# Towards a Better Understanding of Social Entrepreneurship

## *Some Important Distinctions*

**Jerr Boschee and Jim McClurg**

In this short article the authors outline the four key distinctions that differentiate non-profit social entrepreneurial organisations from other types of charitable non-profit organisations who claim to be making use of social entrepreneurial approaches.

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### Introduction

*"Social entrepreneurship"* is one of the most misunderstood phrases in the non-profit sector today. Everybody, it seems, has a different definition of what it means. This is our attempt to bring some clarity to the discussion. Our perspective has been shaped by 50 years of experience in the field, one as head of a national consulting firm and the other as the chief executive officer of a US$ 15 million social enterprise.

Twenty years ago the idea of non-profits acting in an entrepreneurial manner was anathema to most people in the sector: The idea of merging mission and money filled them with distaste. But the phrase *"social entrepreneur"* is bandied about freely these days.

British Prime Minister Tony Blair praises the emerging tide of *"social entrepreneurs"* that is changing the face of England's voluntary sector and senior executives in the independent sector talk about *"social entrepreneurs"* in the United States who find new and exciting ways to attract contributions and government support for their programs. Both are right to praise the ingenuity of non-profit organisations – but most of what they are praising has nothing to do with entrepreneurship.

Here is the gist of the problem:

*Unless a non-profit organisation is generating **earned** revenue from its activities, it is **not** acting in an entrepreneurial manner.*

It may be doing good and wonderful things, creating new and vibrant programs:

*But it is **innovative**, not **entrepreneurial**.*

Why is the distinction important? Because only earned income will ever allow a non-profit to become sustainable or self-sufficient. Innovation is a precious resource and it served as the primary engine of non-profit growth through the 1970s and 1980s. But innovation can take a non-profit only so far. It is one thing to design, develop and implement a new program – and quite another to sustain it without depending on charitable contributions and public sector subsidies.

The rules of the game for non-profits have changed dramatically during the past 20 years. Operating costs have soared, resources available from traditional sources have flattened, the number of non-profits competing for grants and subsidies has more than tripled, and the number of people in need has escalated beyond our most troubling nightmares. Smart non-profit managers and Board members realise they must increasingly depend on themselves to insure their survival and that has led them naturally to the world of entrepreneurship.

However, too many non-profit managers and trustees continue to use old methodologies and old definitions to gussy up their books and their brochures. It has reached the point where almost everything new in the sector is called *"entrepreneurial"* and the people who create these new approaches (not to mention the people who write about them and underwrite them) walk away satisfied that they've changed the fundamental equation.

***They have not.***

## Four Key Distinctions

As more and more non-profits begin to claim entrepreneurial status, it's important to make some careful distinctions. The purpose of this essay is to define some core concepts and invite comments from others in the field.

In addition to the differences between entrepreneurship and innovation, we believe there are four other distinctions that are fundamental to any genuine understanding of entrepreneurship in the non-profit sector. These are discussed in the next sections.

### 1. The differences between *"entrepreneurship"* and *"social entrepreneurship"*

According to Webster's dictionary, an entrepreneur is a person who *"organises, manages and assumes the risks of a business enterprise."* In a 1998 column for *Inc magazine*, Norm Brodsky expanded on the definition. *"Starting with nothing more than an idea or a prototype,"* he wrote, *"entrepreneurs have the ability to take a business to the point at which it can sustain itself on internally generated cash flow."*

The italics belong to us. Successfully running a business means sustaining it with earned income, not grants or subsidies.

The most commonly quoted definition of *"social entrepreneurship"* today was formulated by Prof. J. Gregory Dees of Stanford University in 1998, but his essay contained a fundamental oversight. He outlines five factors that define social entrepreneurship:

- ***Adopting a mission to create and sustain social value (not just private value);***
- ***Recognising and relentlessly pursuing new opportunities to serve that mission;***
- ***Engaging in a process of continuous innovation, adaptation, and learning;***
- ***Acting boldly without being limited by resources currently in hand; and***
- ***Exhibiting a heightened sense of accountability to the constituencies served and for the outcomes created.***

He never mentions ***earned income***.

We think that is not only conceptual flawed, but also psychologically crippling. It lets non-profits off the hook. It allows them to congratulate themselves for being *"entrepreneurial"* without ever seriously pursuing sustainability or self-sufficiency. They still return, year after year, to the same individual donors, foundations and government agencies.

What, then, is *social entrepreneurship*? And how does it differ from entrepreneurship *per se*? A social entrepreneur is any person, in any sector, who uses earned income strategies to pursue a social objective, and a social entrepreneur differs from a traditional entrepreneur in two ways:

- Traditional entrepreneurs frequently act in a socially responsible manner: They donate money to non-profits; they refuse to engage in certain types of businesses; they use environmentally safe materials and practices; they treat their employees with dignity and respect. All of this is admirable, but their efforts are only *indirectly* attached to social problems. Social entrepreneurs are different because their earned income strategies are tied *directly* to their mission: They either employ people who are developmentally disabled, chronically mentally ill, physically challenged, poverty stricken or otherwise disadvantaged; or they sell mission-driven products and services that have a direct impact on a specific social problem (*e.g.* working with potential dropouts to keep them in school, manufacturing assistive devices for people with physical disabilities, providing home care services that help elderly people stay out of nursing homes, developing and selling curricula).

- Secondly, traditional entrepreneurs are ultimately measured by financial results: The success or failure of their companies is determined by their ability to generate profits for their owners. On the other hand, social entrepreneurs are driven by a *double* bottom line, a virtual blend of financial and social returns. Profitability is still a goal, but it is not the only goal, and profits are re-invested in the mission rather than being distributed to shareholders.

### 2. The differences between *"sustainability"* and *"self-sufficiency"*

The non-profit sector has traditionally been driven by a *"dependency"* model, relying primarily on philanthropy, voluntarism and government subsidy, with earned income a distant fourth. But social entrepreneurs have turned that formula on its head: Philanthropy, voluntarism, and government subsidy are welcome, but no longer central, because the dependency model has been replaced by two others. In the non-profit world *"sustainability"* can be achieved through a *combination* of philanthropy, government subsidy and earned income. It's a wonderful thing, sustainability, but for many non-profits it's only a way station. *"Self-sufficiency"*, on the other hand, can be achieved only by relying completely on earned income, and is the ultimate goal of the most ambitious social entrepreneurs.

In short, as long as non-profits continue to be dependent on contributions from individuals, grants from Foundations, subsidies from government and other forms of largesse, they will *never* become sustainable or self-sufficient.

*"It's my theory,"* says Kathleen Buescher, President and Chief Executive Officer of Provident Counselling Inc., a US$ 5 million dollar family services organisation in St. Louis, *"that non-profits in the future will have to fund a lot of their mission this way. We're just not going to have sufficient other money to do it. We'll have to earn it ourselves. And the beauty of making a profit, as we've been able to do during the past 15 years is that you can do a lot with the money, you can do what you want to do. You can do it how you want to do it for as long as you want to do it and you don't have to make anybody happy except your own Board and staff. You don't have to meet anybody else's expectations. That's a very freeing idea, and once you feel it, you don't want to go back to the confines of any other type of funding."*

### 3. The differences between *"earned income strategies"* and *"social purpose business ventures"*

Many non-profit Board members and executives are daunted by the prospect of social entrepreneurship because they think it means starting a business venture, something few know how to do. But creating a business isn't the only way to be successful as a social entrepreneur.

In fact the most fertile ground for the vast majority of non-profits is something called *"earned income strategies"*, and they have nothing to do with starting a business venture. The two approaches differ substantially in terms of purposes, expectations and structure:

- ***Earned income strategies:*** Every non-profit has opportunities for earned income lying fallow within its existing programs. The opportunities may be tiny, but exploiting them can have a significant cumulative impact. By aggressively turning inward and searching for pockets of existing opportunities, non-profits have been able to register impressive gains, often raising their percentage of total revenue from earned income by as much as 15 percent within one or two years.

- ***Business ventures:*** Once a non-profit has successfully carried out a variety of earned income strategies, it may want to consider launching a formal business venture – but the goals would be much more ambitious and the strategy completely different. The *only* reason for a non-profit to start a business venture is to exploit a *specific* opportunity for significant growth and profitability – a substantial difference from earned income strategies, which are designed primarily to cover more of a program's costs, without any real expectation of making a profit or even reaching a break-even point. The pioneers in the field have also discovered that the chances for success with a business venture increase dramatically if the organisation creates a *"skunkworks"*, a completely separate entity insulated as much as possible from the day-to-day operations of the organisation. That means having a separate staff, separate compensation policies and even a separate Board of Directors if necessary to achieve as much independence as possible.

**4. The differences between *"innovators", "entrepreneurs"* and *"professional managers"***

Perhaps the single most important lesson learned by the pioneers in the field has been a deeply personal one that strikes to the very heart of their self-perceptions. So often, non-profits discover (too late) that their entrepreneurial efforts have been doomed simply because they are being led by people with the wrong types of skills. The mistake occurred because they did not truly understand the difference between:

***innovators, entrepreneurs*** *and* ***professional managers.***

Regardless of whether a non-profit is attempting to engage in a variety of earned income strategies or trying to launch a business venture, it's important to understand the differences between the three types of leaders: They are all needed in the evolution of a healthy organisation, but at different times, and rarely does an individual possess more than one of the three skills.

Innovators are the *dreamers*: They create the prototypes, work out the kinks – and then get bored, anxious to return to what they do best, which is inventing more prototypes. They are rarely concerned, ultimately, with the financial viability of what they do.

Entrepreneurs are *builders*: They turn prototypes into going concerns – then they get bored. For them, financial viability is the single most important aspect of what they do.

Professional mangers are the *trustees*: They secure the future by installing and overseeing the systems and infrastructure needed to make sure the going concern keeps going.

Unfortunately, in the non-profit sector, often because resources are scare, organisations try to shoehorn people into positions where they don't fit, and many of the problems non-profits have when they begin adopting entrepreneurial strategies arise from having an innovator or a professional manager trying to do an entrepreneur's job.

## Some Final Thoughts

The culture of a *traditional non-profit*, no matter how innovative, is vastly different from the culture if an *entrepreneurial non-profit*. Entrepreneurs have a higher tolerance of risk, a greater appreciation of margins, and an eagerness to compete. Traditional non-profits distrust the capital markets, prefer collaboration to competition, and underestimate the productive capabilities of their disadvantaged employees. They watch other non-profits become increasingly sustainable or self-sufficient, but are unwilling to emulate their practices.

Instead they criticise. *"My god, the resistance,"* say Rick Walker, who runs seven small businesses out of his non-profit in Marshfield, Massachusetts. *"To a great extent, non-profit people are not risk-takers, and their unwillingness to think outside very standard parameters constantly amazes me. I see a few of them trying things, but usually on a very, very limited scale. Quite frankly, we've had a lot better luck getting people outside the non-profit world to understand what we're doing and feeling comfortable with it."*

Perhaps, if traditional non-profits come to a better understanding of what social entrepreneurship is actually about – if some of the confusing terminology that is currently plaguing the movement can be clarified – more of them will summon the courage to begin emphasising ***earned income, sustainability and self-sufficiency*** instead of *charitable contributions, government subsidies and eternal dependency*.



## Social Enterprise Definition

*"Any earned-income business or strategy undertaken by a non-profit distributing organisation to generate revenue in support of its charitable mission. 'Earned income' consists of payments received in direct exchange for a product, service or a privilege."*

**Source:** *Social Enterprise Alliance* http://www.se-alliance.org

## Further Information

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This article is archived at: http://www.se-alliance.org/better_understanding.pdf.

Further reading: ***Eight Principles for Non-profit Entrepreneurs*** by Jerr Boschee can be accessed at http://www.socialent.org/pdfs/8BasicPrinciples.pdf