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We have seen that the function of entrepreneurs is to reform or revolutionize the pattern of production.

—Joseph A. Schumpeter, Capitalism, Socialism, & Democracy

If ever the world needed new patterns of production, it certainly does now—in the wake of the worst financial downturn in decades. Innovations, developed and tested by entrepreneurs, will help us emerge from this crisis and create paths to a new era of prosperity.

Entrepreneurial innovation is part of the solution, but, ironically, it was also part of the problem. Capital market innovations, such as interest-only adjustable rate mortgages and credit default swaps, helped to revolutionize the pattern of production in credit markets, resulting in permanent damage.

Innovation can be risky business, especially if the innovators and early adopters are focused only on what is likely to be profitable for them in the short term. These capital market innovations present a worst-case version of Schumpeter’s idea of “creative destruction.” In this case, the harm from the destruction exceeded the value created. That is not the kind of entrepreneurship we need more of.

What we need now is entrepreneurship that creates greater long-term value while drawing on fewer resources and generating fewer destructive consequences. We need business entrepreneurs whose innovations will jump-start the economy, create jobs, and create minimal disruption. We need more of the non-destructive creation that Columbia professor Amar Bhide has written about.

Recognizing That Social Problems Are More Pressing Than Ever

Nowhere is value-creating innovation more important than in our efforts to tackle pressing social and environmental problems. This is where social entrepreneurs come in. They reform or revolutionize the patterns for addressing social problems and needs. They measure their success in social impact. Social entrepreneurship has not gotten as much attention as business entrepreneurship and is not as well supported, but it is extremely important to the quality of our lives on this planet. It is particularly important in times like these where financial pressures have made social problems worse. Even economies that have seen growth during this difficult period, such as China, have seen uneven growth that is leaving behind large segments of the population.

Poverty and unequal participation in economic growth are associated with many social problems, such as disparities in health care, education, housing, sanitation, and nutrition that make it difficult for many to enjoy the benefits of prosperity when the economy rebounds. Progress can easily be lost, as families that have been successful in moving out of poverty fall back into it because of setbacks of illness or job loss. Inequalities can contribute to tensions, violence, and political instability. Through their efforts in education, healthcare, job training, and more, social entrepreneurs help the poor participate in the economic recovery. They make growth more inclusive.

Increasingly we are recognizing that environmental and social problems are intertwined. Climate change is tied in with a nexus of issues related to food security and pricing, water purity and availability, and energy use and production. These, in turn, are tied to health and productivity issues. Social entrepreneurs are free to explore
Social entrepreneurs serve as a learning laboratory for society: they develop, test, and refine innovative solutions to social problems.

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Social entrepreneurs serve as a learning laboratory for society: they develop, test, and refine innovative solutions to social problems. They can test novel ideas that can fit into broader solutions. Because many social and environmental issues are time sensitive, failure to recognize the importance of social entrepreneurship and provide adequate support for these efforts as we emerge from this downturn would be a serious mistake. Damage has been done that cannot easily be undone. Social entrepreneurship is not a luxury that can be suspended while we wait for a new era of prosperity. It has to be part of the path to that era, if that era is to be one of inclusive prosperity.

Fostering a Vibrant Social Learning Laboratory

Social entrepreneurs serve as a learning laboratory for society: they develop, test, and refine innovative solutions to social problems. As with any form of innovation, it is impossible to know in advance what will work. This is especially true when “working” involves reducing or solving a social problem. Only by fostering a wide range of experiments can we hope to find which proposed solutions are viable, cost-effective, and scalable.

This is the beauty of the small, new, resourceful ventures that social entrepreneurs tend to create. As Stanford economist Nathan Rosenberg and his co-author L. E. Birdzell Jr. have argued, “New enterprises are useful devices for experimenting with innovation, because they can be established on a small, experimental scale at relatively low cost and therefore in large numbers, and their efforts can be intensely focused on a single target.” Independent social entrepreneurs have greater flexibility to experiment, uninhibited by the biases, standard operating procedures, bureaucracy, cultures, strategic commitments, and other rigidities common in established organizations of all kinds.

Because of their local knowledge and motivation to find solutions to social problems, social entrepreneurs see and construct opportunities that governments, corporations, and profit-seeking business entrepreneurs miss. Consider 2006 Noble Peace Prize winners Muhammad Yunus and Grameen Bank. When Yunus conceived the idea of Grameen Bank, with its focus on microcredit for the poor and its cost-effective peer-group business model, he was driven by the desire to alleviate poverty. The Bangladeshi government, the banks, the international relief agencies, and local business entrepreneurs did not see this as an opportunity. Yet, Grameen Bank has been profitable since 1993 and serves some 8 million members in Bangladesh. Microfinance has grown to be a significant industry that reaches over 100 million families worldwide.

Promoting Resourcefulness and Creative Business Models

As a matter of necessity, entrepreneurs, social or otherwise, have to be resourceful. They become quite skilled at doing more with less and at attracting other people’s resources to their ventures, directly or through partnerships. This resourcefulness is reflected in their creative and pragmatic approach to business model design, as illustrated by Grameen’s use of borrower peer groups and its very low-cost structure.

It is useful to think of social venture business models as running along a spectrum, from fully reliant on philanthropy and government subsidy at one end to fully commercial and businesslike at the other. In recent years, many social entrepreneurs have been driving toward the commercial end of that spectrum to reduce their dependence on philanthropic or governmental subsidies. Commercial strategies are not optimal for all social ventures. The business model has to align with the strategy for social impact, but within that constraint, social entrepreneurs work to create sustainable, scalable ventures. For-profit ventures, social business ventures, and hybrid ventures that mix elements from the philanthropic and commercial worlds have become common.

For instance, WaterHealth International is a for-profit social venture that combines an innovative, relatively low-cost technology for water purification in rural areas of developing countries with an innovative business model in which villages finance the purchase of the equipment and the villagers pay a small fee for the clean water they use.

VisionSpring is a nonprofit example of creative business model development. It provides low-cost reading glasses, a productivity-enhancing product, by buying the glasses produced in China and selling them through trained micro-franchisees, who live in the villages of the countries where it does business. Thus, it provides affordable glasses and creates income opportunities for its Vision Entrepreneurs.

The emergence of for-profit social ventures, and the increase in non-profits generating earned income, are controversial, but this kind of experimentation is essential if we are to find ways to improve the productivity of the scarce resources we devote to social problems. When it works (aligns...
The recent financial crisis will force us to be smart about our investments in social change. This could be a healthy development for social entrepreneurship, provided that philanthropists, social impact investors, governments, corporations, and other key players actively foster a vibrant learning laboratory of social entrepreneurs, assess the results of these experiments, support the scaling or replication of high-leverage ventures (those that promise greater social impact per unit of financial investment), and collaborate with efforts to capture and share knowledge along the way. Leaders in any society have much to gain from taking the concept of social entrepreneurship seriously and providing social entrepreneurs with the same kind of disciplined strategic support that they provide for innovation in business.

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Notes
