

SOCIAL VENTURES AS LEARNING LABORATORIES



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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 Bhidé has written about.¹ We also need more social entrepreneurship to help assure inclusive growth.

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

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by **J. Gregory Dees**



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solutions that cut across boundaries. 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.”²² 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

with social impact), it leads to a more effective allocation of scarce philanthropic and government funds. These subsidies can be freed up to flow to the organizations and causes that need them most. Through creativity in business model development, social entrepreneurs are crafting more sustainable and scalable innovations.

Scaling Impact and Sharing Knowledge

While it is essential to support the early-stage innovations that make up the “learning laboratory” of social entrepreneurship, the real value comes in what society does with the results of that learning laboratory. Value is created when successful innovations are identified and then scaled or replicated to maximize their impact. It is important to note, however, that not every successful social innovation (successful in the sense of achieving its intended social impact) is amenable to scaling or replication. Local successes sometimes depend on rare conditions, scarce skills, or inefficient business models. Innovations need to be evaluated not just on their social impact but also on their transferability and cost-effectiveness and on the organization’s readiness for a scaling or replication effort.

However, with the right kind of rigorous due diligence, key resource providers (particularly philanthropists, social investors, potential corporate partners, and government funders) can identify viable candidates for scale or replication and provide the support they need to achieve widespread impact. In a time of financial crisis, this disciplined approach is even more important. It may seem hard-hearted to pick a few “winners” for major investment, since everyone is well intentioned, but it is essential if we are to capture the value of the experimentation.

The second way to reap value from this learning laboratory is to harvest the lessons from both the successes (scalable or not) and the failures and share this knowledge with those who can put it to good use. Tremendous waste occurs in the social sector when knowledge is not captured and

shared effectively. No one likes to admit failure, and few are willing to open their failures to inspection. Even the successes are rarely analyzed in a critical way that contributes to a common body of knowledge. However, the learning laboratory is more likely to yield effective scalable innovations in the future if the players in the laboratory know enough not to repeat past failures and can find ways to build on past successes. This is a role for universities, consultants, associations, think tanks, and publications.

Taking Social Entrepreneurship Seriously

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

1. See Amar Bhide, *The Venturesome Economy: How Innovation Sustains Prosperity in a More Connected World* (Princeton University Press: Princeton, 2008), especially Chapter 13.
2. See Nathan Rosenberg and L. E. Birdzell, Jr., *How the West Grew Rich* (Basic Books: New York, 1986), p. 276.

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