

IS SOCIAL ENTREPRENEURSHIP IMPORTANT FOR ECONOMIC DEVELOPMENT POLICIES?

1. Introduction

In the recent years there has been strong growth in the studies of social entrepreneurship on the level of business administration and microeconomics. This has been especially the case since Muhammad Yunus, founder of the Grameen Bank and a renowned example of a social enterprise, won the Nobel Peace Prize in 2006. However, the increase in academic interest has largely been confined to case studies or efforts to find a common definition of social entrepreneurship (Pariyar and Ward, 2005, p.1). What the current academic literature does not provide is a link between social entrepreneurship and economic development policies. How important are social entrepreneurs for economic development and what are the policy implications?

After defining the term social entrepreneurship as dealing with organizations at the intersection of non-profit and business enterprises this essay analyses the importance of social entrepreneurship for economic development policies. It will be demonstrated in four paragraphs that the social entrepreneur sector is increasingly important for economic development policies because it creates social and economic values: (1) Employment development, especially significant for the disadvantaged segment of societies; (2) Innovation and the creation of new goods and services, often for unmet social needs; (3) Social capital, critical for sustainable social and economic development, and (4) Equity Promotion, in view of the addressing of the needs of disadvantaged people.

Therefore, economic development policies should consider not only the needs of entrepreneurs in general, such as instituting bankruptcy laws and working institutions and reducing regulatory burden, but also especially foster social entrepreneurs by providing specific education and tax-incentive programmes and, most importantly, easier access to funding.

2. Definition of Social Entrepreneurship

Despite the agreement that social entrepreneurship is an emerging field, there exists no agreed upon definition (Austin et al., 2006, p.1). Many attempts to define social entrepreneurship start with exploring the term's use, going back to French economist Jean-Baptiste Say in the early 19th century, who defined an entrepreneur as a person who creates value by shifting “economic resources out of an area of lower and into an area of higher productivity and greater yield” (Martin and Osberg, 2007, p.2). Most influential was Joseph Schumpeter in defining the ‘Unternehmer’ (entrepreneur) as an innovative force for economic progress, important in the process of ‘creative destruction’ and therefore as a change agent, a term which is used in many modern definitions of social entrepreneurship (Schumpeter, 1962/2005, p.3, Dees et al., 2001).

While there are many different definitions of *entrepreneur*, the relatively new term *social entrepreneur* is even less clearly defined and often varies from country to country and author to author (Soderborg, 2004). One of the most widely cited definitions in the academic literature is the one from a renowned scholar in the field of social entrepreneurship:

A social entrepreneur is a change agent who:

- “Adopts a mission to create and sustain social values
- Recognizes and relentlessly pursues new opportunities to serve that mission
- Engages in a process of continuous innovation, adaptation, and learning
- Acts boldly without being limited by resources currently at hand, and
- Exhibits heightened accountability to the constituencies served and the outcomes created.” (Gregory Dees et al. 2001, pp. 4–5, cited in Soderborg, 2004).

Noteworthy is also a shift in the focus of social entrepreneurs away from the non-profit sector, traditionally in charity and philanthropic activities, towards entrepreneurial private-sector oriented business activities. While some authors such as Dees et. Al (2001) and Bornstein (2004) still see the social entrepreneur mainly in the non-profit sector, most of the studies in recent years highlight that the boundaries between non-profit and for-profit vanish (OECD, 2000, p.8, OECD, 1998, p.116, Alter, 2006, p.3). Leadbeater's (1997) diagram illustrates how the social-entrepreneur sector overlaps with the public, private and voluntary sectors:

3. Creation of Social and Economic Values

The importance of entrepreneurship in general and social entrepreneurship in particular is often overlooked (Martin and Osberg, 2007). This paper argues in the next four paragraphs that social entrepreneurship is important to economic development policies because it can play a vital role to the progress of societies and deliver vital value to societal and economic development.

A. Employment Development

The first major economic value that social entrepreneurship creates is the most obvious one because it is shared with entrepreneurs and businesses alike: job and employment creation. Although the academic literature does not provide recent data on how many people are employed in social enterprises in a multi-country context, a study from the John Hopkins University from 1998 on the percentage of people employed in the non-profit sector in 13 countries can function as a proxy to illustrate that the number is significant. As figure 3 shows, it ranges from one to seven percent in the selected countries (OECD, 1998, p.114):

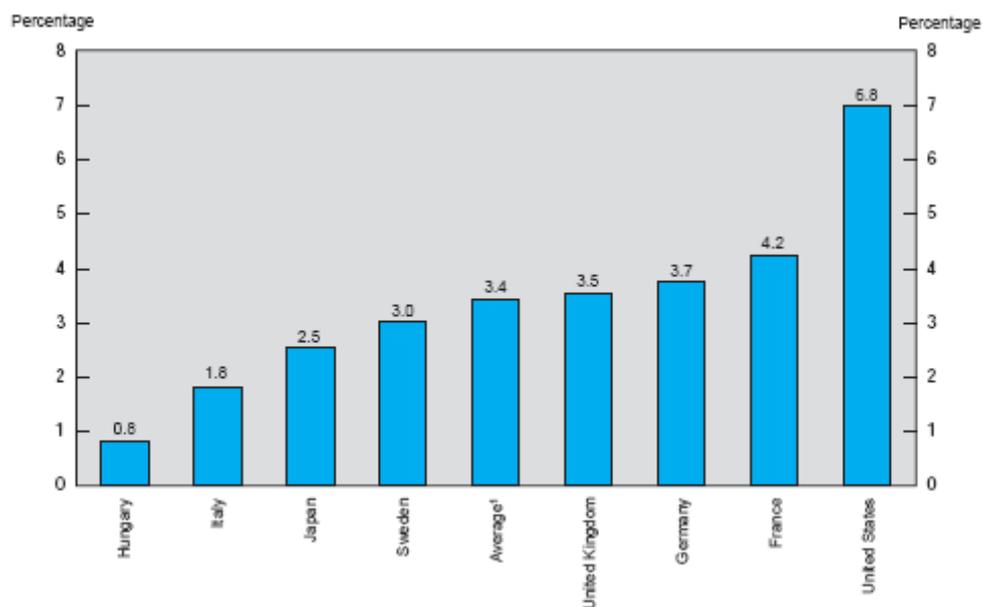


Figure 3: Employment in the non-profit sector (OECD, 1998, p.114)

A second dimension of employment development is almost unique to social enterprises; social enterprises provide employment opportunities and job training to segments of society at an employment disadvantage, such as the long-term unemployed, the disabled,

the homeless, at-risk youth and gender-discriminated women (Alter, 2006, p.28). Some social enterprises act as an “intermediate between unemployment and the open labour market” (OECD, 2003, p.114). Reintegration of disadvantaged groups into the labour market is both socially and financially beneficial for the community at large (OECD, 2000, p.50). In the case of Prof. Yunus and the Grameen Bank, the economic situation of six million disadvantaged women micro-entrepreneurs were improved (Nobel Committee, 2006).

B. Innovation / New Goods and Services

Social enterprises develop and apply innovation important to social and economic development and develop new goods and services. As the Organisation for Economic Co-Operation and Development (OECD) states, “social-purpose enterprises ... bring new responses to unmet social needs can be measured as the provision of new goods and services that are complementary to those delivered by the public and private sectors and accessible to a greater number of citizens” (OECD, 2000, p.50). Issues addressed include some of the biggest societal problems such as HIV, mental ill-health, illiteracy, crime and drug abuse which, importantly, are confronted in innovative ways (Leadbeater, 1997, p.22). An example showing that these new approaches in some cases are transferable to the public sector is the Brazilian social entrepreneur Veronica Khosa, who developed a home-based care model for AIDS patients which later changed government health policy (Bornstein, 2003, p.183). The OECD sees these new kinds of organizations as “hotbeds of ideas and experiments, and they are able to get innovative policies adopted at the central, regional or local government levels” (OECD, 1998, p.122).

C. Social Capital

Next to economic capital one of the most important values created by social entrepreneurship is social capital. Although the term social capital again is not clearly defined, it is usually understood as “the aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance and recognition” (Bourdieu, 1983, p.241). To

Leadbeater (1997), social capital is the most important form of capital created by social entrepreneurs because economic partnerships require shared values, trust and a culture of cooperation which is all part of social capital (Leadbeater, 1997, p.23-24). As examples he mentions the success of the German and Japanese economies, which have their roots in long-term relationships and the ethics of cooperation, in both essential innovation and industrial development. The World Bank also sees social capital as critical for poverty alleviation and sustainable human and economic development (World Bank, 2004). Hasan (2005) mentions the Grameen Bank again, along with several other Asian examples, and concludes with the statement that “existent bonding social capital within groups has been reinforced by bridging/linking social capital catalysed by social entrepreneurs” (Hasan, 2005, p.13).

Figure 4 illustrates the “virtuous circle of social capital”, starting with the initial endowment of social capital by the social entrepreneur. Building up a network of trust and cooperation and getting more partners involved enables access to physical (e.g. buildings), financial and human capital. Organizational capital is created, and, when the social enterprise is successful, more social capital such as in the form of a re-opened hospital is created (Leadbeater, 1997, p.67-70):

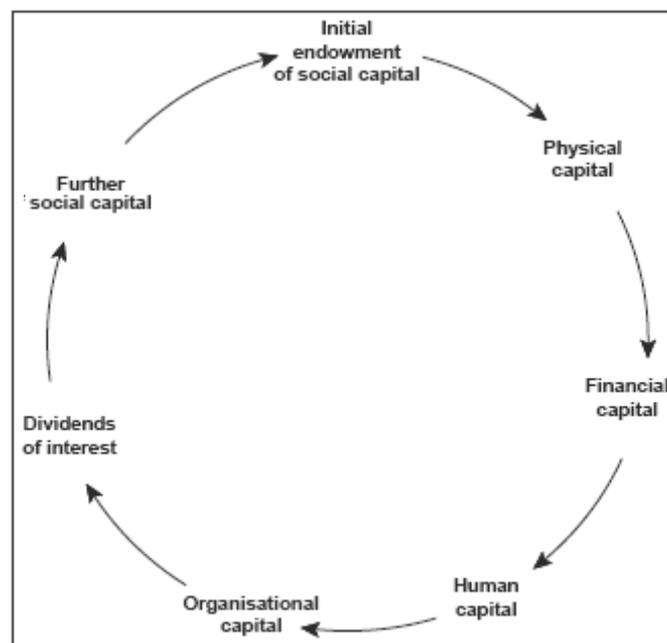


Figure 4: The virtuous cycle of social capital (Leadbeater, 1997, p.68)

D. Equity Promotion

Another aspect is that social entrepreneurship fosters a more equitable society which is an objective for most economic development policies (Remenyi, 2004, p.141). Complementing the equity promoting activities of public agencies and NGOs, social enterprises address social issues and try to achieve ongoing sustainable impact through their social mission rather than purely profit-maximization (Alter, 2006, p.4). Again Yunus's Grameen Bank and its support for disadvantaged women is an example of how social entrepreneurs support equity-promoting policies. Other examples include re-integrating disadvantaged groups into the labour market and providing affordable goods and services to the poor (OECD, 2000, p.49). For instance, the American social entrepreneur J.B. Schramm has helped thousands of low-income high-school students to get into tertiary education (Bornstein, 2003, p.159).

4. Economic Development Policies to foster Social Entrepreneurship

Economic development policies aimed at fostering social entrepreneurship include policies to foster entrepreneurship in general as well as policies specific to social enterprises. General policies include minimizing regulatory barriers, administrative and compliance costs and tax burdens, and ensuring functioning markets, competition, and the effectiveness of bankruptcy laws (OECD, 1998, p.53)

Additionally, the three following policies that specifically consider the unique challenges of social entrepreneurship should be implemented:

- Firstly, the biggest difficulty for social enterprises is obtaining credit and sufficient funds, leading to a recommendation that special funding mechanisms should be developed (Alter, 2006, p.4, OECD, 2000, p.51).
- Secondly, best-practice exchange, the education of future leaders and continuous training should be supported by establishing centres for social entrepreneurship (OECD, 2000, p.16, Leadbeater, 1997, p.70).
- Thirdly, regulation for social enterprises should be minimized and government incentive programs including tax incentives should promote the social-enterprise cause making the private sector more inclusive (Leadbeater, 1997, p.70).

5. Conclusion

In summary, this essay has shown that social entrepreneurship is important to economic development policies and can play a vital role for societal and economic progress. After briefly outlining that social enterprises are hybrid organizations falling between the non-profit and the business models, the fostering of four important values were discussed: (1) Employment development in the form of job creation and (re-)integration of disadvantaged people; (2) Innovative creation of new goods and services; (3) Broadly distributed social capital through socially institutionalized values such as trust and cooperation, and (4) Equity promotion by addressing the unmet needs of socially disadvantaged groups.

Therefore, social enterprises should be seen by policy makers as a positive force, as change agents providing leading-edge innovation to unmet social needs. The recognition of Muhammad Yunus and the Grameen Bank with the Nobel Peace Prize 2006 for “their efforts to create economic and social development from below” (Nobel Committee, 2006) is a first step towards recognizing social entrepreneurs. Economic development policies should foster entrepreneurship in general and especially when entrepreneurs take on social problems that the private for-profit and public sectors do not address or niches they overlook. Specific policy recommendations include the easier provision of credit as well as implementation of specific education and tax incentive programmes, along with policies that target the fostering of entrepreneurship at large, such as reducing regulatory burden and establishing working institutions and effective bankruptcy laws.

Social entrepreneurship is not a panacea because it works within the overall social and economic framework, but as it starts at the grassroots level it is often overlooked and deserves much more attention from academic theorists as well as policy makers. This is especially important in developing countries and welfare states facing increasing financial stress.

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