword from French stems etymologically from the word *entreprendre* meaning to undertake, in terms of operating a venture. In the 19th century, French economist Jean Baptiste Say defined an entrepreneur as someone who "shifts economic resources out of an area of lower and into an area of higher productivity and greater yield." (cited in Dees 2001). In this view, entrepreneurship is about <u>creating value</u>. Austrian economist Joseph Schumpeter's theories in the 20th century on entrepreneurship are closely related to what he called *Unternehmergeist*, a German expression meaning entrepreneur-spirit, and defined entrepreneur as someone, whose function is

> […] to reform or revolutionize the pattern of production by exploiting an invention, or more generally, an untried technological possibility for producing a new commodity or producing an old one in a new way, by opening up a new source of supply of materials or a new outlet for products, by reorganizing an industry and so on. (Schumpeter 1942, p. 132)

In this context, entrepreneurs are <u>innovators</u> who drive the process of creative destruction which Schumpeter considered the defining element of capitalism (Schumpeter 1942). They precipitate major structural changes in the economy, as they are „the change agents in the economy. By serving new markets or creating new ways of doing things, they move the economy forward." (Dees 2001, p.1).

Current theories integrate further aspects when it comes to describe the characteristic elements of entrepreneurship. Peter Drucker (1985 cited in Dees 2001) stressed the concept of <u>opportunity</u>, arguing that you do not necessarily have to cause change to be an entrepreneur; instead you exploit the opportunities created by change (in technology, consumer preferences, social norms, etc.). Drucker regards the entrepreneur as someone who "always searches for change, responds to it, and exploits it as an opportunity." (1985 cited in Dees 2001). The entrepreneur sees a changing environment through a lens that tries to discover chances and possibilities rather than obstacles; therefore, opportunity is always bound to a specific context that determines the emergence of an entrepreneurial venture. Drucker's concept remains true to the Say-Schumpeter tradition while adding the new element of opportunity to create value. He points out that starting a business is neither sufficient nor necessary for being considered an entrepreneur. If there is nothing especially innovative or change-oriented in a venture, it can hardly be considered entrepreneurial (Perrini 2006). At the same time, an entrepreneurial opportunity may also occur and consequently be exploited in public service institutions, explaining why it is not necessary to launch a business for being considered an entrepreneur (1985 cited in Dees 2001).

Howard Stevenson, a Harvard Business School professor for business management, builds on the theory of Drucker and adds another element to his concept of opportunity exploitation: resourcefulness. According to Stevenson (1983 cited in Dees 2001), this distinguishes entrepreneurial management from 'administrative' management, as the entrepreneur pursues an opportunity without regard to resources currently controlled. Administrators allow the resources available to limit their visions and actions, whereas entrepreneurs look for the means to make come true their vision, rather than to focus on obstacles that hinder the endeavour. They are willing to take risks to achieve their goals and entrepreneurship is the method that distinguishes from administration in the use of tools.

All these characteristics of entrepreneurship are not limited to business start-ups, nor do they require a profit motive, so that they can easily be applied both in the business and the social sector.

In summary, I offer the following definition of entrepreneurship which is based on the strong tradition of Say, Schumpeter, Drucker, and Stevenson. It seeks to offer a foundational concept on which to elaborate an accurate understanding of the phenomenon of SE in the following chapter:

Entrepreneurship is the combination of resources usually beyond control in an innovative way in the pursuit of opportunity in order to create value.

3.2 Social Entrepreneurship vs. Business Entrepreneurship: Analyzing the process and defining the difference

These aspects of entrepreneurship mentioned above can become manifest anywhere, allowing it to occur in different spheres and not being limited to the conventional economic sector, although this is where it has mostly developed. Therefore, social entrepreneurs have to be considered one species in the genus entrepreneur (Dees 2001). This chapter will analyze the context in which SE materializes in form of a socially entrepreneurial venture (SEV) and look at its underlying process in order to define the difference between SE and its conventional counterpart: Business Entrepreneurship (BE).

Organizational form

A first approach when trying to define what distinguishes SE from BE is to look at the venture's organizational form. Obviously, business entrepreneurs are limited to act within for-profit structures, but what about their social counterparts? Social entrepreneurs are innovative when it comes to exploit different organizational forms in the pursuit of an opportunity, disregarding institutional and organizational norms and boundaries (Nicholls

2006).

As mentioned above, entrepreneurship does not require the launching of a new organization or business, but still it is likely that many entrepreneurs will opt for this way at some moment in their work. When reaching this point, the primary distinction between SEVs' organizational forms lies in which funding models are adopted with respect to achieving the respective social objective; this is at the heart of their organizational diversity that is illustrated in the figure below. According to Nicholls (2006, p. 12), social entrepreneurs

> […] employ for-profit, not-for-profit, and hybrid organizational forms (or a mix of all three) to deliver social value and bring about change. Such ventures can variously be incorporated as: charities, co-operatives, companies limited by shares or guarantee, community businesses, development trusts, as well as more conventional private limited companies.

The funding model determines the degree of relative financial dependency that ranges from self-sufficiency to complete external dependency:

Figure 1: Organizational forms of Social Entrepreneurship with regards to its funding dimensions

Source: Adapted from Nicholls (2006)

The decision to be a for-profit or a non-profit entity certainly depends on the area where SE appears, as human rights issues are less likely to offer a financial opportunity than micro-credits. However, the decision is also important with respect to other issues, as it sends out a message to potential stakeholders and funders. In most countries, the legal structure of non-profit organizations does not permit them to pay any dividends to boards members and all profits from year to year must be reinvested in the organization, cutting off the chance for creating personal wealth. As a result of this legal status, non-profits have tax-exempt status, creating incentives for possible contributors to donate funds and resources as they are given significant tax alleviation for doing so. In contrast to this, a for-profit status permits the creation of personal wealth in the pursuit of opportunity to create primarily social value. In addition, a for-profit structure can signal to the environment that they are 'serious' about organizing their venture with efficient business processes (Robinson 2006). In some countries, e.g. the UK, the government has already adapted to the changes observed in the social sector where hybrid organizations emerged and introduced a new legal form: the

Community Interest Company, part non-profit, part equity offering limited company (Nicholls 2006).

However, one organizational form has attracted particular public attention: the social enterprise. Whilst social enterprise and SE are sometimes used as synonyms (especially in the USA), the former is, in fact, a subset of the latter fitting within a broader view of SE. Social enterprises strive to reach self-sufficiency via the creation of income streams by exploiting profitable opportunities in the core activities not-for-profit venture or via for-profit subsidiary ventures and cross-sector partnerships with commercial companies (Nicholls 2006).

Value Proposition

According to Yunus' description of two types of entrepreneurs, their source of motivation is what distinguishes them: profit vs. 'doing good'. But can the expectation of making money really be considered the driving force behind an entrepreneurial venture? In most cases of business entrepreneurship, the prospect of obtaining a major financial gain is against all odds. Therefore, in harmony with Martin and Osberg (2007) and based on the definition of entrepreneurship elaborated above, this paper pursues a broader approach and does not merely ascribe the difference between these types of entrepreneurs to their motivation: financial gain vs. altruism. Instead, it is suggested that entrepreneurs are motivated by the opportunity they identify. They pursue that opportunity persistently and derive a considerable psychic reward from the process of realizing their ideas. Therefore, the critical distinction between those two types of entrepreneurs lies in the value proposition itself.

For business entrepreneurs, the creation of economic value, namely financial profit, is a logical consequence of their value proposition that anticipates and is organized to serve markets that are able to comfortably afford the respective innovative product or service offered by the entrepreneur. Financial profit is a necessary condition for the survival of their venture, as it ensures sustainability. The derivation of personal financial gain both for the entrepreneur and the investors in the successful pursuit of this opportunity can be expected.

In contrast, social entrepreneurs are not expected to create substantial economic wealth, neither for themselves nor for the investors. This assumption is linked to the idea of social entrepreneurs working in the non-profit sector. But as mentioned above, SE is more complex and crosses organizational boundaries in order to achieve its goals. It is not that social entrepreneurs are against making profit, it just depends on the organizational form they consider appropriate in the pursuit of the opportunity: for a socially entrepreneurial for-profit venture, the creation of economic value is as indispensable for its survival as for a business entrepreneur. In these cases, both the social entrepreneur and the investors are expected to obtain a personal financial gain. What distinguishes social entrepreneurs is the primacy of social value creation. The nature of this value proposition determines the difference between SE and BE:

> […] the social entrepreneur aims for value in the form of large-scale, transformational benefit that accrues either to a significant segment of society or to society at large. (Martin and Osberg, 2007)

Wealth creation or profit may be part of the employed strategy, but they become means to achieve the social end. For a social entrepreneur, "profit is not the gauge of value creation; nor is customer satisfaction; social impact is the gauge." (Dees 2001, p.4). In this paper, social value also comprises efforts in the environmental area that some authors prefer to distinguish by applying the term 'ecopreneurship' (Hockerts 2006).

Operational context

This value proposition leads to another observation concerning the process towards the creation of value. Value creation is determined by the market in which the product or service operates and therefore by its costumers.

> Unlike the [business] entrepreneurial value proposition that assumes a market that can pay for the innovation, and may even provide substantial upside for investors, the social entrepreneur's value proposition targets an underserved, neglected, or highly disadvantaged population that lacks the financial means or political clout to achieve the transformative benefit on its own. (Martin and Osberg, 2007)

Here it can be observed that an entrepreneur needs to target a specific type of customer in order to create major economic or social value. Not surprisingly, SE has to target disadvantaged parts of the population to be able to create substantial social value. This target group is embedded into a special social context. In order to obtain a better understanding of the so-called social sector market where SE occurs, it is helpful to have a look at the main operational areas where Bornstein observed socially entrepreneurial activities (2004 cited in Nicholls 2006):

- Poverty alleviation through empowerment, for example the microfinance movement;
- Health care, ranging from small-scale support for the mentally ill 'in the community' to larger-scale ventures tackling the HIV/AIDS pandemic;
- Education and training, such as widening participation and the democratization of knowledge transfer;
- Environmental preservation and sustainable development, such as 'green' energy projects;
- Community regeneration, such as housing associations;
- Welfare projects, such as employment for the unemployed or homeless and drug and alcohol abuse projects;

- Advocacy and campaigning, such as Fair Trade and human rights promotion.

This provides an idea of social entrepreneurs' main areas of work in the social sector market. Of course, these areas do not have clear boundaries; instead they overlap with another. This is due to the fact that the underlying social needs that are met by social entrepreneurs are the symptoms of complex diseases, for instance health is related to poverty, education, environmental conditions, etc. Often, this social sector market is affected by transitions and inequalities in the economy. Therefore, social entrepreneurs develop consciously cross-boundary activities to maximize their value creation. This social sector market where they operate is also referred to as the third sector, the independent sector and the citizen sector (Bornstein 2004). It is the part of the economy that provides all of the social services and products in any community and has direct benefit to society. Those benefits can be strictly social or environmental or both. Governmental agencies, NGOs, private companies, and private citizens all participate in this sector (Robinson 2006). Therefore, SE may appear within all spheres that deal with social concerns, including the public and private sector. In this context SE is best understood as a multi-dimensional and dynamic construct that moves across various intersection points between these different sectors (Nicholls 2006). In the public sector SE may become manifest with the adoption of business skills, whereas in the private sector a business that focuses on social ends might be considered SE and finally in the conventional social sector, non-profit organizations would adopt more entrepreneurial approaches (Leadbeater 1997).
In summary, social entrepreneurs typically address areas of unmet social need or new social opportunity creation that the conventional public or private sectors have failed to address (Nicholls 2006). SE's operational context is rather large in comparison to conventional business and therefore might serve as an indicator that an entrepreneurial venture is 'social'.

Opportunity

> The pessimist sees difficulty in every opportunity. The optimist sees the opportunity in every difficulty. (Winston Churchill)

Entrepreneurs are *qua definitione* optimists, as they would never take action if they were not convinced that they were right. Entrepreneurship occurs wherever opportunities emerge and where enterprising individuals wish to take advantage of them (Perrini 2006).
As outlined above, entrepreneurs operate in markets and according to Kirzner (1973, 1979 cited in Singh 2000), an entrepreneurial opportunity is an economic disequilibrium that can be exploited by bringing the market to equilibrium. In addition, it can be argued that an equilibrium which is suboptimal also represents an entrepreneurial opportunity, as there is potential for improvement. With our broader view of entrepreneurship as a process that is not

limited to the economic dimension, this definition can be applied to the social market as well. Entrepreneurial opportunities always exist, regardless of the ability of individuals to recognize and exploit them. In the social market, disequilibria occur wherever social needs are not met appropriately. These social needs are not limited to a particular category (e.g. poverty alleviation), but to the possibility to enhance social conditions and promote extensive social change (Perrini 2006). Social entrepreneurs perceive this disequilibrium or suboptimal equilibrium that results in exclusion, marginalization, or suffering of a certain part of the population that is not able to change this state on its own.

Resources

In the pursuit of opportunity, entrepreneurs mobilize resources (capital, labour, equipment, etc.) to achieve their goal and when analyzing the nature of resources that social and business entrepreneurs mobilize, SE proves to be innovative: It adapts traditional business practices to unexpected resources, such as low-income or at-risk workers, volunteers, networks, etc. (Perrini 2006). However, this is not to be considered an exclusion criterion for a SEV, as it is contingent to the context and the nature of the social need being addressed; but social entrepreneurs are likely to recur to this approach of building local capacity as part of their venture's process in order to create social value. This corresponds to the concept of Human Development (HD), namely the creation of an enabling environment for the target group, an approach elaborated by the economist Amartya Sen (2000) as part of his notion of 'development as freedom' that was adopted by the United Nations Development Programme (UNDP) and determines current efforts in the area of development cooperation.

Innovation

> Creativity is thinking up new things. Innovation is doing new things. (Theodore Levitt)

Due to its abstract nature, an operationalization of innovation is a challenging endeavour, but the following questions will help to draw some boundaries to this term. Just as Levitt says, "Innovation is doing new things", this paper argues that innovation is a more outcome-oriented concept, drawing a line to what is referred to as invention. But how 'new' does a product, service, technology, etc. should be to be considered an innovation? It is recommendable to define innovation in a relative rather than an absolute sense, as global breakthroughs like steam engine or electricity are rare. In harmony with Martin (2004, p. 17, emphasis in original text), innovation is defined "as the adoption of an idea or behaviour that is *new to some social system* rather than completely new". He continues to argue that performance improvement of an already existing innovation can qualify as well. As the definition of entrepreneurship shows above, the innovative combination of resources is considered entrepreneurial; therefore when resources to duplicate existing services for poor and marginalized groups are not available, creative initiatives that reconfigure existing resources for more effective or wider delivery are imperative to serve wider populations. Such an approach matches the criterion of a socially entrepreneurial innovation (Alvord et al. 2002).

The effectiveness of an innovation, i.e. its potential to create social value, is strictly linked to a fitting business model, which represents the output of organizational launching and functioning (Perrini 2006). Both BE and SE do not require, but can include, the creation of a new organization.

Both the business and the social entrepreneur try to maximize their value, but they differ in the way to achieve this goal, due to the nature of their objective: business entrepreneurs' behaviour in the pursuit of opportunity is linked to their mission of preserving their profit as long as possible, maintaining the first-mover advantage (Perrini 2006). Imitation of the innovative product or service created is to be avoided. In contrast to this, social entrepreneurs try to scale up their impact in order to achieve their social mission by spreading their innovation. Such an innovation in the social sector deals with developing, applying, or introducing new ideas, behaviours, products, and processes, and contributes to a reduction of social burdens, or in general to specified social targets. In the process of spreading their innovation, social entrepreneurs help other actors to replicate the successful scheme independently (dissemination), create networks of organizations with the same purpose (affiliation), or create local units coordinated by one large organization (branching) (Dees et al., 2004). These approaches can be observed along a continuum, from a low to high degree of central coordination and required resources (Perrini 2006).

At the same time, social entrepreneurs will always analyze their venture's potential of creating economic value, as this would ensure self-sufficiency and a long-run sustainability, setting in motion a virtuous circle. However, neither are all SEVs apt to create economic value nor do all social entrepreneurs possess the necessary skills for such an endeavour. But social entrepreneurs will undoubtedly look for it as it represents an important means towards the achievement of their goals.

According to Bornstein, one of the characteristics of social entrepreneurs is the following:

> […] they are possessed, *really possessed* by an idea […] and making it [the idea] happen across the society – is something they are married to in the full sense of the word. (2004, p. 122 emphasis in original text)

In other words, they aspire to achieve a systemic change in all of society, aiming to sustain the value created. Their innovation is a means in the pursuit of long-term objectives that starts from the perceived social disequilibrium and works towards the creation of a new stable equilibrium.

Definition of SE and BE

Recapitulating these aspects, this paper defines these two different types of entrepreneurship as follows:

Business Entrepreneurship (BE) is the combination of resources usually beyond control in an innovative way in the pursuit of opportunity in order to create primarily economic value.

Social Entrepreneurship (SE) is the combination of resources usually beyond control in an innovative way in the pursuit of opportunity in order to create and sustain primarily social value. This can occur within non-profit, for-profit or hybrid entities in the public, private or social sector.

As detailed above, the 'social' aspect is the thread that can be found in practically all aspects that determine the entrepreneurial process: context, value proposition, opportunities, innovation. The primacy of social value creation determines the concept of SE.

3.3 Entrepreneurial traits in the process of SE

As shown above, entrepreneurs are a special type of leader that are conscious of disequilibria in the markets, recognize opportunities, come up with an innovation and do not stop until they have implemented it at a large-scale. In the theory of entrepreneurship, a person-centred perspective was frequently used in order to describe the personal characteristics of entrepreneurs, isolating traits that distinguish entrepreneurs from other people. These qualities are decisive for a successful entrepreneurial venture and therefore this section will outline some of these traits that are, due to its nature, difficult to measure but should not be underestimated. According to Martin and Osberg (2007), these characteristics that are fundamental for the process of innovation can be summarized as follows: inspiration, creativity, direct action, courage, and fortitude.

Entrepreneurs are inspired to change disequilibrium once they are aware of its existence. They see the opportunity in it and use their creativity to develop new solutions. Once in possession of the creative solution, the entrepreneur takes direct action by creating a new product or service, namely the innovation. Throughout the process of implementation of the innovation, namely the organizational launching and functioning, entrepreneurs demonstrate courage as they are often forced to take risks. Finally, entrepreneurs possess the fortitude to drive their innovation until it has created the desired new stable equilibrium, finding ways around barriers and challenges that arise along this endeavour. What distinguishes social entrepreneurs from their business equivalents is their social value proposition that manifests itself along the whole ‘social’ value chain.

The following figure is based on the analysis of the process of a SEV above and takes into account these entrepreneurial traits in order to illustrate and summarize the observations of SE that were being made in the preceding parts:

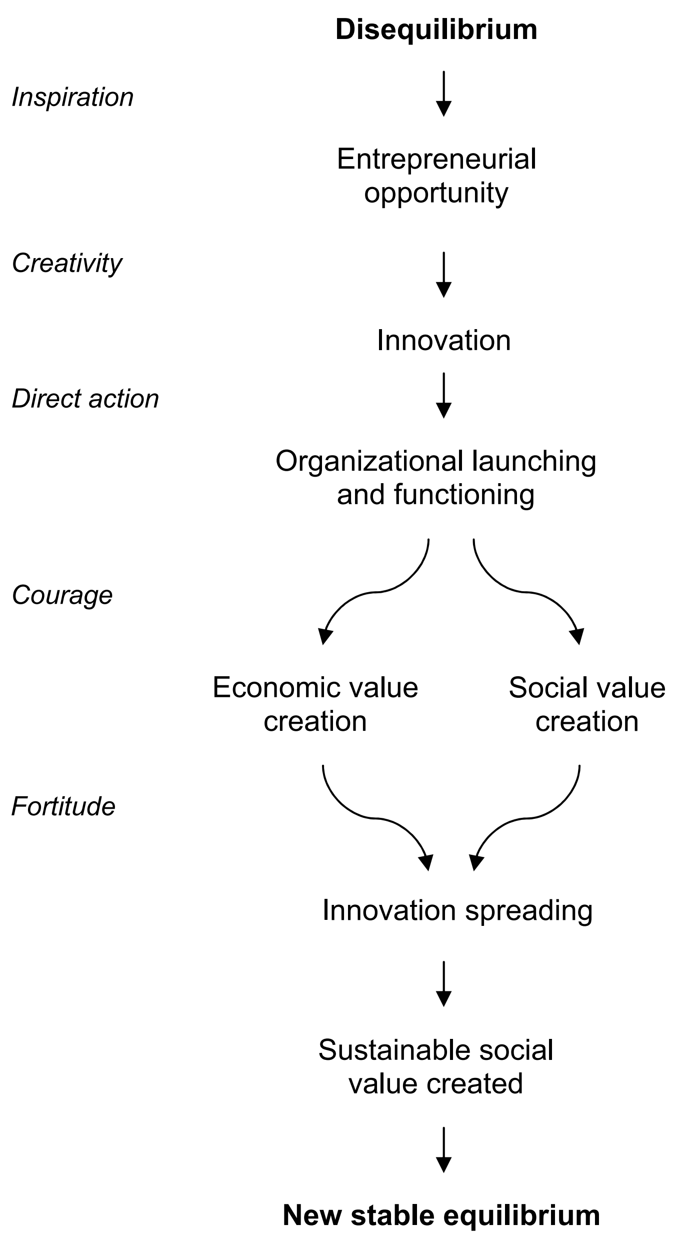

Figure 2: Process of a socially entrepreneurial venture

Source: Adapted from Perrini and Vurro (2006)

3.4 The assessment of value creation

After analyzing the process and elaborating a definition of SE, it is important to raise the question of how to assess the performance of a SEV in its efforts to create a new stable equilibrium. As shown above, all entrepreneurs' common goal is the creation of value with regards to achieving a new stable equilibrium. Therefore, the actual value created determines the performance of the entrepreneurial venture (Nicholls 2006). This part will compare the nature of economic and social value and the tools currently being used to measure the extent of its creation.

Economic value

All other concepts of economics are substantially derived from ideas about economic value, about how much the product or service is worth to someone relative to other things. Money, for instance, is just a tool for handling value: storing it, transacting it, and so on (Mulgan 2006). Nowadays, there are well-established methods for determining the economic value created and it is clear who does the valuing. There is often a misleading assumption that value in business is a rather unproblematic concept that is easily defined, measured, and managed. On the contrary, the current system is the result of a long history of innovation in accounting techniques to capture value. Major hurdles had and still have to be taken: how for instance to allocate the costs of design, development, testing, and vast factories in the manufacture of aeroplanes (Mulgan 2006)? How to judge the value of brands and intellectual property? Those observations are necessary to show the complexity of value even in a field where it seems to be easily defined at a first glance.

Usually, the creation of economic value happens in the for-profit sector, with wealth creation as the traditional way of measuring the performance of the venture. Those entrepreneurs acting in the for-profit sector can expect to participate in shared assumptions and shared processes of valuation (e.g. looking at price/earnings ratios) (Young 2006). Wealth creation is their venture's bottom line as they are

> […] subject to market discipline, which determines whether they are creating value. If they do not shift resources to more economically productive uses, they tend to be driven out of business. […] Value is created in business when customers are willing to pay more than it costs to produce the good or service sold. The profit (revenue minus costs) that a venture generates is a reasonably good indicator of the value it has created. (Dees 2001, p. 3)

Such a market discipline ensures that only successful ventures can continue their work, it is a natural selection mechanism guaranteeing the quality of entrepreneurial ventures. This aspect of firm survival has been the second major aspect in the assessment of entrepreneurial outcome (Haugh 2006). At this point, it is important to bear in mind that SEVs can also occur within for-profit structures in the form of social enterprises. Therefore, wealth creation is a criterion in the evaluation of the performance of any entrepreneur within the for-profit and hybrid-sector, including social entrepreneurs. If a social enterprise does not succeed to work profitably, it will consequently be driven out of business, no matter if it acts within a social value proposition. On the other hand, if it does well, the economic value created will contribute to creating the new stable equilibrium. In contrast to BE, wealth creation would only be part of the employed strategy of SE; it becomes a means to achieve the social end (Dees 2001).

Social Value

According to the definition of SE elaborated above, the socially entrepreneurial process focuses on the creation of primarily social value. Whereas economic value is a relatively familiar concept, the notion of social value remains very vague. Perrini (2006, p. 25), describes it as the

> […] enhancement of social conditions in the form of, for example, improvement of working conditions, access to technological progress, integration and participation within the community, and so on.

In other words, social value is created wherever an unmet social need is satisfied. Currently, there are numerous qualitative and quantitative approaches towards its measurement, aiming to provide a new tool for this sort of value. They range from balanced scorecards, triple bottom lines, social audits in business, benchmarking, cost benefit analysis, customer satisfaction survey in public sector to human development and quality of life indices (Young 2006). The Research Initiative on Social Entrepreneurship (RISE) at Columbia Business School pointed out in a study that there does not exist yet a comparable standard for social impact accounting, although a number of best practices are emerging. They observed three different functional types of methods during their research:

> 1) *Process Methods* are tools used to track and monitor the efficiency and effectiveness of outputs, variables or indicators management uses to track ongoing operational processes. Outputs can then be evaluated by the extent to which they correlate with or cause desired social outcomes.
>
> 2) *Impact Methods* are tools that relate outputs and outcomes, and attempt to prove incremental outcomes relative to the next best alternative.
>
> 3) *Monetization Methods* monetize outcomes or impact by assigning a dollar value to them. (Clark et al. 2004, p. 8)

These three types complement each other: in order to get to a high quality assessment of impact, good tools to track process outputs are indispensable. Impact assessment data is best used to inform process management. Similarly, monetization methods are based on accurate process data and assumptions about the economic value of outcomes which are drawn from historical evidence and other outside data.

The key terms in the assessment of social value are inputs, outputs, outcomes and impact. The following model of an impact value chain will illustrate the relation between them:

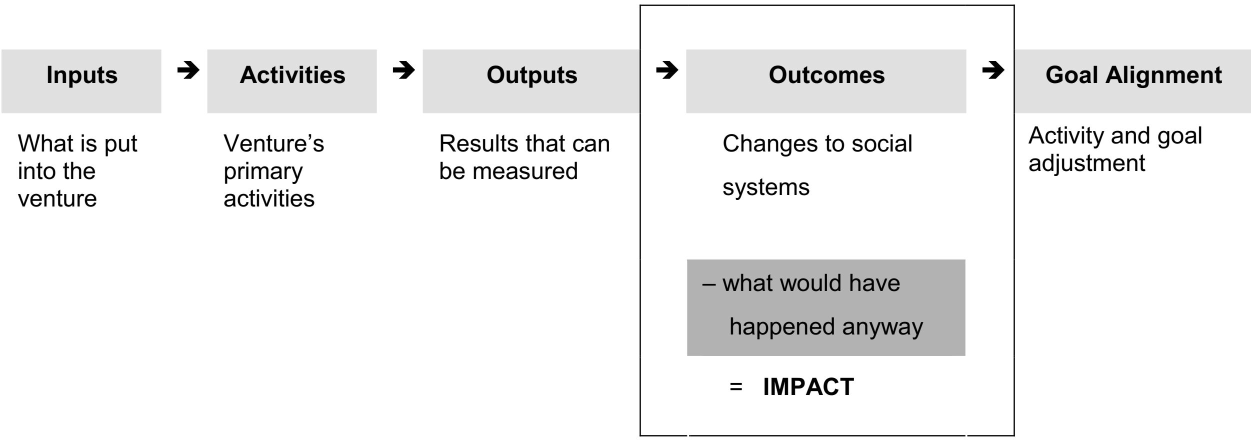

Figure 3: Impact value chain

Source: Adapted from Clark et al. 2004

In summary it can be said that inputs refer to the resources invested in an activity (costs), whereas outputs describe the direct and tangible products from the activity, (e.g. people trained, trees planted, products sold). The term 'outcomes' is used to describe the changes to social systems that can be observed as a result of the initiative (e.g. new job, increased income, improved stability in life). Impact refers to the outcomes less an estimate of what would have happened anyway (e.g. people that would have found a new job without the activity).

The objective of these measuring tools are clear: an assessment of the social value created helps the organizations working in the social sector to communicate specific details of their work in order to be acknowledged both by external and internal stakeholders. In addition, it permits them to improve their work by refining their program management with a more effective planning and evaluation system (London Business School - The SROI Primer 2004). At the same time, it is crucial for decision-making of investors interested in financing social activities. This is based on the simple idea of 'what gets measured gets attention'.

Among the best practices that are consolidating currently is the following approach, introduced to the public in 1996 by the REDF (formerly the Roberts Enterprise Development Fund) to track value creation in the non-profit sector: the Social Return On Investment (SROI). SROI is an analysis of the economic value created by social and environmental benefits. Therefore, it represents a development of traditional cost-benefit analysis as a way of translating some of the social objectives of organizations into financial measures, generally gains or losses to public expenditure. Currently, this SROI approach can only be applied in particular sectors and organizations, usually employment-related initiatives.

The method's credibility is higher than most other approaches presently employed in the social venture field because it can be based on actual data on the venture's outputs and outcomes, and on proxy research. SROI shows a high feasibility and low cost for the organization if there is already an intention to collect the venture's needed cost, revenue, and outcome data. Otherwise, the method is rather difficult and costly. Apart from this problem of poor impact measurement that is based on a weak research design, there are further problems related to this concept such as its poor social accounting framework, i.e. the lack of clarity about the party from whose perspective benefits are calculated. In addition, there is no mechanism ensuring that outputs or outcomes are not misinterpreted as impacts (Clark et al. 2004, p. 32).

This area of 'social value' is probably one of the greatest challenges SE will have to face in the future, as the tricky question is what to measure and how to measure it. Therefore, the great diversity of outputs and outcomes associated with SE need to be mapped within a new major direction of research. It is likely that best practices will continue to consolidate in different segments of the social sector but it is to be questioned if there will ever be a universal applicable tool for the assessment of social value due to its diversity. Social value created in the area of education is hard to compare to an organization that works in the field of health care.

As this discussion shows, there has not been reached an agreement yet on how social value can be measured and it is likely that this debate will continue for quite a long time. In the meantime, as the evolution of the phenomenon will not wait for an academic consensus on definitions, this paper will proceed with the application of the process scheme of SE elaborated to two entrepreneurial ventures in the social sector. Because of this difficulty of measuring the creation of social value, in the following case studies it can be observed how they approach this problem and try to communicate their performance.

4 The case of two socially entrepreneurial ventures

There are many cases on the work of individual social entrepreneurs but little in-depth research has been carried out until now concerning the investigation of common patterns among these initiatives shedding light on successful practices of SEVs. There is a culture of anecdotes about heroic individuals that succeed against all odds and change the world for

the better. This is due to the fact that the field still remains in its infancy and such stories spark the interest of the public in the topic. Bornstein's (2004) book "How to Change the World: Social Entrepreneurs and the Power of New Ideas" is an example for this. Its importance for the development of the field as part of raising awareness about the phenomenon as such and its potential are of utmost significance, however, academic research must go further and demystify how SE takes place (Robinson 2006). Therefore, this paper will now analyze the work of two individuals that are labelled as social entrepreneurs by various actors in the field of SE and apply the definition and process scheme elaborated above to those initiatives. Those two social entrepreneurs, Muhammad Yunus and Vera Cordeiro, chose different organizational forms for their venture in order to pursue their goals.
Whereas the widely known case of Muhammad Yunus' Grameen Bank is compiled from other researches, the Brazilian initiative *Associação Saúde Criança Renascer* is based on the findings of a personal research carried out in 2006.

4.1 Grameen Bank

The Grameen Bank (Village Bank) was founded in 1983 by economic professor, Muhammad Yunus, and his colleagues in Bangladesh. This bank distinguished from its cousins by reinventing the conventional banking model, removing the need for collateral or legally enforceable contracts, promoting credit as a fundamental human right, and choosing the poorest as its target group. This approach did not only defy conventional lending rules but challenged cultural taboos at the time by empowering women in a Muslim-dominated society where they were seldom allowed to touch money or work outside of their homes (Moore 2006). The Grameen banking model is based on mutual trust, accountability, participation and creativity (www.grameen-info.org).

Social Value Proposition

Yunus obtained his social value proposition as a result of the ubiquity of poverty in Bangladesh. 1974 was the decisive year: while he was teaching theories of economics in the university, his fellow Bangladeshis were suffering from a famine. In his Nobel Prize speech, Yunus (2006) explains his engagement in the creation of social value with the following words:

> I became involved [in poverty] because poverty was all around me, and I could not turn away from it. Suddently, I felt the emptiness of those theories in the face of crushing hunger and poverty. I wanted to do something immediate to help people around me, even if it was just one human being, to get through another day with a little more ease.

This social value proposition targets this underserved, neglected, or highly disadvantaged part of the population that lacks the financial means or political clout to achieve the transformative benefit on its own (Martin and Osberg 2007).

Disequilibrium

The disequilibrium in Yunus' case consisted of poor Bangladeshis' limited options for securing even the tiniest amounts of credit. They would not qualify for loans through the conventional banking system as they did not have any collateral. They were forced to accept exorbitant interest rates from local moneylenders in order to borrow small amounts of money or beg on the streets (Martin and Osberg 2007). Yunus was literally inspired to change this situation, once he was aware of it.

Opportunity

Yunus recognized an opportunity in this disequilibrium: If this underserved and neglected part of population could be served with even tiny amounts of capital, they could invest it in their own capacity for generating income. He was an optimist with regards to the capacity of this part of the population and was eager to prove that they were good credit risks, turning micro-credit into a cost effective weapon to fight poverty and serve as a catalyst in the over all development of socio-economic conditions of the poor (Alvord et al. 2002). With a sewing machine, garments can be tailored, providing a family with enough income to pay back the credit, buy food, send their children to school, and lift themselves up from poverty. Such a system would permit the borrowers to escape from the vicious cycle of 'low income, low savings, low investment, low income' and at the same time ensure Grameen Bank's financial sustainability by charging interest on its loans and then recycling the capital to help other women (Martin and Osberg 2007). Yunus' optimism rested upon the will and capacity of the borrowers to succeed in their micro-enterprises, such as rice-husking, machine repairing, purchase of rickshaws, buying of milk cows, goats, cloth, pottery, etc. (http://www.grameen-info.org).

Innovation

The concept of group lending that is central to Grameen Bank's model was pioneered by Friedrich Wilhelm Raiffeisen and the European credit cooperative movement in the nineteenth-century. This model was already well established in Bangladesh when Muhammad Yunus founded Grameen Bank a hundred years later. In the 1880s, the British colonial government of Madras in South India referred to the German experience in order to address poverty in India. Credit cooperatives soon were mushrooming, counting nine million members in 1946, but eventually lost steam. What can be considered an innovation in this case is that “Yunus was able to *scale* microfinance” (Martin 2004, p. 17 emphasis in original text). Grameen Bank used a creative approach to change the conventional banking model, removing the need for collateral or legally enforceable contracts, promoting credit as a fundamental human right, and making women and the poor and marginalized people its first priority (Perrini 2006, p. 35). Yunus developed a special credit delivery system that ensured the borrowers’ bankability. He regarded the target group not as passive recipients of aid, but as customers. He believed in their capacity to develop, given the right conditions. This is what his methodology ensured: an enabling environment. The borrowers were organized into small homogeneous groups and special loan conditionalities in terms of repayment, support and control were elaborated. During the experimental phase from 1976-78, Yunus made a ground-breaking discovery concerning the target group:

> I realized that credit given to women brought about changes faster than when given to men. Relatively speaking, hunger and poverty are more women’s issues than male issues. Women experience hunger and poverty in much more intense ways than men. The mother has to go through the traumatic experience of not being able to breastfeed her infant during the days of famine and scarcity. […] Poor women had the vision to see further and were willing to work harder to get out of poverty because they suffered most. […] When a destitute mother starts making some income, her dreams invariably centre around her children. […] A mother’s second priority is the household […] [in order to] improve the family’s living conditions. (Yunus 2003, p. 88)

These findings resulted in Grameen Bank’s innovative approach that represents the basis for its success.

Organizational Launching and Functioning

This micro-credit initiative started as an experimental project in 1976 and it was not until 1983, when Yunus recognized that the time had come to take direct action and incorporate the Grameen Bank as a for-profit, specialized bank for the poor. This for-profit organizational form implies that Yunus was eager to prove that his approach also made sense when measured in economic terms. Its *modus operandi* will be outlined shortly, introducing the pattern-breaking system that has changed the traditional banking landscape: Wherever a Grameen Bank branch covering an area of about 15 to 22 villages is set up, groups of five prospective borrowers are formed. At the beginning, only two of them receive a loan and are observed by the bank. Only if these two borrowers start to repay, do the other members of the group become eligible themselves for a loan. This creates a substantial group pressure to keep individual records clear. The collective responsibility of the group guarantees in lieu of the collateral (http://www.grameen-info.org). In this process, the female target group enhances chances of the successful working.

Value Creation

Yunus' value proposition is the reason for his focus on the creation of primarily social value. At the beginning, his chances to succeed were against all odds, but he had the courage to take risks and pursue the opportunity he had recognized. Yunus' social value proposition is manifest in all areas of Grameen Bank's work, it is its overarching objective, clearly reflected in its decision making and organizational structure. As mentioned above, social value is created where an unmet social need is satisfied. In the case of the Grameen Bank, there is an exclusive focus on the poorest and marginalized part of Bangladeshi population, creating an enabling environment for them to develop. The following numbers will illustrate its achievement in the creation of social value. As of February 2007, Grameen Bank has 7 million borrowers, 97 per cent of whom are women (www.grameen-info.org/bank). The borrowers currently own 94 per cent of the total equity of the bank, permitting them to participate in its success. The remaining 6 per cent is owned by the government (www.grameen-info.org/bank/GBGlance.htm).

At the same time, Grameen Bank ensures the venture's financial sustainability by charging interest on its loans and then recycling the capital to help other borrowers. Therefore, microfinance has a 'double bottom line': 'it does well by doing good', i.e. it combines the creation of social and economic value, making it a social enterprise. This profitability sets in motion a virtuous cycle according to which the more profit is made, the more a problem is alleviated, freeing up resources for complementary activities in order to maximize the creation of social value (Perrini 2006). In a cumulative way the loans given out by Grameen Bank, total about US$ 6 billion, with a 99 per cent repayment rate. It has not taken donor money since 1995 (Yunus 2006).

Innovation spreading

As an entrepreneur, Yunus wanted to maximize the creation of social value, both on a national and a global level. Over the last two decades, the Grameen Bank has been acting on all three levels with regard to innovation spreading, introduced in the SE process model: dissemination, affiliation and branching.

- <u>Branching</u>: With currently 2.381 branches, Grameen Bank provides services in 79.500 villages, covering more than 90 per cent of the total villages in Bangladesh (www.grameen-info.org/bank);
- <u>Affiliation</u>: With the creation of Grameen Trust, one of the largest international networks of micro-credit organizations for the poor and marginalized people, funding, training, technical assistance and other support services are provided to 86 Grameen type credit and savings programs in 28 countries (www.grameen-info.org/grameen/gtrust/vision.html);

- <u>Dissemination</u>: Grameen Bank has promoted its model as "one door through which people can escape from poverty" (Yunus 2003, Preface). Nowadays, there are replications of this model in more than 100 countries, from Uganda to Malaysia to Chicago's South Side (Moore 2006).

Sustainable Social Value created

According to an internal survey, 58 per cent of Grameen Bank's borrowers have crossed the poverty line (Yunus 2006). In order to maximize social value creation, activities were not limited to the traditional micro-credit delivery service. After the commercial side of the approach had proved itself, Grameen Bank was addressing social challenges in terms of infrastructure which the government was not, or inadequately providing. Therefore it introduced loans for housing, education and micro-enterprise. In addition, it offers savings, pensions funds and insurance products for its members. Today, Grameen Bank serves as an example for the process of continuous learning and adaptation of its approach to create and sustain social value, namely to fight and end poverty. Therefore, it was just a logical step that it engaged in topics such as social infrastructure in order to create the necessary enabling environment to win this battle (Yunus 2003). Yunus' fortitude to drive his innovation until it would create a new equilibrium resulted in what is nowadays known as the 'Grameen Family of Enterprises': Grameen Trust, Grameen Fund, Grameen Communications, Grameen, Shakti/Energy, Grameen Shikkha/Education, Grameen Telecom, Grameen Knitwear Limited, Grameen Cybernet Ltd..

New stable equilibrium

As soon as social entrepreneurs achieve to convert the disequilibrium at their venture's starting point into a new stable equilibrium, they will be unemployed. This paradox is any social entrepreneur's ultimate goal, a rather utopian one, but it still remains their vision. Yunus proved the viability of micro-credits as a fundamental weapon in the fight against poverty. More than two decades after the organizational launching of the Grameen Bank, micro-credit has established as a worldwide industry. It has become part of mainstream business. The United Nations designated 2005 the 'Year of Micro-credit' (www.yearofmicrocredit.org), designed to unite Member States, UN Agencies and Microfinance Partners in their shared interest to build sustainable and inclusive financial sectors and achieve the Millennium Development Goals (MDGs). According to the 2006 report on the state of the micro-credit summit campaign, more than 3.100 micro-credit institutions reached about 113 million people all over the globe, 81 million of whom were among the poorest when they took their first loan. Although the goal of reaching 100 million poorest by the end of 2005 was not achieved, the micro-credit approach is on the rise, with the Nobel Peace Prize in 2006 marking another point in the international recognition of micro-credit as a means to eliminate poverty in the world.

Conclusion

What is so appealing about Grameen Bank's approach? Yunus summarizes this attraction by stating that "treating the poor as outcasts is immoral and indefensible; but it is also financially stupid." (cited in Righter 1998). In other words, Yunus manages to combine business with philanthropy, individualism with collectivism, *homo oeconomicus* with *homo socialis*.

Micro-credit is a paradigm for a double bottom line venture, or in other words: a hybrid for-profit organization. It creates sustainable social value with an impressive repayment rate, encouraging more people to do this kind of business: a social business. New approaches are being developed, aiming to prove the viability of other double bottom line ventures, such as the bottom-of-the-pyramid approach praised by Prahalad (2006). Whether they can be considered socially entrepreneurial will depend on the respective entrepreneur's value proposition and his/her approach.

4.2 *Associação Saúde Criança Renascer*

In 1991, Brazilian Dr. Vera Cordeira, a specialist in Psychosomatic Medicine, founded the NGO *Associação Saúde Criança Renascer* (ASCR - Association Health Child Rebirth) in Rio de Janeiro. Its mission is to improve health and living conditions for disadvantaged children discharged from the hospital, providing a follow-up in terms of assistance and guidance to their families.

Social Value Proposition

Vera Cordeiro's social value proposition can be considered a consequence of her work in the public Hospital da Lagoa that services Rocinha, Rio's largest slum. At work, Vera was in daily contact with her patients' world of poverty and misery to which they were obliged to return after treatment, whereas she found refuge in her middle-class apartment. She described these conditions as follows:

> This situation, over many years, created anguish and conflicts within myself. Working as a paediatrician, this internal conflict got worse and made me confront the drastic reality of sick children, who were miserable and helpless. In contrast to the support, health, and education that my children received, I realized that I couldn't live with those extreme realities without acting. (Cordeiro 1993)

Therefore she decided to dedicate her energy to change this status quo and resolve the internal conflicts. She was inspired and began to become obsessed with the idea of changing things that were within her reach and slowly developed a vision.

Disequilibrium

At her work at the public hospital, Vera observed the unfortunate correlation between the family structures of these young patients and their high number of re-admission to the hospital after receiving medical treatment. The absentness of favourable social structures necessary to continue the children's treatment at home, led to a vicious cycle of constant hospitalization/re-hospitalization of this group of patients. Often, they were re-admitted in a deteriorated state compared to their first treatment and in some cases at the second admittance, it was already too late to help them. This is due to the causal link between most diseases and the various dimensions of poverty, such as unclean drinking water, inappropriate sewage disposal, poor housing conditions and malnutrition.

As a result of the inefficient centralized medical system in Brazil, patients often have to wait several weeks to receive in-hospital treatment at public hospitals. There, they receive a symptom-based treatment but a follow-up care to the ones already discharged in order get to the core of their disease was unimaginable. The hospitals simply do not have the capacity for this work, as they cannot even correct the supply-demand imbalance of people needing medical treatment. As centralized bureaucratic health care sector is unlikely to develop creative solutions for this type of problem, responsibility lies again in the hands of the patient's family. The vicious cycle is set in motion: the family cannot cope adequately with this situation; the child relapses and is obliged to return to the hospital, leaving the family in conditions of depression and self-blame.

Opportunity

Cordeiro recognized an opportunity in this disequilibrium: If there was a chance to provide a follow-up, giving support to those juvenile patients' families, this vicious cycle could be broken. Such a follow-up would have to cover all those vital needs that were causing the beginning of this cycle: shelter, healthy nutrition and post operative treatment of the target population.

Innovation

ASCR's innovation is based on the observation and understanding of this vicious circle: Poverty (*miséria*) → illness (*doença*) → hospitalization (*internação*) → release (*alta*) → poverty → …. Rebirth (*Renascer*) intervenes at the critical point where attended children leave the hospital and return to the conditions responsible for their hospitalization. It employs an integral methodology that comprises health, income generation, housing, education and citizenship in order to ensure their patients' long-term health development. This methodology starts at the hospital, working closely with the staff and establishes a close relationship with the patient's family.

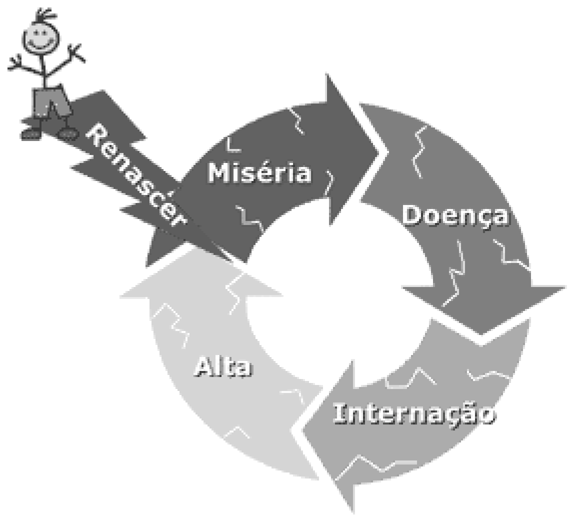

Figure 4: ASCR's approach

Source: Adapted from www.criancarenascer.org.br

Organizational launching and functioning

In 1991, Cordeiro took direct action and founded the ASCR with the support of colleagues and friends in order to recover the target group and restructure their family background. It operates as a non-profit entity with no political or religious affiliation.

As this type of work is not likely to sustain itself financially, Cordeiro had to summon courage and mobilize other resources, such as donations. She convinced people to support her cause by volunteering, i.e. by donating time and energy and obtained grants that permitted her to pursue her goals with the necessary financial background. Currently, ASCR works with more than 160 volunteers, rendering an invaluable contribution to the association's work by interviewing patients, taking care of the treated families, assuring the follow-up and promoting the initiative. The association identifies potential cases at the hospital and develops a close relationship with the patient's family. ASCR's follow-up approach operates on two levels: continuation of illness treatment and prevention of relapse. Therefore, a network with pharmaceutical laboratories and food companies has been created, providing families with medicine or nutritional supplements. ASCR's sustainable approach aims to empower the family, so that it can take care of itself and attend their child's health care needs. The association works with the families for eight to twelve months, creating an enabling environment for their target group to develop and effectively address their needs as far as possible. During this process, ASCR provides substantial customized assistance such as psychotherapeutical support, nutrition advice, vocational training, information on sexually transmitted diseases, support with parental drug and alcohol abuse, housing improvements etc. In return, the family donates time and work force, contributing to ASCR's work in the office, delivery of supplies, etc.

Value Creation

Cordeiro's approach to satisfy the observed social need and contribute to the creation of a new stable equilibrium in this local social sector does not imply yet a strategy to create substantial economic value. ASCR generates certain revenue with the organization of events but this approach has not been able yet to capitalize on the social need in monetary terms. It creates virtually merely social value and therefore cannot be categorized as a social enterprise such as the Grameen Bank.

From 1991 to February 2007, ASCR protected more than 8.130 children and adolescents from relapsing into bad health conditions, organizing about 1.950 professional training courses for the supported families to gain the ability to generate income and consequently improve the family environment that ultimately determines the outcome of a child's physical health and life expectancy. The parents are once again responsible for the well-being of the young patient and now they are capable of succeeding.

The following figure illustrates the results of ASCR's work in terms of child's health improvement at the beginning of the intervention and at the project discharge. The information was collected during a survey carried out in 2004 using a sample of 200 families who were being assisted by ASCR's program.

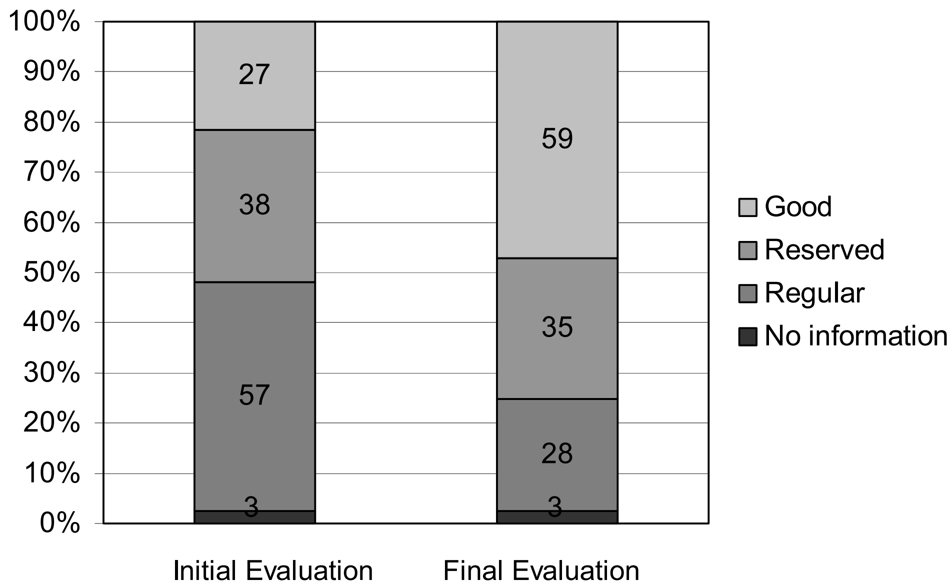

Figure 5: Comparison of the child's health at the beginning of support and at the project discharge

Source: Adapted from www.criancarenascer.org.br

Innovation spreading

As soon as Cordeiro's methodology proved right, she started efforts to spread her innovation. Most public hospitals in Brazil face a challenge similar to the one ASCR managed to address successfully - uncovering a huge potential to maximize the creation of social value. Cordeiro's fortitude over the last decade resulted in an active engagement in dissemination and affiliation of ASCR's innovative approach:

- <u>Affiliation</u>: A child health network (*Rede Saúde Criança*) was created, aiming to provide a life with more dignity to juvenile patients with chronic or acute illness and who live below the poverty line. Currently, this network consists of 16 institutions in three Brazilian states;
- <u>Dissemination</u>: ASCR has promoted the replication of its model on a national and international level. The non-profit organization Friends of Renascer, based in New York, supports its dissemination as a role model around the world.

Sustainable Social Value created

A survey in December 2004 concerning ASCR's long-term results, showed a decrease of 63 per cent in paediatric re-admissions at the Hospital da Lagoa. This success can be credited primarily to Cordeiro's innovative approach and gives an idea of the social value that was created and sustained during this time. ASCR's work is not the famous 'drop in the ocean'; it brings about lasting change in this social sector and produces public savings in terms of not applicable expenditures on the treatment of these children. As ASCR does not limit its service to the children but pursues a wider approach that includes the other family members as well, further social value is created and sustained within the household. The following figure shows an example for this wider approach in terms of generating family income. ASCR's work with 200 families is compared to the situation before and after its intervention, showing a 45% increase:

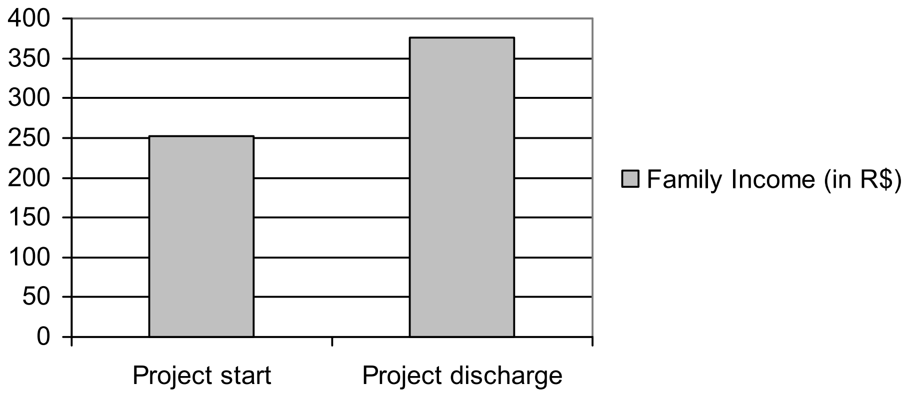

Figure 6: Comparison of the family income before and after ASCR's intervention
Source: Adapted from www.criancarenascer.org.br

New stable equilibrium

Cordeiro's work proved that there is a solution to this vicious circle, but yet there is a far way to go to reach a new stable equilibrium. ASCR has shown the direction to reach this goal and now it is about scaling up this model in order to achieve a large-scale social benefit. It is too early yet to say whether Cordeiro will succeed, but she obviously possesses the necessary entrepreneurial characteristics to do so. In her words:

> We are conscious that we are unable to solve all issues of public health in Brazil. But this is a beginning, an initiative that is within our reach. (Cordeiro 2005)

Conclusion

ASCR's approach showed that even in areas such as health, a social innovation can render an invaluable contribution to the public. It improves the lives of young men and women, applying a replicable model. It is another example, showing that innovations are more likely to emerge in smaller units than in big public institutions. ASCR still depends on donations for their work although there are efforts to gain more financial independence by generating own income, making it a hybrid not-for-profit organization.

Similarly to their colleagues in the business world, social entrepreneurs need financing in order to strengthen and ensure growth. The following parts of this paper will focus on philanthropy as a source of financing for SE and feature some changes in the patterns of the market for financing social change. The particular relation between SE and this source of resource will be analyzed, shedding light on current tendencies in this field.

5 Philanthropy – a source of resource for Social Entrepreneurship

Apart from funds from public agencies, trading income and the occasional loan from a bank, philanthropy is a particular source of resource for SE. The nature of this source, the changes in its playing field and its relation to SE are analyzed in this chapter. In the absence of a social sector capital market, institutionalized philanthropy is supposed to be the natural counterpart for social entrepreneurs in order to receive the necessary support for their ventures to grow, namely

> […] the risk capital needed to get a venture off the ground, the patient capital required to show results, the mezzanine funding that supports expansion, even the 'smart subsidy' to bridge transition from the not-for-profit to market environment. (Osberg 2006, p. 309)

However, this is not the common case, as a critique of SE pioneer Bill Drayton from Ashoka ,who has been identifying and supporting social entrepreneurs since 1980, shows: “what a social entrepreneur needs and what a foundation provides is an almost perfect mismatch” (2002 cited in Osberg 2006). This comment refers to his long personal experience of interaction with foundations and their perceived slowness, inefficiency and inappropriate giving structure for the vision and case of a social entrepreneur. This is due to the fact that those grant-makers usually pursue their own concept of social impact and theory of change to which the applicants are forced to submit in order to obtain a grant. As a result, the applicants have to adapt their mission and approach to the unilateral concept of the grant-makers.

When analyzing the potential of social investment in the future, it is obvious that the relationship between SE and philanthropy becomes a relevant and timely issue (Osberg 2006).

> In the US alone it is estimated that the largest transfer of wealth in human history, of the order of $US 41 trillion, will take place in the next fifty years resulting in a huge social investment potential, connected with the ability to manage capital risk at increasingly smaller capital amounts. (Wood and Martin 2006 p. 2)

This low-growth minimum estimate of $US 41 trillion in the intergenerational transfer of wealth that was released in a report in 1999 is expected to be divided as follows: $6.0 trillion in total charitable bequests, $24.6 trillion in total bequests to heirs, $8.5 trillion in total estate taxes, and $1.6 trillion in total estate fees (Havens and Schervish 2006).

The question that arises from this observation concerns the models of philanthropic practice that will determine the use of this unprecedented transfer of wealth.

After a short introduction on the phenomenon of philanthropy, this chapter will analyze the changes and the current state of philanthropic practice in order to answer this question.

5.1 The phenomenon of philanthropy

> [It is easy to] give or spend money; but to do this to the right person, to the right extent, at the right time, with the right motive, and in the right way, that is not for every one, nor is it easy. (Aristoteles)

This quote was made with regards to philanthropic practice long before the term philanthropy came up in the 18th century and has not lost anything of its actuality. The term philanthropy stems etymologically from the combination of two Greek words: φίλος, *phílos* – friend and άνθρωπος, *ánthropos* – man and aims to describe such behaviour.

The Oxford English Dictionary defines philanthropy as follows:

> Love to mankind. Practical benevolence to men in general. The disposition of active effort to promote the well-being and happiness of one's fellow man (cited in Adelmann 2006, p. 6).

Therefore, a philanthropic attitude is usually translated into practice by the donation of money, goods, time or any kind of effort to support a charitable cause. Today, different actors are involved in the practice of philanthropy: individuals, foundations, and companies. Individuals who practice such behaviour are commonly regarded as philanthropists with notable examples such as Carnegie, Rockefeller, etc. In most cases, these individuals are not primarily known for their philanthropic engagement but for their successful ventures that made them extraordinary rich. At the same time, they used this great wealth to give something back to society; but the creation of wealth is not a necessary condition for the practice of philanthropy, as the broad definition above shows: it is about promoting "the well-being and happiness of one's fellow man", without specifying the means, nor defining what comprises the vague term 'happiness'.

A consequence of this broad definition of philanthropy for this paper is that there is no clear boundary between SE and philanthropy, as both phenomena aim to create primarily social value: a social entrepreneur might be considered a philanthropist and a philanthropist might employ a socially entrepreneurial approach in his/her endeavour. Therefore, the term philanthropy will be limited in this context to natural and legal persons who are actively involved in supporting organizations working towards the creation of social value, namely social purpose organizations (SPOs), in order to establish a new stable equilibrium in their area of work.

According to Chenew (1999 cited in Acs et al. 2007), philanthropy is embedded within an implicit social contract that stipulates that wealth beyond a certain point should revert to society. This observation was made with regards to the USA; nevertheless, it is an important factor that should not be neglected as it analyzes the development of philanthropy within a broader macro-economic context. Obviously, philanthropy is not limited to this aspect, as other factors such as religion, altruism, tradition, etc. play a substantial role concerning the motives of philanthropic practice (Prince and File 1994). And yet, Chenews observation is helpful when trying to understand the current state of philanthropy in the world, as it refers to the capitalist system that determines the rules of creation of wealth. How does this embeddedness of philanthropy in the economic context influence the extent to which philanthropy emerges? A look at the differences between US and European philanthropic practice will give an answer to this question, as these two areas are representatives of two different types of capitalism: the liberal market economy and the social market economy.

Due to its liberal economic policy, philanthropy has long been an American thing, as in the USA there has always been a focus on both the creation of wealth – entrepreneurship – and the reconstitution of wealth – philanthropy. Much of the economic wealth created historically has been given back to society, building many of today's great social institutions that address social challenges and contribute to the creation of future wealth by building an enabling environment for the disadvantaged part of the population.

In contrast to this, in Germany or the Scandinavian countries, a welfare state took care of social issues, resulting in a missing need for the development of a massive philanthropic sector. Therefore the tradition of private giving is significantly less developed in Europe, as people there are used to rely on government aid both for their own poor as well as the needy abroad (Adelmann 2006). When looking at the share of philanthropy in the social sector in the US in relation to Europe, a huge difference can be observed with a fairly large share of 12.9 per cent in the US compared to small 3.4 per cent in Germany in 1995. This picture is likely to have changed in the meantime ever since, and yet, such data reveals the still predominant welfare-state pattern in Germany in contrast to the liberal civil-society approach in the US (Meffert et al. 2006).

As outlined in the first part concerning the emergence of SE, in recent years it has become increasingly obvious that the state is unable to assume responsibility for all dimensions of life, and civil society is becoming more important. Therefore, an independent philanthropic sector plays a significant role in a time of smaller government, social diversity and greater reliance on private action for the public benefit (Meffert et al. 2006). Taking into account the embeddedness of philanthropy in the economic and political context, permits a better understanding of the development of the philanthropic sector. In summary, it can be said that this sector is on the rise not only in Europe but also in other regions of the world, as civil society is assuming more and more responsibility and individuals create unprecedented economic wealth that will revert partly to society via philanthropic practice.

When analyzing an apparently global phenomenon such as philanthropy, the following question arises: What is a philanthropist's driving force behind his/her engagement? This is closely related to the social entrepreneur's social value proposition. The case studies of Muhammad Yunus and Vera Cordeiro shed light on how they obtained such a proposition and a taxonomy developed by Prince and File (1994) structures the motives of philanthropic practice in order to understand why there are philanthropists in the world. Among motives related to religion, tradition, altruism and the notion of 'paying something back', they also mention an investor motive for philanthropic practice that is based on the idea that 'doing good is good business'. In this case, the practice of philanthropy makes sense in financial terms. This observation relates to the notion of a social enterprise introduced above that combines the creation of economic and social value. This shows that the boundaries between these sectors are increasingly blurring. At the same time, the observation of such a philanthropic motive offers an opportunity to engage in the promotion of philanthropic practice in order to maximize the overall creation of social value.

5.2 Changes in the structure of philanthropic practice

The philanthropic landscape and the structures of philanthropic practice have experienced massive changes in the past and this part will outline the most important aspects in order to facilitate a better understanding of modern philanthropy. These changes refer to new approaches and new actors entering the philanthropic landscape.

When analyzing the conventional role of institutionalized philanthropy in society, a change over the decades can be observed. The original model of philanthropy was charity and it came up in the 19th century, with foundations providing services to those unable to care for themselves. It was well-suited to the social and political context of that time but its major shortcoming was that it addressed symptoms rather than causes. Therefore, such a philanthropic approach makes a difference only to those lucky enough to benefit directly from the service (Anheier and Leat 2006).

This led to the emergence of another type of philanthropy in the 20th century that dealt with causes rather than with symptoms: the ‘scientific’ approach. This approach rests on the assumption that all social concerns can be solved once their causes are understood and ‘scientific’ solutions are applied. But this concept is also limited in its reach as it relies completely on the analysis of causes that will lead to solutions. According to Anheier and Leat (2006, p.30) the problem with this approach lies in the fact that whilst the causes of complex issues such as poverty “are identifiable, they may not be susceptible to scientific solutions and simple control measures.” In addition, this approach often fails to appreciate the long, slow, complex and expensive path to effective problem solving, as it aims to find instant solutions. Aware of the limits to this concept, a new approach had to be found in order to improve the structures of philanthropic practice.

Venture Philanthropy (VP) is supposed to live up to these expectations as a new philanthropic model. It emerged in the USA in the 1990s with the ambition to exploit more of the potential of philanthropic practice. Its emergence is embedded in the new wealth created in the past 15 years, much of it in the technology industry, the growth of the stock market and a more supportive regulatory environment. This new creation of wealth arises from the activity of a new generation of entrepreneurs. In harmony with Chenew’s observation that new wealth is to revert to society, these businessmen entered the philanthropic sector and created their own foundations, breaking existing patterns of philanthropic giving. When taking into account that institutional philanthropy has its origins in the motivations, experiences, and ideas of individual donors (Osberg 2006), it is not surprising that they applied their business expectations in terms of effectiveness and efficiency of the use of capital to their philanthropic engagement and were not afraid of going new ways. In contrast to 20th century entrepreneurs, this generation frequently retires in its younger days from its business ventures, with plenty of time, passion and ambition left to dedicate to their philanthropic work. Their ambition, expectations and entrepreneurial spirit contributed to the development of VP as a new, a more engaged model of philanthropic practice that considers the practice of giving not a donation but rather an investment. Furthermore, they provide more than just financial support to their funded organizations in order to maximize the creation of social value. Two case studies in the next chapter will illustrate this approach in more detail.

These changing structures of philanthropic practice are accompanied by a growing number of companies becoming engaged in the social sector that challenge the traditional understanding of philanthropy. Their engagement is sometimes described as Corporate Social Responsibility (CSR), Corporate Citizenship (CC), etc. but for the purpose of this paper the differences between these concepts are not important. The term Corporate Philanthropy (CP) will comprise these efforts in the business world according to our definition of philanthropy above.

According to Craig Smith (1994 cited in Sasse and Trahan 2007, p. 5), the concept of CP is characterized by the following aspects:

> Philanthropic and business units have joined forces to develop giving strategies that increase their name recognition among consumers, boost employee productivity, reduce R&D costs, overcome regulatory obstacles, and foster synergy among business units. ...the strategic use of philanthropy has begun to give companies a powerful competitive edge.

It refers to the “strategic use of philanthropy”, i.e. in the context of this paper, that companies consider philanthropy a means to achieve their goal of creating primarily economic value. In this light, philanthropy becomes a means to maximize the creation of economic value. However, such a *quid pro quo* motivation corresponds to the legitimate motives of philanthropic practice (Prince and File 1994). Different degrees of self-interest that generate a win-win situation for both the social and the business sector do not contradict the definition of philanthropy above. The rise of this corporate engagement in the social sector can be seen in a study (Bhattacharya and Sen 2004 cited in Sasse and Trahan 2007) of Fortune Magazine 500 companies where over 80 per cent specifically cite CSR spending in their annual reports.

Whilst these companies strengthen the tendency towards more professionalism and the translation of business principles to the philanthropic sector, hybrid and for-profit philanthropic organizations begin to enter the field aiming to maximize their social return on investment using 'new' organizational forms. In addition to conventional approaches, these new actors are not afraid of going new ways and also become involved in the search for technological solutions to global challenges, as the pioneering example of the search engine company Google demonstrates. Larry Page and Sergey Brin, the founders of Google Inc., set up by the end of 2004 a $US 1 billion *for-profit* organization, called Google.org, that acts under the umbrella of philanthropy in order to tackle issues such as poverty, disease and global warming. They believe that this for-profit status will enhance their philanthropy's range and flexibility, as it permits them to fund start-up companies, form partnerships with venture capitalists and even lobby Congress. Should Google.org make a profit with one of its ventures, it is obliged to pay taxes. But the profit will not go to the search engine business Google Inc.; instead, it will stay within Google.org. Among its ambitious plans is the development of an ultra-fuel-efficient plug-in hybrid car engine that runs on ethanol, electricity and gasoline (Hafner 2006). The question that arises from such philanthropic engagement is, if it is still consistent with the notion of philanthropy. The adoption of those business principles blur the line between social business and philanthropy, making clear definitions increasingly difficult and approaching the whole philanthropic and social sector to what Raymond (2006) refers to as 'the end of definitions'. In this case, Google.org is likely to correspond more to the notion of a socially driven business than a pure philanthropic organization.

In addition to companies, financial markets are also increasingly getting involved in social issues. In part six, this paper will introduce a pioneering example for such a commitment and how a stock exchange's expertise and experience in terms of channelling the flow of capital and connecting investors with entrepreneurs, contributes to connect social entrepreneurs and philanthropists.

In view of these changes, it can be concluded that today's institutionalized philanthropy is no longer dominated by the large foundations, but by the extraordinary influx of new wealth and new ideas, such as the VP model, flowing into it. Companies and new foundations are joining the traditional grant-makers in finding new ways to help poor people prosper and are not afraid of breaking existing patterns of conventional philanthropic practice.

As globalization converted the world into a global village, individual philanthropy has also reached a global ambition, no more limiting its efforts to its respective country of origin. According to the Index of Philanthropy 2006, Americans give abroad $US 71 billion per year, that are channelled primarily through the private sector. Estimations concerning European international private giving are relatively low with a range from $US 350 million to $US 1.5 billion (Adelmann 2006, p. 8), but it can be observed that the willingness to donate to the poor abroad is increasing in the developed world, as the Tsunami disaster in 2004 proved: in

Germany, for instance, about € 670 million were donated by individuals in order to help affected people (Tagesschau News release 2005). An explanation for such an overwhelming and spreading philanthropic attitude can be found in the philosopher David Hume's concentric circles of reducing loyalty and empathy (Bhagwati 2004). According to this idea, human affection radiates outward from oneself, diminishing as distance grows from oneself and increasing as proximity increases to oneself. What the Internet and television have done is to take Hume's outermost circle and place it next to the innermost. It is hard for people to ignore that half of humanity suffers plague and pestilence and the continuing misery of extreme poverty. However, those individuals also became more ambitious concerning their donations and strive to maximize the creation of social value that accrues from their financial contribution. Consequently, there are experiments with online giving to SPOs abroad that cut out middlemen and expensive overhead, aiming to satisfy this emerging demand from individuals, willing to engage in philanthropic practice (Gupta 2004).

This group of private donors that represents a significant market in the search of financing social change will be broached again below in the case study of the social stock exchange that responds to this demand.

Concluding these observations, it is apparent that the philanthropic landscape has experienced massive changes in the past decades, both on the individual and the institutional side. New models of philanthropic practice emerged and a growing number of individuals and institutional actors are becoming engaged in philanthropic practice. This leads to unprecedented amounts of capital being channelled into the social sector and traditional patterns of philanthropic giving being challenged by new and highly engaged actors. The following part will analyze in more detail the Venture Philanthropy model and its implications for SE.

6 Venture Philanthropy – the other side of Social Entrepreneurship

The first known use of the term Venture Philanthropy (VP) was in 1969 by the American philanthropist, John D. Rockefeller III, when he referred to an adventurous approach to funding unpopular social causes. In the 1980s, the term resurfaced, describing a more engaged new breed of young, energetic philanthropists until it exploded in the 1990s, igniting a debate on new forms of grant making by foundations. In 1997, an influential article in the Harvard Business Review by Letts et al., called 'Virtuous Capital: What Foundations Can Learn from Venture Capital', challenged foundations to employ tools from venture capital to invest in the organizational, rather than programmatic needs of SPOs (Nicholls and Young 2006).

In very general terms, just like the phenomenon of SE that applies principles from conventional business entrepreneurship, institutionalized philanthropy has experienced a similar development with the emergence of VP, borrowing its principles from the practice of venture capitalists in the business world. Therefore, VP is also described as Social Venture Capital by some authors (Marino 2006).

When analyzing the relationship between VP and SE, it is important to bear in mind that this relationship is still in its infancy, as VP emerged in the US in the mid 1990s, reached the UK in 2002 with the launch of the Impetus Trust, Europe's first VP organization, and is currently expanding into continental Europe, where the German organization Bonventure started its work in 2003. It faces many challenges in terms of communicating and marketing their work, measuring performance and social impact, and collaborating with complementary capital providers in the social sector capital market such as conventional foundations (Nicholls and Young 2006).

In analogy to SE where an analysis of entrepreneurship and the following comparison of SE and BE led to a definition and consequently a better understanding of the phenomenon, this part will firstly have a look at the conventional venture capital approach, VP's counterpart in the business world in order to define VP. As this paper's focus is SE, this part will only mention the main aspects that are necessary for a general understanding of the model's particularity.

6.1 Definition of Venture Philanthropy

What is the difference between venture capital and conventional capital in the business world? As the term implies, venture capital is risk capital provided to an enterprise by an external financial intermediary that also supports the entrepreneur in managing the enterprise. This term applies for financing being supplied to recently-founded innovative firms with a view to fostering their development and expansion. In addition to provide financial support, they are also engaged in the management of the respective enterprise. Usually, venture capitalists take a minority stake in enterprises and provide their know-how in order to guide the development of the companies, allowing them to maximize their capital gains when they sell their holdings. This happens typically after a period of 5 to 10 years (Marino 2006). Venture capital funds pool the financial capital of third-party investors in order and offer the opportunity for above-average return by investing in enterprises that are regarded as too risky for the conventional capital markets and consequently do not qualify for a bank loan.

In summary, venture capital refers to financing new small to medium-sized companies with high growth potential in the form of equity capital. This engagement is limited to a temporary

time horizon in which not only financial capital is transferred to the enterprise but also professional skills are contributed in order to ensure the enterprise's success.
VP organizations apply this model to the social sector and therefore various features can be found both in conventional venture capital funds and VP organizations:

> Both base their bottom line on the selection of valuable fund recipients, in terms of success, longevity, and day-to-day efficiency. Additionally both are answerable to those who provide financial resources for the performance of the fund. Finally, like venture capitalists, venture philanthropists expect results and accountability from the organizations they support. (Vurro 2006, p. 84)

Currently, there are numerous definitions to this new model of philanthropic practice, but based on this tradition of conventional venture capital funds, this paper will refer to a definition of VP applied by the Morino Institute (www.morino.org), a non-profit organization that explores the opportunities and risks of the Internet and the New Economy to advance social change. Their observations are adapted for this paper and are summarized in the following definition without engaging in a further definitional debate:

Venture Philanthropy (VP) is the application of strategic management practices of the venture capital world to invest in social purpose organizations, enabling them to generate a high social return on investment.

An effective process of identifying 'fundable' ventures is essential both to the venture capitalist and the venture philanthropist; therefore, it is helpful to analyze how VP organizations identify those ventures in the social sector with high growth potential and how they aim to measure the performance in the pursuit of creating social value. These criteria will be presented below in the case studies of two VP organizations. It is important to point out that VP does not necessarily include the expectation of a financial return on capital, as this seems to be one of the greatest misunderstandings of the concept, due to its business cousin and the use of ambiguous terms such as philanthropic or social 'investment'. In fact, the majority of VP organizations from the US base their funding on non-returnable grants (Nicholls and Young 2006).
As a result of this observation, it is obvious that VP, similar to SE, can operate across a spectrum of organizational types, ranging from charities to socially driven business. The following figure shows this diversity:

Primacy of social value creation	Organisations can create ‘blended’ social and financial value					Primacy of economic value creation
Charities		**Revenue generating social enterprises**			**Socially driven business**	**Traditional business**
No trading revenue	Trading revenue and grants	Potentially sustainable: 75%+ trading revenues	Breakeven: all revenue from trading	Profitable surplus not distributed	Profit distributing socially driven	Profit maximizing

Figure 7: Organizational forms of Venture Philanthropy

Source: Adapted from Nicholls and Young (2006)

These VP organizations receive their money from different sources, ranging from individual givers to companies and other foundations. The following sections will now introduce two representative actors in the field of VP that have been substantially coining the development of VP and SE alike on a global scale, choosing social entrepreneurs as their fundable counterparts.

6.2 The case of two Venture Philanthropy organizations

For the purpose of illustrating the VP model and consequently analyze its implications for SE, Ashoka and the Echoing Green Foundation were chosen as representative VP organizations. Ashoka is widely recognized as a pioneer supportive organization in the field of SE that employs a VP approach. The Echoing Green Foundation serves as an example of the translation of a global private equity firm’s business knowledge into the social sphere, turning it into one of today’s leading global social venture funds. The following information is based on their websites (www.ashoka.org, www.echoinggreen.org) and Vurro (2006).

6.2.1 Ashoka – Innovators for the Public

Bill Drayton, a former McKinsey consultant, founded this not-for-profit organization in 1980 in Arlington, USA. It is financed by individuals, foundations and business entrepreneurs from around the world, not accepting funding from government entities. Its starting annual budget of $US 50.000, has grown to nearly $US 30 million in 2006.

Concept

Ashoka's vision is a world where 'Everyone is a Changemaker': a world that responds quickly and effectively to social challenges, and where each individual has the freedom, confidence and societal support to address any social problem and drive change. Therefore, it strives to shape a global, entrepreneurial, competitive citizen sector: one that allows social entrepreneurs to thrive and enables the world's citizens to think and act as changemakers.

Intervention

Ashoka offers critical interventions on three levels — the individual, the group, and the sector:

- Supporting Social Entrepreneurs: Ashoka identifies and invests in leading social entrepreneurs and helps them achieve maximum social impact;
- Promoting Group Entrepreneurship: Ashoka engages communities of entrepreneurs and develops patterns of effective collaborations capable of changing entire fields;
- Building Infrastructure for the Sector: With a global network, Ashoka creates needed infrastructure, such as access to social financing, bridges to business and academic sectors, and frameworks for partnerships that deliver social and financial value.

Venture philanthropy approach

Ashoka pursues a venture capital approach to finance the creation of social change. It intervenes at the point in the entrepreneur's work when the risk is greatest, when almost no other support is available, and when a modest investment can generate large-scale social returns. Ashoka provides financial support to the selected fellows in form of a living stipend for an average of three years, permitting them to focus full-time on building their institutions and spreading their ideas. Ashoka leverages its investment by providing technical and professional assistance with a global support network of their peers and partnerships with professional consultants. Once elected to the Ashoka Fellowship, fellows benefit from this community for life.

Identification of fundable individuals

Ashoka developed a selection process for identifying and electing the most innovative social entrepreneurs, with the greatest probability of achieving large-scale social impact. The following selection criteria are applied in this process:

1. A new idea: An innovative solution or approach to a social problem with the potential to change the pattern in a field;

2. Creativity: The social entrepreneur must demonstrate a high degree of creativity both as goal-setting visionaries and as problem solvers capable of engineering their visions into reality;
3. Entrepreneurial Quality: Leaders who see opportunities for change and innovation and devote themselves entirely to making that change happen;
4. Social Impact of the Idea: Ashoka is only interested in ideas that it believes will change the field significantly and that will trigger nationwide impact or, for smaller countries, broader regional change;
5. Ethical Fiber: Social entrepreneurs introducing major structural changes to society have to ask a lot of people to change how they do things. If the entrepreneur is not trusted, the likelihood of success is significantly reduced. Evaluating this aspect often requires instinct and gut feelings, not just rational analysis.

Number of beneficiaries

Since 1981, Ashoka has elected over 1.800 Fellows in about 60 countries in the fields of learning/education, environment, health, human rights, civic participation and economic development. Approximately 150 new fellows are elected each year.

Performance assessment

Every year, Ashoka conducts a measuring effectiveness study focusing on the class of fellows elected five or ten years prior. This study examines the fellows' progress in terms of their continued dedication to the original vision; independent replication of their innovation; changes in government policy that signal the adoption of the idea in the public sphere; and leadership building in the social sector.

6.2.2 Echoing Green

In 1987, with the senior leadership of the global private equity firm General Atlantic and the philanthropic organization The Atlantic Philanthropies, the Echoing Green Foundation was created in New York, USA, as an angel investor in the social sector.

Concept

Echoing Green provides first-stage funding and support to visionary leaders with bold ideas for social change. It identifies, funds, and supports exceptional leaders and the organizations they launch. These social entrepreneurs and their organizations work to close deeply-rooted social, economic and political inequities to ensure equal access and help all individuals reach their potential.

Intervention

The Echoing Green Foundation believes the same energy and creativity that characterize commercial entrepreneurship can foster new solutions in the social sector, too. Therefore, it takes risks on undiscovered leaders when others hesitate, investing in organizations at their earliest stage, acting as a global social venture fund.

Venture philanthropy approach

Echoing Green identifies high-potential yet unproven social entrepreneurs and invests annually at least $1 million to help selected fellows to transform their innovative ideas into action. In addition to this financial support, it pursues a 'hands-on approach', providing technical assistance and consulting in building, increasing and managing the social entrepreneurs' organizations. In this process, they facilitate peer-to-peer learning to foster leadership skills and guarantee organizational sustainability. Programs, projected outcomes and measurement tools are developed cooperatively with the selected social entrepreneurs. Furthermore, Echoing Green harnesses the experience and expertise of their global network of fellows to share best practices and ensure success.

Identification of fundable individuals

Echoing Green focuses its approach on emerging social entrepreneurs whose plan will result in a sustainable organization and clearly articulate their vision for social change. These leaders are identified with the help of the following selection criteria:

- Demonstrated entrepreneurial characteristics and leadership potential;
- Strong passion and commitment for their respective are of work in combination with problem-solving skills and further practical skills such as strategic, organizational, etc.;
- Personal integrity;
- Clear and compelling mission and objectives with a sound strategy and plan for program development and delivery, performance evaluation, financial sustainability and growth;
- Existing support network;
- Seriousness of the addressed social problem;
- Innovative idea and approach with the potential for replication, growth, and effecting systemic change (e.g., policy change, influence in their field).

Number of beneficiaries

Over $US 22 million in seed and start-up grants were invested in 380 social entrepreneurs that have launched organizations in 30 countries around the world.

Performance assessment

Echoing Green measures the performance in terms of return on investment, longevity, new models of addressing social issues that were developed and the number of offices in multiple cities. In addition, a change in laws and policies and the creation of new products and services that otherwise would not exist are taken into account during this assessment.

6.3 The relation between Venture Philanthropy and Social Entrepreneurship

The relation between VP and SE is of particular interest as both present a high commitment to maximize social value, but act on different levels. VP plays the role of the investee, while SE is the grantee. The selection process of VP in order to find 'fundable' ventures with the highest potential in terms of creating social value describes the close relationship between VP and SE, as SE can be considered the counterpart of innovative business start-ups for venture capitalists. Therefore, Cohen's analogy of entrepreneurship and private equity being as intimately entwined as the two stands of DNA, may well apply to SE and VP – two social sector capital market actors, representing supply and demand in financial terms, equally in need of each other, to reach a new stable equilibrium in their area of engagement (Nicholls and Young 2006).

Another consequence of this analogy to their business cousins can be seen in that VP rests on the premise that the best investments in solving social problems require more than money (Vurro 2006). As shown above, VP addresses organizational issues, and help leverage partnerships through strategic relationships with other organizations. Its investment strategy is tailored to the specific characteristics of the recipients. Consequently, VP organizations engage in capacity-building investments and tend to support the overall organization over an extended time period, sharing risks with it in that it takes an invested role in attempting to realize success. As this risk needs to be minimized, methods that ensure a successful investment are developed. Such an approach meets the needs of SEVs in order to grow and strengthen, matching their interests as they do not merely receive financial support but also the organizational support to proceed in their SE process.

Another contribution of VP to SE is due to its claim to base all operations on the measurability of results and impacts. Its efforts to measure performance adequately represent a substantial contribution towards the establishment of consolidated assessment practices within the field of social value creation (Marino 2006). An example for this is the above mentioned SROI approach that was developed by the Roberts Enterprise Development Fund (REDF), a US-American VP organization. Today, this measuring tool is used by other SEVs to communicate their results and impacts. This shows the close relation between the development of the field of SE and VP: the more one field becomes sophisticated and advances, the more its counterpart will benefit from it.

However, when analyzing the importance of VP to SE, it is crucial to note that the financial volume of pure VP funds still remains very small, typically less than 1 per cent of total giving (Nicholls 2006). Therefore, its importance for SE lies in the function as a role model for other actors in the philanthropic sector, showing a way to maximize social impact, as it is a more engaged type of philanthropy. VP changes the traditional notion of philanthropists as they become 'social investors'. The VP approach prioritizes how to make 'profitable' investments, therefore this "new approach to financing is now at the forefront of innovation and creativity within the social sector" (Vurro 2006, p.96). As shown in the two case studies above, VP organizations identify a profitable investment by looking for social entrepreneurs. Consequently, VP contributes to the development and consolidation of SE as a field of practice and research by enhancing its legitimacy and credibility. It stresses its focus on social change and social innovation as the only possible way to break traditions in the social sectors and in the way organizations deal with social concerns.

In analogy to SE, VP provides an opportunity to challenge, question and rethink concepts and assumptions of conventional philanthropic practice. Therefore, VP has the potential to contribute to developing a more responsive and diverse capital market for the social sector that is based on the existence of social entrepreneurs as the investor's counterpart, offering the highest social return on investment. Of course, this observation is not without its sceptics, and VP's real success will be seen in its ability to influence the grant-making practices of traditional capital providers and bring in new funders and skills for growing SEVs (Nicholls and Young 2006). VP shows a way for actors in the philanthropic landscape to reinvent themselves by highlighting the key to developing a successful social venture: a highly innovative entrepreneurial idea (Marino 2006). This shows the close nexus between VP and SE and how the latter is positively correlated to the success of VP.

Whereas this chapter focused on the changes concerning institutionalized philanthropy with new approaches aiming to exploit more of the potential of philanthropic practice, the following and concluding chapter will shift its attention to the notion of a social stock exchange. This addresses the question of how mechanisms can be created in order to link philanthropists and social entrepreneurs more effectively.

7 Social Stock Exchange – connecting philanthropists and social entrepreneurs

In his Nobel Lecture, Yunus introduced his vision of a social stock exchange in order to provide a new effective mechanism to ensure financing SEVs, with a focus on the category of social enterprises that provide little or no financial returns to investors. According to Yunus, the logical next step after recognizing the existence of two types of entrepreneurs is the same clarification within stock markets. As a result, a social stock exchange would provide philanthropists, or 'social investors', with the opportunity to choose the company that provided the most social benefits. This idea is compelling, although no agreement has been reached yet on how such a social stock exchange should function in reality. Therefore, after outlining the background of this concept, this paper will introduce a pioneering initiative of a social stock exchange based in Brazil in order to present current efforts in this area. The information concerning this initiative was collected via personal e-mail contact with Celso Grecco, the founder of the Social Stock Exchange in Brazil. The last part will draw some conclusions and perspectives for the creation of such a social sector capital market.

7.1 The need for a coordinating mechanism in the market for social financing

Today, the market for social finance is characterized by the absence of a coordinating instance that mediates between social and economic needs and the supply of money (Wood and Martin 2006). Social investors that represent the supply of money are accustomed to knowing little about the effectiveness and efficiency of their financial contribution, due to a lack of credible information concerning the availability and quality of social projects to compare and select. A consequence of this condition is that conservative investors, who dominate this sector, continue to fund start-ups with relatively low infusions of capital (Hartigan 2006). At the same time, the large group of individual donors willing to contribute to social change via charitable giving, is affected by this lack of information as it hinders their process of identifying a 'fundable' SPO that matches their personal interest. The same is true with regards to VP organizations as this phenomenon is still in its infancy and most people are not even aware of their existence.

On the demand side, many SPOs are unable to grow and strengthen their work because they lack the necessary funds and therefore leaders in the social sector spend an estimated 50 per cent of their time raising funds instead of pursuing their respective mission and create social value (Young 2006). In seeking funding in the institutionalized philanthropic landscape, SPOs have to establish a direct connection via the application for grants, submitting to the grant-maker's notion of social impact and theory of change, as a VP approach is still not the

common case in philanthropic organizations.
This shows the need for credible and impartial mechanisms that establish more systematically and more cheaply what is a high-performing SPO, probably a SEV, and consequently link it with the pools of finance that exist in financial institutions, foundations and among wealthy individuals. This refers to a more effective and efficient transmission with lower transaction costs that currently amount to 22 – 43 per cent (Hartnell 2006). The new mechanisms that are to fill this gap will probably feature aspects that relate to the VP approach in order to provide a platform to channel and direct capital flows efficiently, unleashing its huge potential for social change.
But who will be the intermediaries in the social sector that establish this link? As mentioned above, there is a tendency that new actors from the world of business and financial markets are becoming increasingly inclined to engage in the social sector, regardless if it is stated as fulfilling their social responsibility, promoting philanthropy, or acting as a responsible citizen (Sass and Trahan 2007).
As these actors base their social engagement in activities where they can best bring in their core competences, protagonists from the area of financial markets, such as stock exchanges and banks, feature inherent advantages in the search for such intermediaries. Therefore, the following section will present the case of the Brazil stock exchange that engages in this work of establishing a mechanism to link supply and demand and consequently restructure and connect different parts in this fragmented social sector capital market. The information was collected via personal e-mail contact with the Brazilian consulting firm Atitude Marketing Social, which is specialized in CSR services and implements the initiative on behalf of the stock exchange.

7.2 The Social Stock Exchange in Brazil

The Social Stock Exchange (SSE) (*Bolsa de Valores Sociais* – BVS) is a pioneering project launched by the Brazil Stock Exchange in São Paulo (*Bolsa de Valores de São Paulo* – BOVESPA) as part of their CC engagement. According to BOVESPA (www.bovespa.com.br), CC consists of

> […] ethical practices that can yield "social profit", i.e., better social perspectives and opportunities for the nation and consequent strengthening of the country in the global market in the short, medium and long term.

BOVESPA is the only stock trade center in Brazil and Latin America's largest stock exchange, accounting for almost 70 per cent of the region's trade volume. It was the first stock exchange in the world to join the Global Compact (www.unglobalcompact.org), an initiative by the United Nations (UN) that aims to encourage the engagement of the corporate sector in activities to foster sustainable economic growth, social inclusion and poverty reduction.

Concept

In 2004, the SSE was launched as a mechanism that replicates the model of conventional stock exchanges in order to connect philanthropists and SPOs in the educational area, building the missing bridge between demand and supply in the social sector capital market. In order to avoid misunderstandings, it is important to mention that the Brazilian SSE is not what Yunus had in mind in his Nobel Lecture. Yunus referred explicitly to a social stock exchange modelled on the conventional stock exchange, but which would benefit exclusively social enterprises. In Brazil, the SSE is slowly moving in that direction but at the moment, it remains basically a means to raise money for SPOs. In addition, it contributes to develop a culture of giving in Brazil. And yet, the SSE serves as an example in terms of the mechanism it applies to connect supply and demand.

The value creation environment of the conventional stock market where corporations meet investors and build strength while returning the investor's money with profit and dividends is translated into the social sphere with the creation of the SSE. Therefore, it represents a fund raising mechanism that strives to create a favourable environment for charitable investment and stimulate philanthropy for the benefit of Brazilian SPOs and consequently the country.

Similarly to the conventional stock market, the SSE provides a platform for non-profit SPOs to meet philanthropists. The organization builds strength and pays back the investment as social profit, therefore Celso Grecco, the manager of the SSE, calls these organizations 'social profit organizations' to avoid working with negative definitions such as non-profit organization; however, this term will not be used in this paper as it is included in the general understanding of SPO.

The fact that the SSE is related to the BOVESPA ensures credibility, transparency, and accountability for all donations made in order to support a specific project of a SPO listed. In addition, on SSE's Board of Governors are representatives of the Brazilian Government, the UN, and civil society institutions, providing further credibility to its pioneering work.

Mechanism

BOVESPA has outsourced the management of this project to a Brazilian consulting firm, specialized in CSR services: Atitude Marketing Social. Atitude is responsible for the selection of the projects listed on the SSE, carries out the monitoring of the funded activities and creates a network among the participants in order to share experiences. Its relationship with the listed projects is strongly influenced by elements of the VP approach shown above.

Therefore, it looks out for SEVs that offer the most promising conditions for the creation of sustainable social value.

The SSE operates the whole year through with a maximum of 30 projects listed. SPOs can apply to be listed, stating the purpose and amount of money needed for the execution of a project. After being approved by the Board, BOVESPA and its 120 Brokerage Firms present the portfolio of projects to possible investors with the goal of selling the 'social shares' of these projects. The social investor can choose among the listed projects and invest in a specific initiative or assemble a portfolio of social shares through the SSE website (www.bovespasocial.com.br) or directly at the BOVESPA. The progress of the selected projected can be followed by the investor via internet where up-to-date information is available concerning the respective organizations and their work.

All investments are transferred entirely to the respective organizations without commissions, fees or deductions of any kind, as soon as the necessary amount of money for the execution of the project is raised. BOVESPA bears all costs related to communications, advertisement, operation, website maintenance and consultancy. As soon as a listed SPO's project is executed, it leaves the SSE and a new SPO enters the stock exchange.

The case study of ASCR introduced above as an example of a SEV was also listed by the SSE in their first portfolio. The budget of R$ 150.000 was raised successfully until May 2005 and a project in the area of family restructuring was executed thanks to this platform. It shows that the selection criteria applied by Atitude are consistent with the definition of SE elaborated in this paper and consequently similar to a VP organization. The SSE aims to identify social entrepreneurs to list them in the exchange, as their 'social shares' are likely to be sold easier as a result of a convincing, namely an entrepreneurial, approach that promises to exploit the fullest potential in terms of use of the money.

Evaluation of the experience

The SSE was launched in October 2003 and the following figure illustrates its fund-raising performance:

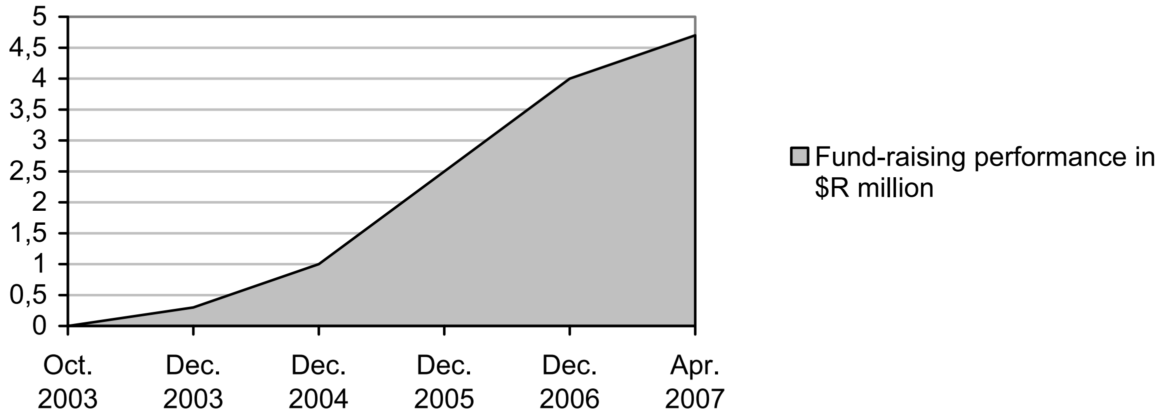

Figure 8: Fund-raising performance of the Social Stock Exchange

Source: own research

It started self-confident and with high expectations that were primarily built on the following aspects: the credibility and transparent processes of the BOVESPA in combination with a 100 per cent transfer of the funds without any deductions. The public recognition and support via UNESCO and the Global Compact were expected to create a sufficiently favourable environment that would ensure the immediate success of the initiative. And yet, the figure above shows that the path to success in terms of mobilizing money is long for the SSE. At the beginning, the initiative did not live up to the expectations of its enthusiastic creators, raising only small amounts of money. The figure above shows that its fund-raising performance totalled R$ 4.7 million (US$ 2.3 million) since it started to function 3.5 years ago. This relatively small amount of money shows that the importance of the SSE can not be measured yet in financial terms, but in the viability of its approach and the tendency that it is becoming increasingly effective.

There are two major problems faced by the SSE that have a great influence on its performance and explain the slow development as they were not taken into account when launching the initiative: the Brazilian philanthropic culture, and people's familiarity with the mechanisms of the conventional stock market.

The SSE's initial idea was to provide an easy mechanism for people who wanted to engage in philanthropic practice by donating money but lacked the information and experience to do so in an effective way. This exchange would fill the gap and function as a bridge between philanthropists and social entrepreneurs. However, Brazil is part of what is called emerging economies, i.e. countries that are in a transitional phase between developing and developed status; in this view, the philanthropic sector as an implicit counterpart of capitalism is still in its infancy. No solid philanthropic culture has developed yet and there is a complex and ineffective political system that lacks fiscal incentives for the promotion of such a practice.

The other problem was that the SSE had to recognize that most people are not familiarized

with the mechanisms of the capital market and therefore did not understand the language of 'social shares' and 'social investment'. As a result, the SSE had to engage more in communicating their work in order to avoid misinterpretations.
In summary it can be said that major lessons learnt from this initiative are the importance of languages, cultures and traditions that are not to be underestimated as a barrier to filling this gap between potential philanthropists and social entrepreneurs in the endeavour to establish a functioning social sector capital market.

Future of the SSE
Whilst a favourable philanthropic environment is about to develop in Brazil, the SSE currently takes action in terms of integrating foreign markets with a more developed philanthropic culture and familiarity in terms of stock markets in their operating range. Therefore it aims to establish partnerships in Europe and the USA in order to offer their social shares internationally and participate in the above mentioned massive transfer of wealth that is expected for the coming decades.
The SSE is an example of how to mobilize financial markets for the purpose of social development and poverty reduction by creating a mechanism that links individual donors with social entrepreneurs. What renders SSE's approach special is its creation of a reliable and transparent medium for fundraising through which potential donors can channel their money.
In 2006, the Brazilian experience was replicated by the South African stock exchange, creating the South African Social Investment Exchange (SASIX) (www.sasix.co.za). The SASIX is the next model of this type of financing mechanism, acting with a broader vision and including a wider array of projects working in the social sector. Such a social stock exchange is also an option for corporate investors that are able to create a portfolio of social shares in SPOs that meet their objectives. It is likely that other countries will follow this example and more social stock exchanges will be established based on the experience of the SSE, always improving its mechanisms toward a stock exchange with permanently listed organizations.

7.3 Perspectives for the social sector capital market

Currently, an increasing number of intermediaries such as the SSE that aim to structure parts of the social sector capital market are emerging. They continuously improve the structures towards a better functioning system (Young 2006). Another example for such an intermediary that builds on the growing global practice of performance-oriented philanthropy and social investment, is Swiss bank UBS: it has recently launched the division UBS Philanthropy

Services as part of their CP efforts that focuses on "creating processes that allow the aggregation of capital and the deployment of capital on a scale that will change the nature of social financing" (Wood and Martin 2006, p. 3). It shows a way how banks can transfer their expertise to the social sector, providing platforms to channel and direct capital flows for SPOs. It aims to link philanthropists and high-performing actors in the social sector, namely social entrepreneurs. Similarly to the SSE and the VP organizations presented above, such an initiative contributes to the elaboration of accountability and performance concepts that best demonstrate the motives for, and the impact of an investment.

The advantages of such a well-functioning social sector capital market are obvious: the supply side profits by possessing richer and more sophisticated information as basis for their decision-making and the demand side benefits by working within a more transparent and tailored relationship that is based on performance principles rather than random conditions. Consequently, SPOs will have more freedom to grow on their own terms and concentrate their time on the pursuit of their mission (Young 2006).

Yunus' vision of a social stock market for social enterprises has not been pioneered yet, and there are many obstacles concerning the viability of this notion. According to Emerson (2006), one of the most important is the lack of an independent rating system to evaluate social-enterprise investment opportunities. If an investor is required to do his own due diligence on each and every investment opportunity, it is a very slow and inefficient process. An independent rating system would solve this problem. This observation leads again to the question of how to best assess the performance in the social sector, i.e. measure the creation of social value. This challenge is probably one of the greatest that the whole field is facing currently.

However, the creation of more effective and efficient social sector capital markets is on its way, though the landscape still remains incomplete and uncertain. Its growing number of advocates, social entrepreneurs among them, will continue a trial and error approach, or in the words of Thomas Edison: "I have not failed. I have just found 10,000 ways that won't work."

8 Conclusion and perspectives

It is always difficult to analyze change while it is taking place, however, this paper showed and explained a tendency with regards to finding solutions to the world's unsolved social problems by analyzing the phenomenon of SE. Apparently, SE features comparative advantages in comparison to traditional ways of achieving social change by applying principles from the business world.

As shown in this paper, a tendency can be observed that successful business approaches are increasingly being employed by actors engaged in the creation of social value. SE may be considered the driving force in terms of raising public awareness about this tendency that has also reached actors financing social change: philanthropists are turning into social investors. At the same time, conventional intermediaries from the financial markets begin to transfer their core competence to the social sphere, introducing mechanisms to structure the social sector capital market.

The phenomenon of SE is currently the most developed part within this major change. However, the fact that entrepreneurship discovered its 'social face' does not mean that the business sector is expanding into the social sector; instead, it shows that the traditional concept of non-profit and for-profit is obsolete and that the boundaries of the different sectors are starting to blur. The difficulty in understanding SE originates in this traditional view that impedes an objective view on those changes that challenge the current picture of social and economic value; a picture that is drawn in black and white saying that for-profit entities create economic value and non-profit organizations create social value. This is what Celso Grecco, the founder of the Social Stock Exchange in Brazil referred to when stating that "you cannot find new routes by looking at old maps". The phenomenon of SE challenges these old maps and questions the adequacy of old categories such as 'commerce', 'capitalism' or 'philanthropy' to serve the new generation of either social problems or market opportunities. Today, for-profit organizations act in areas that used to be dominated by non-profits, exploiting new market opportunities. Hybrid organizational forms that combine for-profit and non-profit elements can be found both on the demand side, SE, and the supply side, VP, aiming to maximize the creation of social value by challenging conventional structures and approaches.

As this change is still in its infancy, it is extremely difficult to predict the sustainable impact of these pioneers and how they will live up to the expectations currently put into them by their advocates and achieve a lasting change. In my opinion, the future development of this structural change and consequently its success will depend on the progress concerning the assessment of the creation of social value. The application of business elements in the social sphere rests on the premise of measuring the performance and consequently the creation of social value. This is true for SE, VP and a social capital market. It is an indispensable factor for the establishment of a market discipline that ensures that only successful ventures can continue their work, setting in motion a natural selection mechanism that guarantees the quality of the ventures. As seen above, it is inherently difficult to measure such value but the more actors are getting involved, the more sophisticated the tools will become and achieve an accurate assessment of value creation.

Apart from this, the future development of SE depends to a great extent on the question of how social entrepreneurs can 'be made'. As this paper showed, the major difference between a social and a business entrepreneur lies in his/her value proposition. Consequently, social entrepreneurs can 'be made' to the same extent as conventional business entrepreneurs are currently 'being made'. Only few become 'hero entrepreneurs' such as Bill Gates, but the large share of 'ordinary entrepreneurs' is of utmost importance and business schools offer business studies in order to prepare young people for such a career. It is likely that social entrepreneurs will 'be made' in analogy, assuming that there is a significant number featuring the necessary social value proposition. As shown above, the civil society sector is growing continuously and people donate their time often without remuneration, in order to satisfy their social value proposition. In 1993, Harvard Business School integrated SE in their curriculum und six years later, the Social Enterprise Club for students was launched and today it has become one of the largest on campus (Walsh 2004). This may be considered an indicator of the actual interest and demand of the upcoming generation for pursuing an alternative career to the conventional business one. The more the phenomenon of SE is understood and the field consolidates with true career perspectives for those showing a social value proposition, the more people will consider it a possible career option. As the sectors are increasingly blurring, far more ways of realizing this proposition are possible, as SE shows that 'doing good' does not exclude 'doing well'. This is what Bill Gates (2007), former business entrepreneur and current philanthropist, refers to in his speech at Harvard University when receiving his honorary degree:

> We can make market forces work better for the poor if we can develop a more creative capitalism — if we can stretch the reach of market forces so that more people can make a profit, or at least make a living, serving people who are suffering from the worst inequities.

SE is the herald of such a more creative capitalism and as this paper showed, it is not alone. The philanthropic sector is growing in an unprecedented way and this growth is accompanied by massive changes. The VP approach serves as a role model for other actors in the sector with the potential to change the grant-making practices of traditional capital providers. Within this growing sector, further career opportunities for all those with a social value proposition emerge, providing an opportunity to use their respective talents, as not everyone is born to be an entrepreneur. Emerging intermediaries complement this picture and it is likely that the more these changes will continue, the dichotomy of social and economic will dissolve, paving the way for a new understanding and interpretation of capitalism. Whereas the beginning of capitalism was coined by enormous economic, social and environmental costs, the current model emerged in the late 1960s and aims to internalize negative effects, but it may be doubted whether an increasing number of regulations and social initiatives will solve the problems. Therefore, more research needs to be carried out concerning a new understanding of value that takes into consideration its economic and a social dimension. As a consequence, maximizing the creation of value would refer automatically to these two components. This is a new map which can be used to find new routes.

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