

If not for profit,  
for what and how?

S O C I A L  
E N T E R P R I S E

# Social Enterprise Orienting: Shareholder Profit to Stakeholder Prosperity

Yaso THIRU  
Alaska Pacific University

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## **Abstract**

*This study used grounded theory method to develop a characterization of the social enterprise domain. It explains the nature and orientation of social enterprises and their roles and purposes in the larger socioeconomic context. Self-identified social enterprises/entrepreneurs and those recognized as such by proxy organizations such as Ashoka, Skoll Foundation, and Social Enterprise Alliance were sources of data for this study. The conceptual categories that emerged from this analysis are breaking traditions, creative giving, experimenting, social risk-taking, and co-opting. These categories explain the basic social process of "orienting." Social enterprises fall into four types based on their role orientation and purpose. They are (1) commercial enterprises that support a social cause such as environmental conservation, access to markets, fair wages, etc. (Social Cause); (2) organizations that enabled grassroots social change focused on directly working with specific populations for providing basic human needs such as healthcare, food, sanitation, and education, etc. (Social Change); (3) those who contributed in a systemic way through advocacy for social justice, human rights, democracy, etc., (Humanitarian); or (4) individuals who operated within a system in entrepreneurial ways (Social Intrapreneurs). From these insights I offer three propositions based on customer-beneficiary proximity, and change-system proximity.*

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# 1. INTRODUCTION

Using a grounded theory method this paper attempts to place social enterprises in the three-sector economy through a deeper understanding of their social and economic roles. It also offers an explanation of the origins, movement, and placement of social enterprises in the socioeconomic sphere. Many scholars have noted the lack of empirical studies in the field (Dacin, Dacin & Tracey, 2011; Short, Moss & Lumpkin, 2009). Short, Moss, and Lumpkin (2009) report that the past 20 years of work has not produced a unified approach to studying the phenomenon. They further note that social enterprise research has not produced any propositions for empirical testing. Because of the interdisciplinary nature of the subject, researchers in the field have difficulty coming up with relevant and meaningful research questions (Dacin, Dacin & Tracey 2011). They note the importance of social processes in theory building in the field of social entrepreneurship. One of the major challenges to research in this field is the lack of a single authoritative definition for social enterprise. This is so because the political, social, cultural, and economic contexts--the forces behind social enterprise practices and origins vary from country to country (Defourny & Nyssens, 2008). What is lacking in the field is a sound theory to explain these variations. This study attempts to fill these gaps by offering certain theoretical propositions developed through an explorative inductive analysis of the social enterprise domain.

As the above authors have pointed out, a clear understanding of what the social enterprise field is about and a movement towards a theory or theories of social enterprise must begin with the development of sound hypotheses. Explorative inductive studies are a clear approach to hypothesis development. I used a grounded theory method to inductively develop certain propositions about the social enterprise domain. In this study I identified a basic social process I call "orienting" that helps explain the origins of the social enterprise and how it comes to be situated in one form or another with its unique goal orientation in the socioeconomic sphere. My research started with the question: What roles do social enterprises play in the socioeconomic sphere and for what purpose?

In keeping with the grounded theory tradition of Glaser and Strauss (1967) and Glaser (1965 & 1992) my literature review was not conducted to begin the research. I did not want to frame my exploration in the context of what is already known about the field. Instead, I began with the collection and analysis of the data. I looked for variations in the data and developed conceptual categories that explained these variations. This process continued until the data was saturated or no more variations were observed in the data. The conceptual categories that emerged in this analysis were further developed using the theoretical sampling method of constant comparative analysis to identify a basic social process. I used the existing literature and case studies on social enterprises and entrepreneurship for theoretical sampling. The result is a set of propositions about social enterprises.

## 2. METHOD

### 2.1. Data

#### 2.1.1. Sources

The data for my research came from three different of sources: published literature, directories of social enterprises available on worldwide web, and information from the social enterprise proxy organizations such as the Social Enterprise Alliance, Bright Red Dot Foundation, Ashoka, and Skoll Foundation. A list of directories of social enterprises available at the website of the npEnterprise Forum, a list serve partner of Social Enterprise Alliance, was highly useful. A number of directories I used for identifying social enterprises came from this list. The directories include Give to Get Jobs (USA); ClearlySo (UK); Directory of Social Enterprises, Colorado; Buy with a Heart, Rhode Island; Social Enterprise Market Place (Canada); BuySE (UK); seb2b, (UK); and Social Enterprise Finder

(Australia). Only organizations from these sources that had published information about their activities were used for analysis.

Two of the above mentioned directories had added purposes. Give to Get Jobs connects the employers who give back to the community with individuals who look to work for such businesses. They also connect the donors and beneficiaries by using portals the benefiting non-profits can use to tell stories. This helps the donors to see the direct impact of their giving. Buy With a Heart, a directory of social enterprises, offers to donate a percent of transaction value to a cause if viewers patronize the social enterprise businesses from the directory.

The published literature I relied on for theoretical sampling are from Alex Nicholls's *Social Entrepreneurship: New Models of Sustainable Social Change* (2008) and other social enterprises known for their pioneering work in the area such as the Transparency International, Grameen Bank, Arvind Eye Hospital, D'light, Gram Vikars, and a local Grassroots Fairtrade Store.

### ***2.1.2. Definitions used by social enterprises in this study***

Every single social enterprise directory and all proxy organizations defined the term social enterprise. For some of these directories the definitions were the criteria for inclusivity in the database. Social enterprises and social entrepreneurs voluntarily submitted names to these directories. Further, these sites invited social entrepreneurs and viewers who knew of social enterprises that were not listed in their directories to submit entries. Whether these submissions were tested for meeting their set criteria or definition is unknown.

Definitions included terms and phrases such as "social and environmental benefits," "ethical," "independent," "good for society," "training and employing disadvantaged people," "triple bottom line," "earned revenue strategies," "businesses that help others," "providing services and supplies to underserved communities," "addressing critical social and environmental issues," "business that trade for community benefit," "generate income for charities or not-for-profit groups," etc.

### ***2.1.3. Legal forms of social enterprises used in this study***

The US social enterprise directories included business enterprises, non-profits, L3Cs, and B corporations. The Canadian social enterprise directory included enterprising nonprofits (social enterprise by their definition) only. The Australian social enterprise directory listed businesses that traded for community benefit. They defined social enterprises as such and claimed the existence of an estimated 15,000 social enterprises in Australia led by the social, environmental, and cultural missions.

UK directories included small and large businesses, nonprofits, CICs, Cooperatives, registered charities, or third sector companies. According to the Department for Business, Innovation & Skills of UK (<http://www.bis.gov.uk/cicregulator/>), community interest companies are "limited companies, with special additional features, created for the use of people who want to conduct a business or other activity for community benefit and not purely for private advantage." For these CICs, the community interest test is satisfied by the asset lock provision that restricts distribution to owners.

The NIBUSINESSINFO.CO.UK website for Northern Ireland businesses provides information on the legal structures of social enterprises that included unincorporated associations, trusts, limited companies, community interest companies, social enterprises, limited companies with social purpose, community benefit societies, co-operatives, and charitable incorporated organizations. The differences in these structures were based on ownership and governance, agency, benefit accrual, asset distribution, and tax benefits.

## 2.2. Analysis

To begin, I searched the sources for any kind of information that helped me to understand the role of the social enterprises. This open coding helped me identify ideas and concepts that led to more selective data analysis leading me to focus on a number of different characteristics or variables including products or services offered by the social enterprise, populations served, location of beneficiaries, funding sources (invested capital, donated funds, or other), business model or approach to problem solving, use of markets for trade if applicable, and form under which the social enterprise operated.

I saw numerous similarities and a few variations between characteristics of social enterprises within directories and between lists from different directories. The variations were for the most part explained by the definition of SEs used, forms under which they operated, or the purpose of these lists. For example, the Canadian listing consisted of nonprofit entities only because their social enterprises were defined as enterprising nonprofits; whereas the US directories included entities that operated as small businesses, nonprofits, L3Cs, and B corporations. Further, if the purpose of the list was to provide visibility and enhance revenues for the social enterprises (the Rhode Island list for example), the listed entities were small businesses only.

The general characteristics of social enterprises listed in the proxy organization websites were more alike than different. The Skoll Foundation list of social entrepreneurs was made up mostly of nonprofits with a handful of exceptions that were either fee for service organizations or nonprofits with some earned income. The areas in which the social entrepreneurs worked included education, economic opportunity, health access and treatment, peace, human security, water, sanitation, sustainable markets, human rights, and food. Information about the social entrepreneurs was available on their websites complete with annual reports. The Social Enterprise Alliance member list is unavailable to the public but a list of examples was published on their website. These examples included for-profit enterprises, nonprofits, and nonprofits with earned income. Ashoka recognized fellows who worked in the areas of health, civics, human rights, education and training, economic development, and the environment. Nearly 3,000 members from 70 countries were listed on their website. Ashoka invests in individuals with ideas for social transformation. To them this is a venture. They select social entrepreneurs to support based on a number of criteria: new ideas, creativity, entrepreneurial quality, potential for social impact, and ethical fiber (<https://www.ashoka.org/support/criteria>). They also promote a network of social entrepreneurs to help learn from each other, and they build sector infrastructure by providing seed capital and helping social entrepreneurs find and maintain strategic partnerships with businesses and civil society sectors. The focus is the making of a social entrepreneur and building the scaffolds necessary to support their work.

The above three proxy organizations appear to play certain synergistic roles in the making of a social enterprise domain. Ashoka's role is in investing in social entrepreneurs with a grassroots focus, while Skoll Foundation provides the visibility, financial support, and network opportunities for growth. Social Enterprise Alliance is a network organization that promotes the field and helps spread the idea.

Coding and constant comparative analysis continued using data from outside the above databases. I looked for roles and characteristics of social enterprises outside of the directories and proxy organizational lists to understand the variations in the data. The social enterprise case studies from published literature provided me with the data for this theoretical sampling.

### **2.2.1. Orienting**

The result of this analysis is the emergence of the following conceptual categories: breaking traditions, creative giving, experimenting, social risk-taking, co-opting. These categories explain the basic social process of "orienting." This core variable explains what goes on in the making and sustaining of social enterprises. Social enterprise activities begin with an idea to solve a problem or meet a certain unique need that the existing sectors of the economy or the "systems" are unable to meet. The social enterprise emerges as it is organized, finds its place and situates itself in an organizational milieu. Some social entrepreneurs work within the system to make changes-- these are what I call the "social intrapreneurs." Florence Nightingale is a popularly used example of an individual working within a system. Another example is the creation of a formal system within a system or a new system or sector, to address the problems such as the CICs of UK. There are others who begin their work outside of these systems or sectors because none of these systems can solve the problems they are seeking to resolve for various reasons. Mohammad Yunus who started micro-lending practices outside the banking system is an example.

Problem solving often takes experimenting and risk taking. The innovator entrepreneur is always breaking tradition as in Schumpeter's (1934) creative destruction. Mobilizing resources to achieve the goal, the social entrepreneur breaks traditions, adapts, co-opts, and innovates. Organizing sustains the activity. This organizing necessitates the innovator to adopt existing organizational forms: for-profit enterprise, non-profit, hybrid (L3Cs, CICs), and so forth. Once the activity is organized, the entity is bound by that organizational form. Conceived outside the "system," the social enterprise becomes part of it in the organized form. Development of the micro-lending industry inspired by Yunus's deposit-driven self-help model is an example. Adopting the capital market model has led the micro-lending practices to become a banking industry apart from the deposit-driven self-help model that inspired it. I found four types of social enterprise activities in the domain. They are discussed below.

## **3. DISCUSSION**

### **3.1. Social Enterprise Types**

Social enterprises fall into four broad types based on their role orientation and purpose. They are (1) commercial enterprises that support a social cause such as environmental conservation, access to markets, fair wages, etc. (Social Cause); (2) organizations that enable grassroots social change focused on directly working with specific populations for providing basic human needs such as healthcare, food, sanitation, and education, etc. (Social Change); (3) those who contribute in a systemic way through advocacy for social justice, human rights, democracy, etc., (Humanitarian); or (4) individuals who operate within a system in entrepreneurial ways (Social Intrapreneurs).

#### **3.1.1. Social cause**

The enterprises for social cause were market oriented. These social enterprises used the traditional market mechanisms including competitive advantage. They created wealth for financial sustainability of the social enterprises by means of branding, differentiation, and competition. Further, their customers and beneficiaries were two different populations: Customers are those who trade/transact with the social enterprise, and beneficiaries are the population in need. They resembled commercial enterprises in every way including the focus on wealth creation. What distinguishes them from commercial enterprises, however, is what I call a model of creative giving. Their business model captures the imagination and the attention of the benevolent consumer who is aware, looking for ways to give back to the community by shopping responsibly and feeling good about it. These social enterprises exist in societies where capital markets are highly developed, consumer market mechanisms are easily accessible for entrepreneurs and the use of social media is common. The

social enterprises listed in ClearlySo; Buy with a Heart; the Directory of Social Enterprises, Colorado; and Give to Get Jobs are examples. In these circumstances markets are used to mobilize funding.

Social benefits accrue in the form of job creation or giving for a cause. For example, Just Buy is a consortium of social firms that employ people who are left out of the labor market because of disadvantages, disabilities, or social exclusion. Social firms are independent social enterprises that sell everyday consumables and reinvest their money into the business for further job creation. Of the approximately 3500 social firms listed in the directory ClearlySO of UK, approximately 70 percent are from UK, followed by 8 percent in Canada, 7 percent in USA and remainder in other parts of the world. 1for1 Water is an example that illustrates giving for cause. They provide clean drinking water to people in some developing nations. Their website (<http://1for1water.com/the-promise>) claims that for every 75 bottles of 1for1Water sold in the U.S., they provide access to clean drinking water to one person somewhere in the developing world for life. Their first project based in Haiti uses wells and bio sand filters to provide clean water. Technology allows the company to provide impact information to the customer. Their website states that by entering the bottle code the customers can find out the direct impact of their purchase within 90 days. These types of social enterprises are small and medium businesses that with a few exceptions operate as non-profits.

One distinctive feature of social cause social enterprises is the competitive advantage that may be expected in any commercial enterprise. Even the non-profit organizations in this category use competitive advantage for creating economic value while focused on creating social value for the target population. Ashoka U is an example. They use branding and differentiation to achieve competitive advantage. Weerawardena & Sullivan-Mort (2001) offer a theoretical model that explains the competitive advantage process used by not-for-profit organizations (NFPs). They suggest that socially entrepreneurial NFPs, because of their "dual" nature, engage in commercial value creation activities to finance social value creation. In a 2006 study of social enterprise models of NFPs, the same authors suggest that contrary to the widely held view, social entrepreneurial behavior is not sacred but a highly pragmatic approach based on an optimization model (perhaps here they are referring to the social entrepreneur as a "hero" concept popularized by David Bornstein (2007)).

Other approaches to providing water and sanitation to people in the developing countries were also found in this study. Unlike these market oriented business ventures utilizing competitive advantage, they are stakeholder oriented social enterprises, focused on specific populations and therefore are discussed under Social Change below. Their approach is activism, education, and behavior modification at the grassroots level. They were neither concerned with market mechanisms nor competitive advantage.

A regional difference emerged in this analysis. Market oriented firms were predominantly from North America, UK and Australia marketing to the developed world. The stakeholder oriented social enterprises operate in all regions of the world including North America although their beneficiaries are predominantly in emerging market regions. This observation may be a reflection of the limited data available from other regions of the world; with a few exceptions, the social enterprise data available on African countries, India, and Latin America are limited to grassroots type social and humanitarian work and are not market oriented.

### ***3.1.2. Social Change***

These social entrepreneurs are stakeholder-oriented because of their focus on specific populations. Further, they do not use branding or create a competitive advantage as a means to achieving impact, and they do not use the market. In a comparative analysis of commercial and social enterprises using Sahlman's (1996) elements of entrepreneurship of people, context, deal, and opportunity, Austin, Stevenson & Wei-Skillern (2006) note that because social consumers, those served by social enterprises, often have little economic capability or consumption alternatives, a market mechanism is absent in the social entrepreneur's world. This observation fits the characteristics of social change

oriented and humanitarian focused social enterprises described below. However, as described above, my study finds that social enterprises that are oriented toward social causes use market mechanisms.

Social Change organizations are charitable or education focused and seek to help or empower the stakeholders. They predominantly use volunteer resources and are nonprofit organizations. While funding is mostly through donations and grants, a number of them have earned incomes from fee for services or memberships. These social enterprises share knowledge for scaling impact. Their focus is on stakeholder prosperity and sustainability through employment creation, access to markets, training, support, capacity building, etc. In contrast to 1for1 Water described above, Water for People, a nonprofit social enterprise, for example, works at the grassroots level to “maximize people’s potential to meet their own development challenges” (<http://www.waterforpeople.org/>). They are funded mostly by contributions, grants, and sponsorships. The 2012 annual report indicates approximately 7% of their income is from “special events” or earned income. Their approach is to engage government, neighborhoods, and local businesses to solve the water and sanitation problems. Collective investment and education at the grassroots level is their business model for local sustainable solutions. Partnerships and buy-in are some of their approaches to working in these communities.

Competitive advantage is distinctly absent in social change focused enterprises although many are engaged in trading activities. They tend to be in the areas of health, civic engagement, education, training, and environmental conservation. Visionspring (<http://visionspring.org/>) is an enterprising nonprofit that provides affordable eye care to economically disadvantaged populations. Their employees are trained “vision entrepreneurs” who reach out into the communities, to promote eye care, screenings, and to sell eyeglasses. The eyeglasses they sell are obtained through a secondary recycle market. There is no indication of competitive advantage. One could only assume that this is because the profit margin is low and their customer base is at the bottom of the pyramid (BoP). The optical companies would not be interested in such a low margin customer base. One may assume that this market failure is the reason why a need for serving this population came about in the first place. Visionspring is a nonprofit with a little less than half of their revenue in earned income according to their 2011 audited annual report.

The work of Partners in Health is another example that illustrates the concept of social change. The model used is community-based healthcare and social change. The co-founder, Paul Farmer, sees health issues as something a medical professional alone cannot resolve but as a social issue that is embedded in economic and social disparities. He sees poverty as unwanted suffering that is the root cause of health issues in Haiti. This organization’s mission is to provide better healthcare options for the poor. Providing clean water and health education empowers the locals to work toward the elimination of unnecessary suffering. The other similar examples of social enterprises that are social change focused include Gram Vikars, Barefoot College, etc. The social change organizations seem to mobilize all four types of capital: human, social, political, and financial that Mair, Battilana, and Cardenas identified in their 2012 study of social enterprise types, although perhaps political capital to a lesser degree.

### **3.1.3. Humanitarian**

These social enterprises are stakeholder oriented because of their focus on advocacy. There is social risk taking in the work they do. They work within the larger social and political systems to create impact. They leverage political capital to mobilize resources, to inform, and to advocate. Ecopeace, the International Center for Transnational Justice, and Transparency International are a few examples. Peter Eigen who founded Transparency International is an Ashoka Fellow recognized for his work on publicizing government corruption around the world. All humanitarian organizations are nonprofits working with specific disadvantaged populations on human rights issues such as social justice, equal rights, democracy, human trafficking, women’s rights, fair labor practices, etc. What distinguishes these social enterprises from the humanitarian organizations of yesteryear is their approach to stakeholder prosperity. They educate and empower and create opportunities to sustain

a way of life that is fundamental to human rights. Ecopeace provides advocacy related to water and sanitation issues in the Middle East, and the International Center for Transnational Peace works on investigating human rights violations, providing education and advocating for justice. Sustainable solutions distinguish the social entrepreneur's humanitarian work from religious charitable organizations or the Red Cross, for example, whose actions are focused on the immediate need to feed, cloth, and heal the affected. Educating and empowerment are two common tools used by these social enterprises to create sustainable social change.

Search for Common Ground is a nonprofit founded to "defuse, transform, and prevent conflict" (<http://www.skollfoundation.org/entrepreneur/john-and-susan-collin-marks/>). They work with the existing systems in the countries they operate in to empower, educate, and create positive social change. They report for example, that their bilingual education program in Macedonia is fully institutionalized within the country's official educational structure. In order to create positive social change they work and advocate within the systems of governments and community groups. Their global programs include working with youth, leadership and wisdom development initiatives, and programs for understanding and peace. They use conflict prevention forums and networks to protect children in armed conflicts. The focus is on education and social transformation. Their work in the Middle East to promote peace, cooperation and security, and conflict resolution, or their advocacy campaign to reform of the Chieftaincy system in Sierra Leone are examples of this social transformation work ([http://www.sfcg.org/programmes/ilt/sfcg\\_evaluations.html](http://www.sfcg.org/programmes/ilt/sfcg_evaluations.html)). Their networks and influence spheres include institutions such as the World Bank, USAID, UNICEF, and a number of renowned universities in the US. Social, human, and political capital seems to be at work in this type of social enterprise.

### ***3.1.4. Social Intrapreneurs***

Social intrapreneurs, are individuals who work within a system or sector breaking traditions to influence innovation or are catalysts for a type of Shumpeterian (1934) creative destruction. Ashoka's website lists the names of a number of individuals including Susan B. Anthony, Dr. Maria Montessori, Jean Monnet, Vinoba Bhave, and others whom they claim are examples of social entrepreneurs. Ashoka defines social entrepreneurs as change agents, individuals who change the systems leading to larger societal changes. "Social entrepreneurs are individuals with innovative solutions to society's most pressing social problems. They are ambitious and persistent, tackling major social issues and offering new ideas for wide-scale change. Rather than leaving societal needs to the government or business sectors, social entrepreneurs find what is not working and solve the problem by changing the system, spreading the solution, and persuading entire societies to take new leaps" ([www.ashoka.org](http://www.ashoka.org)). According to their website, Ashoka has recognized approximately 3,000 "fellows" in 70 countries who work in the areas of health, civic engagement, human rights, learning and education, economic development, and the environment. What distinguishes these social entrepreneurs is that they work within the system for creating change while the humanitarian organizations work with the system. In both cases larger social changes occur, but social intrapreneurs break traditions from within.

The Ford Foundation--Kennedy School of Government's (Ford--KSG) applicants for the Innovations in American Government provide examples of social intrapreneurs. Using two samples of award finalists for the program, Borin (2000) tested the nature and characteristics of the innovation process, where it originated within the applicant's organization, who supported it, and how obstacles were overcome. He concluded that the innovators creatively solved public sector problems and demonstrated innovation astute initiatives while forthrightly dealing with opposition through persuasion or accommodation. A more recent example of social intrapreneurship is a Medicare demonstration project by Health Quality Partners. The project demonstrated increased quality of care without increased costs by simply having trained nurses visit patients once a month (Klein, 2013). A randomized trial experiment proved significant cost savings to Medicare using this approach to healthcare. Whether Medicare will adopt this model in the long-term is yet to be determined and debated. If they did, this would prove to be an example of transformation of a system from within.

## 3.2. Some Similarities and Differences Found in Literature

For the purpose of this paper I did not begin my research with a literature review. Instead, my goal was to allow the emergence of an inductively conceptualized description from the data available in the social enterprise domain. Once the conceptual categories emerged from my data, I reviewed the literature for constant comparative analysis. This analysis helped place my theory of social enterprise orienting within the context of what has already been published in the field. Throughout the discussion of the conceptual categories above I weave in the similarities and differences I found within the social enterprise literature. Below, I present a discussion of two topics central to understanding social entrepreneurship: social enterprise types or models and innovation. Because of the publication frequency and prominence of these topics in social entrepreneurship literature, I decided they deserved to be discussed separately. I point out what I found in the literature that both supports and varies from my findings.

### 3.2.1. Models

A recent study by Mair, Battilana, and Cardenas (2012) using 200 self-identified social entrepreneurs offers a typology of social entrepreneuring models or “models of organizing” to combine issues, constituencies and actions to conceptualize and resolve the social problems (p.364). According to the authors the three distinct actions of social entrepreneurs are redefining the problem or need, identifying the target constituencies, and selecting the activities that engage the target constituencies. These researchers hypothesize that the types of capital used are based on the issues the social enterprises addressed. Those organizations that addressed law and rights issues leveraged political capital; environmental, education, and health issues leveraged human capital; economic issues such as poverty and lack of access to market leveraged economic capital; and those organizations that addressed civic issues leveraged social capital. This issue-based typology explains some social enterprises in my data; however, it fails to explain certain others that can be accounted for by my role-orientation types. For example, my study found that all social enterprises for the most part leveraged three types of capitals: social, human, and financial. Political capital among others was leveraged by only those social enterprises that addressed issues of law and human rights as Mair et al point out.

My data shows that the issues cut across all types: social cause, social change, humanitarian, and social intrapreneur. For example, issues of sanitation, health and environment span all these types. As discussed above, 1for1 Water, while addressing the water issue in developing countries, sees a beneficial outcome for both the affected population and the entrepreneur. Thus they use a creative giving model, making profits while supporting a cause. They leveraged financial capital. Water for People, on the other hand, works at grassroots levels to empower the local populations to resolve their issues working within their social and political systems. The focus there is the creation of large-scale social change using a nonprofit, non-market based model leveraging human, social and political capital. What distinguishes these two enterprises is their role orientation and proximity to the beneficiaries. The investors, customers, and management of 1for1 Water are a group of individuals acting from a distance to support a cause. Water for People is a local actor, the Bricoleurs, who has the local knowledge of the peoples and the systems and has worked to educate and empower the affected population for a sustainable solution.

Another example is Ciudad Saludable of Lima, Peru that addresses the issue of water and sanitation. Albina Ruiz, who started this organization, did not see the need for water and sanitation in Lima as an opportunity to exploit. Rather, she mobilized the human capital to create an enterprise sector for waste management. Commercial enterprise was an appropriate model for incentivizing waste management. A fee for service makes sense to modify behavior; clients now pay a fee to dispose waste rather than dumping it in public places. While the issue is environmental and health-related, the organizational form that makes sense for this social enterprise is commercial entrepreneurial. Accordingly, human and financial capital was leveraged to succeed. I place Ciudad Saludable under

the Social Change type of entrepreneurship.

Seelos and Mair (2005) point out that social enterprises in developing countries rely on skilled social entrepreneurs who can mobilize the often limited human, financial, and political resources to create social value. They suggest this as a reason for novel business models and organizational structures that operate in the social enterprise domain in developing countries. I find some social enterprises in North America too could easily be said to fit this description. An example is the Delancy Street Project of San Francisco although the creation of SEs seems to be centered around the nature of the problem, location, and the environment in which the beneficiaries of social action are situated. Thus, the social enterprise that develops is the one that "works" to serve the need addressed. Alter (2008) for example argues that the social enterprise paradigm provides nonprofits an institutional framework and mechanism to increase social impact. This author suggests that use of business tools and practices builds the nonprofit's organizational capacity to improve performance, realize earned income through business oriented program related investments, reach out to new markets, and/or diversify social services, etc.

The development of social enterprise models has a significantly different history in Western European countries and the UK. Defourny & Nyssens (2008, 2010) explain that the nonprofits, cooperatives, and mutual societies known as the third-sector played a significant role in combining the social needs with employment creation as a two-pronged approach at a time when the state economy was strife with the problems of budget deficit and structural unemployment. In what followed as a lasting collaboration, the state came to rely on these associations for what they call a "second labor market programme." In France and Belgium they were situated within the third sector or the "social economy," while in the Nordic countries the cooperatives emerged to provide social welfare. In the southern European countries that had a traditionally low welfare and nonprofit economy, the social enterprise in the form of modified cooperatives became the model to address the problem of the increasing trend of labor market exclusion of certain groups. The Italian legal form "social cooperative" included different types of stakeholders in their membership such as workers, volunteers, and support community (Defourny & Nyssens, 2010). The development of this form in other European countries in the aftermath led to the concept of social enterprise as a vehicle for employment creation or work integrated social enterprises (WISEs).

Spear in a 2006 study of cooperatives in the UK explored the extent to which social and community goals played a part in the formation and subsequent operations of the entrepreneurial activity. This exploratory study revealed what was distinctive about social entrepreneurship in the cooperative sector. One of the themes that emerged in his study of the origins of the six cooperatives is the transitional dimension. In all six cases there was a clear transition from a hobby, self-employment, or previous line of work to a new form of social enterprise. The motivations for institutional forms were diverse and explained to some extent by ideological orientations. Spear points out that these enterprises defy the rational choice theories of institutional forms. He finds that in such cases the issues influencing the choice of forms is highly complex and should be mediated by professionals such as accountants, lawyers and other advisors. My study did not explore why social enterprises come to choose a certain organizational form. However, Spear's observation of the migration from individual activities to a social enterprise organization describes how the social enterprises in my data seem to orient themselves. An example of this phenomenon is the creation of the micro-lending sector conceived first as a self-help model.

Zahra, Gedajlovic, Neubaum & Shulman (2009) offer a typology of social enterprises based on the entrepreneurs' search processes to discover opportunities for creating social ventures. This typology includes Social Bricoleurs, Social Constructionists, and Social Engineers which are derived from the works of Hayek (1945), Kirzner (1973), and Schumpeter (1942) respectively. Social bricoleurs are locals who are able to address the social needs of the specific population because of their proximity to and knowledge of the local scene. This supports what I observe to be at play in the social change type of social enterprises. The social constructionists are those who profitably exploit opportunities to meet the current needs not met by others. The authors argue that these types of social entrepreneurs

“build, launch and operate ventures which tackle those social needs that are inadequately addressed by existing institutions, businesses, NGOs and government agencies” (p.525). In my conceptual categories these are the opportunity seeking types that I call social cause entrepreneurs. Social engineers, the third type of social enterprise, identify and work on creating structural changes to correct systemic problems. In my types, I find both humanitarian and social intrapreneurs to be the social engineers. They work within the system or without to create large-scale systemic change.

### **3.2.2. Innovation**

Scholars in the field have distinguished social entrepreneurship from commercial entrepreneurship using a number of different concepts such as entrepreneur characteristics, issues, profit motives, value creation, and innovation. Among these defining characteristics, innovation stands out as more frequently used central theme for defining social entrepreneurship (Chell, Nicolopoulou & Karatas-Ozkan, 2010; Munshi, 2010 ). Many scholars see innovation as a distinguishing and central feature of social entrepreneurship (Dees 1998; Dees and Anderson 2003; Austin, Stevenson, and Wei-Skillern 2006, Horwitch & Mulloth, 2010). Phillis, Deiglmeier & Miller (2008) offer Social Innovation as an alternate defining concept for social enterprise and social entrepreneurship. They argue that because social innovation has led to exchanges of ideas and shifting roles and relationships between the three sectors, and because it involves the creation of new business models, it offers both the means and ends to achieving social change. Furthermore, that most difficult problems cannot be solved without cross sector collaborations and that “innovation blossoms” (p.43) at the convergence of the sectors, it is a more appropriate definition. They surmise that their defining concept reflects the process through which social innovation emerges, diffuses, and succeeds or fails (p.42). Horwitch and Mulloth (2010) too link social entrepreneurship and innovation, but they take a somewhat different approach. They suggest that entrepreneurial innovation is a complex set of collaborative activity that involves the interplay of social entrepreneurship, grassroots movement, firms, and public policy action. Through the analysis of a case study they illustrate the cross sector or boundary crossing that happens in innovation noted by Phillis et al (2008).

Cross sector collaboration is a common theme found in the practices of the Social Change and Humanitarian organizations in my study. Because my study did not look at how social intrapreneurs created innovative solutions to problems, it is not clear to me if they crossed boundaries to innovate. This is an area for further research.

## **4. CONCLUSION**

The origins of socially entrepreneurial activities have often been found in unacceptable human, social, or environmental conditions that needed fixing. Given the nature of these problems the social entrepreneur often has limited resources, faces a lack of governmental will in many cases and therefore looks for innovative solutions. Innovative solutions may happen within or outside of an existing system or organization. Public sector innovations are an example of intrapreneurship attempts to innovatively solve problems within a system or sector (Social Intrapreneurs). For many, the systems or sectors do not offer solutions to the problems they find in the society for various reasons. The social entrepreneur therefore looks outside the system, and creatively and persistently mobilizes and utilizes resources to find solutions. These social entrepreneurs are described as the bricoleurs, change makers, and catalyst for creative destruction, etc. They often go out on a limb, take risks, experiment, deal with resistance and adapt. When the experiment pays off the social entrepreneur is faced with the challenge of sustaining the activity. And in some cases the question is also about scalability. Through their ingenuity, and/or through support from organizations such as Ashoka, capital market mechanisms, or the government sector (Europe and UK), the social entrepreneurs find ways to sustain the activity financially and/or scale impact. Persistence requires organization. Social organization, and social enterprises naturally adopt the organizational forms that empower their activity. Proximity between the investor social entrepreneur and the beneficiary seem to determine the form. A distant investor/consumer interest to contribute to a cause mimics a

commercial enterprise (Social Cause) where agency is at play. Creating grassroots social change and advocacy requires the social enterprises to work directly with stakeholders. For Social Change and Humanitarian type social enterprises therefore nonprofit organizational structure is appealing.

Orienting is when social entrepreneurs find a direction and place within the constellation of organizational forms and methods to sustain their activities. A social enterprise therefore takes a form and approach that is appropriate for its goal and purpose. New organizational forms also have been created for this purpose. L3Cs in the US, the cooperative in Europe, and CICs in UK are examples. Social entrepreneurs also use cross sector collaborations and socially innovative approaches to problem solving. Ideas conceived outside the sector may be co-opted into it by the nature of the organizational form adopted for scaling or financial sustainability.

Consequence of the socially entrepreneurial activities is stakeholder prosperity. Random House Webster's College Dictionary defines prosperity as a successful, flourishing, or thriving condition, especially in financial respects or good fortune. I use prosperity here to mean the well being that goes beyond financial good fortune-- the success, thriving, and flourishing conditions that come with good health and decent human, social, and environmental conditions. What is consistently found in the purpose of every single social enterprise activity is prosperity in this context. While a commercial enterprise intent on creating shareholder value is focused on profit maximization, the social enterprises strive for stakeholder prosperity even if one of the approaches to this end may include profit making (not maximizing) for some investors.

From these insights I offer the following propositions based on customer-beneficiary proximity, and change-system proximity. Customers are those who trade/transact with the social enterprise. Beneficiaries are the population in need. See Table 1 for summary.

1. Customer-Beneficiary Proximity: Customer  $\neq$  Beneficiary. When customer is not the beneficiary, the social enterprise is Social Cause type. These social enterprises use markets and competitive advantage, and agency theory applies.
2. Customer-Beneficiary Proximity: Customer = Beneficiary. When the customer is the beneficiary, nonprofit is the appropriate form. Grassroots social change is the focus (Social Change and Humanitarian types).
3. Change-System Proximity: Innovation = Systemic. Large-scale collective way of thinking through structural and systems support creates change, breaks silos (Social Intrapreneur type).

Implications for this research are many. The theory of social enterprise orienting provides a well-developed hypothesis for testing. Testing these propositions through large-scale verification studies could help refine this theory further. Theory refinement could also happen if replication of this study finds variations that are not explained by the four types presented in this paper. Last but not least, this research provides a methodological example for developing theories in this still infant field. A clear understanding of this phenomenon is only possible through a multidisciplinary approach and a new way of thinking about the subject (Thiru, 2011).

**Table 1. Summary**

<b>Types</b>	Social Cause	Social Change	Humanitarian	Social Intrapreneur
<b>Characteristics</b>				
Role	Support cause	Grassroots, Local solutions	Social Transformation	Systems change
Customer / Investor proximity to Beneficiaries	Distant	Close	Direct-close	Indirect-close
Forms	For-Profit (US)& Hybrids (UK & Europe)	NFP with EI (North America) & NFPs & Hybrids (UK & Europe)	NFP	Structural: Political & Economic
Innovation	Yes	Yes	Yes	Yes- systemic
Cross sector collaborations	No	Some	Yes	Yes
Capital	Financial, Social	Social, Human, Financial, Some Political	Social, Political	Political
Conceptual categories	Creative giving	Social risk taking, co-opting	Experimenting, social risk taking	Breaking traditions, Experimenting

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