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Social and Commercial Entrepreneurship: Same, Different, or Both?

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Entrepreneurship has been the engine propelling much of the growth of the business sector as well as a driving force behind the rapid expansion of the social sector. This article offers a comparative analysis of commercial and social entrepreneurship using a prevailing analytical model from commercial entrepreneurship. The analysis highlights key similarities and differences between these two forms of entrepreneurship and presents a framework on how to approach the social entrepreneurial process more systematically and effectively. We explore the implications of this analysis of social entrepreneurship for both practitioners and researchers.

Social entrepreneurship, or entrepreneurial activity with an embedded social purpose, has been on the rise in recent decades. A partial indicator of this surge is revealed by the growth in the number of nonprofit organizations, which increased 31% between 1987 and 1997 to 1.2 million, exceeding the 26% rate of new business formation (*The New Nonprofit Almanac and Desk Reference*, 2002). However, the dynamic is even more robust, as other forms of social entrepreneurship, beyond that occurring within the nonprofit sector, have also flourished in recent years. The recent boom in social entrepreneurial activity makes a comparative analysis between commercial and social entrepreneurship timely. Social entrepreneurship is still emerging as an area for academic inquiry. Its theoretical underpinnings have not been adequately explored, and the need for contributions to theory and practice are pressing. This article aims to open up some avenues of exploration for social entrepreneurship theory development and practice by presenting an exploratory comparative analysis of the extent to which elements applicable to business entrepreneurship, which has been more extensively studied, are transferable to social entrepreneurship. To a lesser degree, we will also explore the reverse applicability or the ways in which insights from social entrepreneurship can contribute to a deeper understanding of business entrepreneurship. We offer a comparative analysis

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that identifies common and differentiating features between commercial and social entrepreneurship. This exploration develops new insights about social entrepreneurship and points to opportunities for further elaboration by researchers, as well as to practical implications for social entrepreneurs and funders on how to approach social entrepreneurship more systematically and effectively.

In the next section, we discuss some of the key distinctions between social and commercial entrepreneurship as a modest step toward the development of a body of theory on social entrepreneurship. To analyze these theoretical propositions in depth and to draw out lessons for managers, we will then set forth one prevailing model used to examine commercial entrepreneurship and to explore new ideas that emerge when it is applied to social entrepreneurship. The article concludes by presenting implications for social entrepreneurial practice and research.

Theoretical Considerations

Definitions of social entrepreneurship range from broad to narrow. In the former, social entrepreneurship refers to innovative activity with a social objective in either the for-profit sector, such as in social-purpose commercial ventures (e.g., Dees & Anderson, 2003; Emerson & Twersky, 1996) or in corporate social entrepreneurship (e.g., Austin, Leonard, Reficco, & Wei-Skillern, 2004); or in the nonprofit sector, or across sectors, such as hybrid structural forms which mix for-profit and nonprofit approaches (Dees, 1998). Under the narrow definition, social entrepreneurship typically refers to the phenomenon of applying business expertise and market-based skills in the nonprofit sector such as when nonprofit organizations develop innovative approaches to earn income (Reis, 1999; Thompson, 2002). Common across all definitions of social entrepreneurship is the fact that the underlying drive for social entrepreneurship is to create social value, rather than personal and shareholder wealth (e.g., Zadek & Thake, 1997), and that the activity is characterized by innovation, or the creation of something new rather than simply the replication of existing enterprises or practices. The central driver for social entrepreneurship is the social problem being addressed, and the particular organizational form a social enterprise takes should be a decision based on which format would most effectively mobilize the resources needed to address that problem. Thus, social entrepreneurship is not defined by legal form, as it can be pursued through various vehicles. Indeed, examples of social entrepreneurship can be found within or can span the nonprofit, business, or governmental sectors.

We will use this broader conceptualization of social entrepreneurship here to offer a comparative analysis with commercial entrepreneurship. *We define social entrepreneurship as innovative, social value creating activity that can occur within or across the nonprofit, business, or government sectors.* However, most definitions of social entrepreneurship in popular discourse, as well as in the academic literature, focus primarily on social entrepreneurship within and across the nonprofit and business sectors. To build on previous work and for the purposes of this article, we will limit our discussion to these two sectors as well.

To approach the comparative analysis more specifically, we offer the following series of theoretical propositions focusing on four different variables to guide the comparison:

- *Market failure*. One theory behind the existence of social-purpose organizations is that they emerge when there is social-market failure, i.e., commercial market forces do not meet a social need, such as in public goods (Weisbrod, 1975, 1977) or in contract failure (Nelson & Krashinsky, 1973). This is often due to the inability of those needing the services to pay for them.[1] A problem for the commercial entrepreneur is an opportunity for the social entrepreneur. Our proposition here is: *Market failure will create differing entrepreneurial opportunities for social and commercial entrepreneurship*.

- *Mission*. The fundamental purpose of social entrepreneurship is creating social value for the public good, whereas commercial entrepreneurship aims at creating profitable operations resulting in private gain. This contrast is, of course, overstated. Commercial entrepreneurship does benefit society in the form of new and valuable goods, services, and jobs, and can have transformative social impacts. Such transformations can even be a driving motivation for some commercial entrepreneurs. Nonetheless, the differences in purpose and reward are useful for our comparative analysis. Our proposition is: *Differences in mission will be a fundamental distinguishing feature between social and commercial entrepreneurship that will manifest itself in multiple areas of enterprise management and personnel motivation. Commercial and social dimensions within the enterprise may be a source of tension.*
- *Resource mobilization*. The nondistributive restriction on surpluses generated by nonprofit organizations and the embedded social purpose of for-profit or hybrid forms of social enterprise limits social entrepreneurs from tapping into the same capital markets as commercial entrepreneurs. Additionally, the economics of a social entrepreneurial venture often make it difficult to compensate staff as competitively as in commercial markets. In fact, many employees in social entrepreneurial organizations place considerable value on nonpecuniary compensation from their work. Our proposition is: *Human and financial resource mobilization will be a prevailing difference and will lead to fundamentally different approaches in managing financial and human resources.*
- *Performance measurement*. The social purpose of the social entrepreneur creates greater challenges for measuring performance than the commercial entrepreneur who can rely on relatively tangible and quantifiable measures of performance such as financial indicators, market share, customer satisfaction, and quality. Additionally, the various financial and nonfinancial stakeholders to which a social entrepreneurial organization are readily accountable to are greater in number and more varied, resulting in greater complexity in managing these relationships (Kanter & Summers, 1987). The challenge of measuring social change is great due to nonquantifiability, multicausality, temporal dimensions, and perceptive differences of the social impact created. Our proposition is: *Performance measurement of social impact will remain a fundamental differentiator, complicating accountability and stakeholder relations.*

Note that the distinction between social and commercial entrepreneurship is not dichotomous, but rather more accurately conceptualized as a continuum ranging from purely social to purely economic. Even at the extremes, however, there are still elements of both. That is, charitable activity must still reflect economic realities, while economic activity must still generate social value. Although social entrepreneurship is distinguished primarily by its social purpose and occurs through multiple and varied organizational forms, there is still significant heterogeneity in the types of activity that can fall under the social entrepreneurship rubric. Thus, while these four propositions can be distinguishing factors between commercial and social entrepreneurship, the degree to which they delineate the differences can vary. For example, a social-purpose commercial enterprise may differ less on these dimensions from its commercial counterparts than a social enterprise that does not have any commercial aspect to its operations. The four propositions are not meant to

1. The existence of externalities is another cause of social or public intervention.

be definitive, nor exhaustive, but rather provide us with a theoretical frame with which to engage in the subsequent comparative analysis.

Commercial Entrepreneurship Model

Although the concept of entrepreneurship was first defined more than 250 years ago, many have held it as one of the mysterious forces of human nature. The practice of entrepreneurship is, of course, as old as trading between tribes and villages. Many different and useful approaches have been used to describe and to analyze entrepreneurship. They have tended to fall within three main streams of research, which include a focus on the results of entrepreneurship, the causes of entrepreneurship, and entrepreneurial management (Stevenson & Jarillo, 1991). In the first stream of research, economists have explored the impacts and results of entrepreneurship. For example, Schumpeter (1934), in his seminal article, examined entrepreneurship as a key process through which the economy as a whole is advanced. The second stream of research has focused on the entrepreneurs themselves. Research in this stream examines entrepreneurship from a psychological and sociological perspective (e.g., Collins & Moore, 1964; McClelland, 1961). Finally, the third stream has focused on the entrepreneurial management process. This diverse literature includes research on how to foster innovation within established corporations (e.g., Burgelman, 1983, 1984), start-ups and venture capital (e.g., Timmons & Bygrave, 1986), organizational life cycles (e.g., Quinn & Cameron, 1983), and predictors of entrepreneurial success (e.g., Cooper & Bruno, 1975; Dollinger, 1984).

Clearly from these three streams of research, earlier conceptualizations of entrepreneurship have often focused on either the economic function of entrepreneurship or on the nature of the individual who is “the entrepreneur,” whereas in recent years, significant research has focused on the search of the “how” of entrepreneurship. Among the many engaged in this area, Stevenson (1983) defined entrepreneurship as “*The pursuit of opportunity beyond the tangible resources that you currently control.*” With this definition, emphasis is placed upon how opportunity can be recognized, the process of committing to an opportunity, gaining control over the resources, managing the network of resources that may or may not be within a single hierarchy, and the way in which participants are rewarded (Stevenson, 1985; Stevenson & Jarillo, 1991). The entrepreneurial organization focuses on opportunity, not resources. Entrepreneurs must commit quickly, but tentatively, to be able to readjust as new information arises. The process of commitment becomes multistaged, limiting the commitment of resources at each stage to an amount sufficient to generate new information and success before more resources are sought. The entrepreneurial organization uses the resources that lie within the hierarchical control of others and, therefore, must manage the network as well as the hierarchy.

Given our aim in this article of developing a framework on how to approach the social entrepreneurial process more systematically and effectively, we draw on the literature focusing on the “how” of entrepreneurship. We use Stevenson’s definition of entrepreneurship and build on Sahlman’s (1996) analytical framework from the entrepreneurial management literature. Sahlman’s model succinctly captures the key elements that are critical considerations for commercial entrepreneurship, and therefore provides a strong basis for developing a framework for social entrepreneurship. This model stresses the creation of a dynamic fit among four interrelated components: the *people*, the *context*, the *deal*, and the *opportunity* (PCDO) (Sahlman, 1996). Because these elements are interdependent and are situationally determined, the entrepreneur must manage the fit and must adapt continuously to new circumstances over time. *People* is defined as those who actively participate in the venture or who bring resources to the venture. They include both those within the organization and those outside who must be involved for the venture to succeed. People's skills, attitudes, knowledge, contacts, goals, and values provide the resource mix that contributes centrally to success. The presumption that economic self-interest drives most economic activity in organizations can lead to dangerous and expensive mistakes. Whether in nonprofit or in for-profit organizations, the whole person with multiple motivations and capacities creates the energy and determines the nature of the outcome.

Context is defined as those elements outside the control of the entrepreneur that will influence success or failure. Contextual factors include the macroeconomy, tax and regulatory structure, and sociopolitical environment. Economic environment, tax policies, employment levels, technological advances, and social movements such as those involving labor, religion and politics are examples of specific contextual factors that can frame the opportunities and the risks that a new venture faces. With this definition, it is clear that one of the critical elements for success is defining those elements that must be consciously dealt with, and those that can simply play out as they will. Attention to everything can mean attention to nothing. On the other hand, leaving out a single critical element of context can be the precursor of failure.

Deal is the substance of the bargain that defines who in a venture gives what, who gets what, and when those deliveries and receipts will take place. Each transaction delivers a bundle of values. They include economic benefits, social recognition, autonomy and decision rights, satisfaction of deep personal needs, social interactions, fulfillment of generative and legacy desires, and delivery on altruistic goals.

Opportunity is defined as "any activity requiring the investment of scarce resources in hopes of a future return" (Sahlman, 1996, p. 140). Change is motivated by the vision of the future that is better for the decision maker, and by the credibility of the path presented to that desired future state. One of the historic difficulties in the study of entrepreneurship is that the definition of opportunity is not necessarily shared by the multiple constituencies who must work together to create change. Often change affects power relationships, economic interests, personal networks, and even self-image. A critical factor that creates motivation for joint action arises out of the ability to create a common definition of opportunity that can be shared.

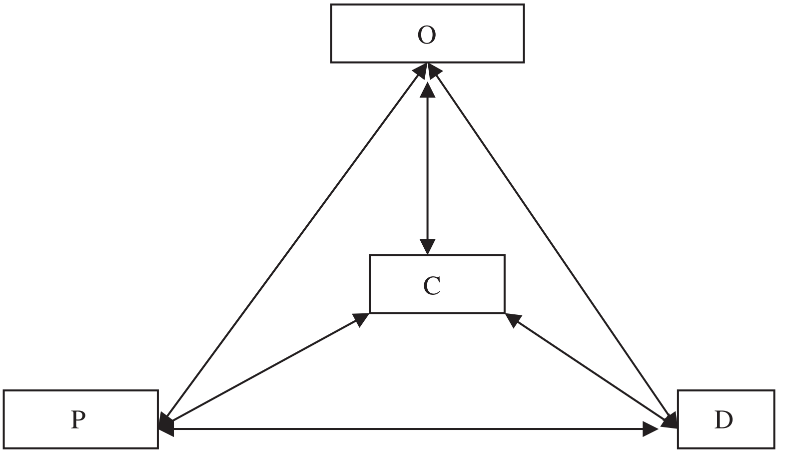
Even slight perturbation in one of these PCDO domains can have tremendous implications for the others. Changing people often requires a different deal. Changing context can render the skill set of one group obsolete and make another group's skills more important. Different opportunities are perceived in differing contexts, and amending a deal may attract new players and drive away the old. Entrepreneurs must consciously manage the dynamic fit among these elements (see Figure 1 [Sahlman, 1996]).

Applying PCDO to Social Entrepreneurship

Now that we have developed a working definition of social entrepreneurship and have elaborated on the PCDO framework from commercial entrepreneurship, we can begin to explore how the PCDO model applies to social entrepreneurship. The comparative analysis of the two forms of entrepreneurship for each of the PCDO elements highlights key similarities first, and then identifies significant differences. Linkages to our initial theoretical propositions about differences are highlighted in boldface type. This analysis also provides the basis for drawing out lessons that can be useful for social entrepreneurs and

Figure 1

PCDO Framework



Source: Sahlman (1996)
PCDO, people, context, deal, opportunity.

researchers. In the following analysis, we will first examine opportunity and context, which together determine the scope of the opportunity. Then, we will turn to a discussion of the people and deal dimensions of the venture. The key differences in these factors for social and commercial entrepreneurship will be illustrated by case examples. While such examples can only provide limited supporting empirical evidence for grounded theory building, they can be helpful in capturing illumination from practice that can signal promising paths for further investigation.

Opportunity

Opportunity is defined as the desired future state that is different from the present and the belief that the achievement of that state is possible. Opportunities in the commercial and social sectors require the investment of scarce resources with the hope of future returns. In social and commercial entrepreneurship, entrepreneurs are concerned about customers, suppliers, entry barriers, substitutes, rivalry, and the economics of the venture, although perhaps to varying degrees due to differences in the market dynamics between the commercial and social sectors as discussed previously (Oster, 1994, 1995; Porter, 1980, 1985). The key difference is that in commercial entrepreneurship, the primary focus is on economic returns while in social entrepreneurship, the focus is on social returns.

At a conceptual level, opportunities may seem similar across commercial and social entrepreneurship. **However, in practice, the opportunity dimension of the framework is perhaps the most distinct owing to fundamental differences in missions and responses to market failure.** Commercial entrepreneurship tends to focus on breakthroughs and new needs, whereas social entrepreneurship often focuses on serving basic, long-standing needs more effectively through innovative approaches. For a commercial entrepreneur, an opportunity must have a large, or growing total market size and the industry must be structurally attractive. For a social entrepreneur, a recognized social need, demand, or market failure usually guarantees a more than sufficient market size. Social entrepreneurs believe that their theory of change and accompanying organizational model is able to meet these needs in a superior way. The problem is not the existence of the need, but rather whether the necessary resources can be marshaled for the social entrepreneur's innovation to serve that need. The scope of opportunities for social entrepreneurs is relatively wide because they are able to pursue ventures that are financially self-sustaining as well as those that require donor subsidies. Unlike in the commercial sector in which unexploited, profitable, high-growth opportunities are relatively hard to capture, in the social sector, social needs, and hence opportunities for social entrepreneurs, often far outstrip the resources available to address them, particularly because the ultimate consumers are often unable to pay enough to cover the costs of the goods or services. Consequently, even before growth has been considered, much less a strategy for growth laid out, social entrepreneurs and their organizations are often pulled into rapid growth by pressure from funders, demand for their products or services, and pushed by their social missions to meet those needs (Bradach, 2003; Dees, Anderson, & Wei-Skillern, 2004). Furthermore, social entrepreneurs' belief that their theory of change and organizational approach is superior often drives the organization to pursue growth as a means for achieving greater social impact (Colby, Stone, & Carttar, 2004). Thus, a social enterprise may often launch into growth and expansion before sufficient thought or planning has been put into it.

A case in point is KaBOOM!, a nonprofit organization that has raised more than $10 million for community playgrounds since 1995 (Austin & Porraz, 2002). During a period of particularly high growth in 1998, in which revenues doubled, the organization encountered some difficulties managing a multitude of partnerships. As one board member described, "KaBOOM! was building the plane while they were flying it, and they had to slow down to speed up again."

In comparing the nature of opportunities in the commercial and social sectors, clearly, there are abundant opportunities in the latter relative to the former. The demand for social entrepreneurial programs and services usually far exceed the capacity of the social enterprises to serve these needs. Initial successes often lead to increased demand for the social enterprise's programs, products, or services, or even requests to scale or replicate the organization in some form. For many of the employees and for the outside funders, the growth imperative often becomes paramount. It fulfills their personal needs and builds upon their values.

The growth may involve scaling the organization directly, working in partnership with other organizations to disseminate the social innovation, or some combination of approaches. A key challenge for social entrepreneurs is to resist the powerful demand–pull for growth, and to be more deliberate about planning a long-term impact strategy. Social entrepreneurs should realize that they have great latitude in the ways they can choose to pursue these opportunities. In some cases, growth may not be the best approach to achieve the organization's goals or to have the greatest social impact. Growth for the sake of growth has the potential to squander organizational resources and can actually detract from the organization's overall impact. In other cases, organizational growth may, in fact, be the best path to optimizing social impact, but the organization may need to plan for a long-term growth strategy as it may not have the resources or the capacity to grow immediately.

Guide Dogs for the Blind Association (GDBA), a U.K.-based social enterprise and the world's leading breeder and trainer of seeing-eye dogs, illustrates the need for deliberate strategic planning for growth (Grossman, Wei-Skillern, & Lieb, 2003). The organization responded to the demand for expanded services in the early 1990s, adding hotel and holiday programs for the visually impaired to its traditional guide-dog services. While these new services were well received by some clients, they resulted in significant financial losses to the organization to the point in which the long-term sustainability of the entire organization was threatened. In 1997, the financial state of the organization was so severe that the trustees hired a new chief executive officer with a mandate to stem the losses, while continuing to maintain the high-quality of its mobility service programs. For several years, GDBA engaged in organizational innovation by establishing and investing heavily in partnerships to transfer operations of the hotel and holiday programs to other charities serving the visually impaired sector in these areas. At the same time, consistent with the organization's mission to provide guide dogs, mobility, and other rehabilitation services that meet the needs of blind and partially sighted people, the organization focused on enhancing the range of mobility services provided to clients, such as long-cane training. Ultimately, the organization pared down its services portfolio to include only those activities directly in line with its mission and for which it had the resources and capacity to serve most effectively. Although this involved scaling back certain activities, despite demand for such services, it enabled the organization to continue to excel at delivering the core activity of providing guide dog and mobility services to its clients, ultimately keeping the organization focused on activities in which it could have superior social impact.

As in the GDBA case, unbridled growth can be a drain on the organization's talent and resources, and can even undermine existing successes. In approaching any type of growth, whether expanding the range of services to geographic expansion through replication, a social entrepreneur must identify the relevant risks and must approach all growth opportunities with disciplined, strategic thinking. Among the issues a social entrepreneur should keep in mind are the organization's mission and goals, how growth fits with those goals, the range of strategies that the organization can pursue to achieve these goals, and whether the human and financial resources available to the organization are consistent with these goals. In contrast to commercial entrepreneurship, the public-betterment mission may lead a social entrepreneur to invest in sector-level capacity and may actually encourage or enable complementary or even competitor organizations to grow to further the shared social mission, rather than to be primarily concerned about capturing greater market share for one's own organization.

Context

The external context, defined as factors affecting the nature and outcome of the opportunity, but are outside the control of management, has considerable overlap for commercial and social entrepreneurship. They include the macroeconomy, the tax and regulatory, and the sociopolitical environment. In the social sector, these contextual factors can be equally as important as in the commercial sector.

The philanthropic market is highly affected by economic activity, as much philanthropic capital originates from commercial enterprise. Additionally, many nonprofit endowment funds are invested directly in the stock market, and individual contributions are tied directly to people's levels of discretionary income. In general, government regulations are relevant to both. Leaders must know the specific types of laws and regulations affecting their ability to function. Laws regulating the tax-exempt status or operations of nonprofits, tax policies that influence the amount of giving to the sector, and specific social policies affect the needs or resources for certain types of social issues such as education, environment, health, and housing. Finally, just as commercial enterprises compete with each other for such resources as funding from investors, market share for customers, and the most talented employees, social enterprises compete with each other for philanthropic dollars, government grants and contracts, volunteers, community mindshare, political attention and clients or customers, and talent within their "industry" contexts.

Although the critical contextual factors are analogous in many ways, the impact of the context on a social entrepreneur differs from that of a commercial entrepreneur because of the way the interaction of a social venture's mission and performance measurement systems influences entrepreneurial behavior. The market-selection mechanisms in the social sector are relatively less intense because they tend to be less powerful and act over longer periods of time. For example, in many cases, a social entrepreneur can still meet with some degree of success, while pursuing an opportunity, despite an inhospitable context. In fact, social entrepreneurs may choose to pursue opportunities to address social change not despite of, but because of, an inhospitable context. Thus, social entrepreneurs may respond in fundamentally different ways to adverse contextual conditions than their commercial counterparts. To illustrate, during harsh economic times, social needs tend to intensify, and many new social enterprises may be established to serve these needs, despite an adverse funding environment. In other cases, a social issue may be compelling only to a relatively small number of constituencies and may have very low visibility, yet a social entrepreneur may seek to make an impact by raising awareness and attention to the issue. Indeed, an adverse context may often lead the social entrepreneur to seek to change the context itself, as often the social problem is deeply embedded in contextual factors

A case in point is the National Organization for Rare Disorders (NORD), a unique federation of independent voluntary health organizations dedicated to helping people with rare diseases and assisting the organizations that serve them (NORD website, http://www.rarediseases.org). The organization was founded in 1983 by patients and families, who worked together to get the Orphan Drug Act, which would provide incentives for the development of treatments of rare disorders, passed by the U.S. Congress and signed by President Reagan in 1983. In the 20 years since the legislation, the number of treatments developed for orphan diseases has increased by more than 20 times compared with the previous decade. In this case, the context was highly unfavorable; the issue had received relatively little attention and had a small number of supporters. Yet, despite inhospitable factors in the context, the entrepreneurial efforts and innovative approach of the organization generated considerable social impact. In other cases, signals from the market context are often difficult to decipher, and social entrepreneurs, driven by their social mission, may pay less attention to the contextual factors and may forge ahead without a clear understanding of their impact. Although competition certainly exists among social-sector organizations, organizations are not often rewarded for good performance in the form of increased funding. Many have attributed this to the fact that impact and performance are notoriously difficult to measure in the social sector, and even if methods are devised to measure performance, the true organizational impacts take a long time to manifest themselves.

While the social marketplace may not reward entrepreneurs for superior performance as readily as the commercial marketplace does for commercial entrepreneurs, neither does inferior performance get punished as readily. Some would argue that the discipline of the market applies less to social entrepreneurs. The for-profit entrepreneur often exits or is replaced if the measures of progress are not met. Apparently, many social enterprises that are inefficient or ineffective at delivering their services often can continue for some time. Many constituents, such as funders and board members, focus on the organization's social mission and fail to emphasize accountability and high performance for the organization (e.g., Letts, Grossman, & Ryan, 1999). The fact that their missions involve the creation of social value may insulate social enterprises from the same type of punitive discipline that occurs in the commercial marketplace. There tends to be a greater forgiveness factor or margin for error among capital providers, particularly because social-enterprise performance is so difficult to measure. In short, market forces neither reward high performance nor punish poor performance as much, or as readily as for purely commercial organizations.

While the macroeconomic and social-sector contexts undoubtedly have an impact on the outcomes of opportunities that social entrepreneurs pursue, as discussed previously, the impacts of these contextual factors are often rather ambiguous. Social entrepreneurs may therefore have a tendency to pay less attention to the operating context, since the consequences for doing so may manifest themselves rather slowly, if at all. Nonetheless, paying greater attention to the context and actively monitoring it for potential threats and opportunities can enable a social entrepreneur to develop an adaptive strategy that takes into account various contingencies. This proactive approach can ensure that the venture is better prepared to deal with sudden environmental shifts or changes, which can present threats and opportunities.

The dramatic changes in the health care industry exemplify such contextual shifts. For example, the board of trustees of the Mt. Auburn Hospital, a nonprofit community hospital in Cambridge, Massachusetts, recognized that the economic realities of their industry were leading to a major consolidation (McFarlan & Elias, 1996). Although they were in a solid financial position, their scanning of the environment led them to conclude that smaller facilities, like theirs, were an endangered species. Consequently, they took a very proactive approach to locating another larger hospital with whom they could merge. This exemplified the entrepreneurial process of creative destruction, reinventing the organizational configuration to survive in the face of tectonic shifts in the contextual plates.

Perhaps more important than fending off threats, monitoring the context can enable a social entrepreneur to identify opportunities for the enterprise that might otherwise be overlooked. For example, emerging trends in the philanthropic capital markets may provide social entrepreneurs astute enough to identify these shifts with valuable opportunities for new programs, fundraising, and potential partnerships, among others. To illustrate, the Sesame Workshop, a nonprofit educational organization best known for its flagship series "Sesame Street," has the mission to make a meaningful difference in the lives of children worldwide by addressing their critical developmental needs (Sesame Workshop, 2002). The organization, founded in 1968 with the aim of using television as a tool to help children learn, pioneered the concept of creating entertaining and enriching television for children. Today, the organization operates in a highly competitive context increasingly dominated by large, for-profit children's media companies. To continue to deliver on its mission in this context, it has sought to engage in social entrepreneurship by supporting its educational programs with revenue-generating activities, which include global product licensing, book publishing, domestic and foreign distribution of local-language television programs, coproductions, and overseas syndication of its portfolio of educational programs. In recent years, these self-generated revenues have become the largest contributor to the organization's resources and are central to furthering the organization's educational initiatives worldwide.

While organizational survival in the social sector may not always seem to depend upon responsiveness to the context, a social enterprise that monitors the context closely on an ongoing basis can develop strategies to minimize the impacts of adverse environmental changes, capitalizing on opportunities that might arise from favorable trends. The context shapes the opportunities available to the social entrepreneur. Ultimately, this proactive management approach will best enable the organization to target the best opportunities and mobilize resources to achieve the greatest social impact.

People and Resources

In many ways, the human and financial capital inputs essential to the entrepreneurial venture are quite comparable between social and commercial entrepreneurship. Both commercial and social entrepreneurs must consider the managers, employees, funders, and other organizations critical to their success, and how to capture this human talent for their ventures. As noted by Sahlman (1996) and Hart, Stevenson, and Dial (1996), two key determinants of whether or not a commercial entrepreneur will succeed in this effort are that entrepreneurs (1) know the industry in which they are seeking to garner resources and launch a new enterprise, and (2) are known by others for their abilities. Specifically, they must know the key suppliers, customers, competitors, and the talent that they need to bring into their organization. They must also be recognized by others for their reputations and capabilities to gain the trust of others who will be willing to work with and invest in them. While social entrepreneurs are seeking to attract resources for the social good, rather than for financial returns, they rely just as much, if not more so, on a robust network of contacts that will provide them with access to funding, board members, and management and staff, among other resources. To attract these resources, social entrepreneurs, like their commercial counterparts, must have a strong reputation that engenders trust among its contributors, and a willingness to invest in the social enterprise and its mission. Reputation for fairness and skill in dealing with the individual needs of the key players is often the difference between attracting great resources and being an interesting, but unfunded idea.

Despite many similarities, the nature of the human and financial resources for social entrepreneurship differs in some key respects, primarily because of difficulties in resource mobilization. Unlike a commercial entrepreneur who often has the financial resources or incentives to recruit and retain talent, social entrepreneurs are rarely able to pay market rates for key hires (Oster, 1995) nor are they able offer other equity incentives such as stock options, except when the social entrepreneur has opted for a for-profit organizational form. As noted by Oster (1995), evidence for this pattern of lower compensation has been found in many nonprofit subsectors, such as health care (e.g., Cole, 1982), education (e.g., Freeman, 1979), as well as among various professionals in the sector, from lawyers to managers (e.g., Preston, 1989; Weisbrod, 1983). Furthermore, social enterprises often rely upon volunteers to serve key functions, such as board members, to help with fundraising or to provide professional services, or as staff to deliver their services on the ground.

An example of this reliance on volunteer staff is Ducks Unlimited, the world's largest private waterfowl and wetlands conservation organization that has a membership of over 700,000 persons and over 50,000 volunteers. In fiscal year 2002, volunteers held over 6,000 fundraising events, which generated 32% of a total of $185.7 million in revenues and 67% of the organization's membership (Ducks Unlimited website, http://www.ducks.org). Clearly, this innovative use of and heavy reliance on volunteers at the grassroots level for such core organizational functions present a very different set of management challenges for the organization's leadership.

Both the start-up and the philanthropic capital markets are fragmented. Traditionally, start-ups rely on the three "F"s (friends, family, and fools) for most of their funding, with the exception of the very small percentage of start-ups receiving formal venture capital. Social entrepreneurs often rely heavily upon a range of funding sources, including individual contributions, foundation grants, member dues, user fees, and government payments. Furthermore, these funders have a wide range of motivations and expectations. In the commercial capital markets, the key motivation for all players involved is most often to build a profitable company and to earn an attractive return on investment. Thus, investors often provide a significant portion of relatively long-term funding, while at the same time, help raise additional funds for the venture. A multitude of competing financial institutions offer a wide range of financial instruments to meet the different needs of commercial entrepreneurs at distinct stages in their organizational evolution, once viability is demonstrated. The for-profit world experiences many degrees of freedom to change entrepreneurs, business plans, products, and markets served. Few for-profit businesses actually wind up executing their initial business plan. They may have to change many factors, but can seek specialized distribution partners, financial partners, and employees who buy into and implement the new plan. This institutional breadth, flexibility, and specialization do not exist to the same extent in the philanthropic markets. Social entrepreneurs have far fewer channels for accessing unrestricted sources of capital. Furthermore, the social entrepreneur must rely perpetually on these sources since the operations rarely, if ever, will attain breakeven without some donor support, even those which have launched entrepreneurial earned-income operations (Foster & Bradach, 2005). Additionally, social entrepreneurs cannot readily switch products or markets because the capacity to motivate and attract people and funding is tied to the specific social problem or need being addressed. The emotional and psychological dimensions create strategic stickiness.

In short, while the human and financial resources required for success have similarities across commercial and social entrepreneurship, social entrepreneurs are often faced with more constraints: limited access to the best talent; fewer financial institutions, instruments, and resources; and scarce unrestricted funding and inherent strategic rigidities, which hinder their ability to mobilize and deploy resources to achieve the organization's ambitious goals. To overcome some of these barriers, social entrepreneurs sometimes opt for a for-profit organizational form to increase their ability to access commercial capital markets and to pay more competitive wages to attract talent. However, even the corporate form does not remove all the constraints, as social entrepreneurs are then faced with the challenge of maintaining a focus on the social mission, while generating a competitive return for investors.

Given these constraints, it is critical for the social entrepreneur to develop a large network of strong supporters, and an ability to communicate the impact of the venture's work to leverage resources outside organizational boundaries that can enable them to achieve their goals. The work of Steve Mariotti, founder of the National Foundation for Teaching Entrepreneurship (NFTE), the world's largest organization promoting entrepreneurial leadership among youth, illustrates the resourcefulness required of a social entrepreneur (Dees & Oberfield, 1991). NFTE was initially founded by Mariotti, as a small operation run out of his apartment, with a small board composed of family and friends. Through building a powerful network of key staff and supporters convinced of the value of the mission and the organization's capacity to deliver on it, NFTE has since grown to become a $6 million organization, with prominent board members and supporters from leading businesses, such as Microsoft, and Goldman Sachs and Company.

Additionally, a social entrepreneur must be skilled at managing a wider diversity of relationships with funders, managers, and staff from a range of backgrounds, volunteers, board members, and other partners, with fewer management levers, as financial incentives are less readily available, and management authority over supporters, volunteer staff, and trustees is rather limited. The diversity of relationships also extends to the types of relationships, as social entrepreneurs may often need to work collaboratively with other nonprofit organizations, business, and government to attain the resources critical for the organization. Examples might include partnerships that enable nonprofit organizations to pool resources to develop capabilities they could not afford to develop on their own. Such capabilities include investing in systems, such as information technology for managing members, volunteers, and funders, or collaborating with other nonprofits to deliver programs or services, or cross-sector partnerships that bring valuable resources to the social enterprise, while creating mutual benefit for the government or the corporate partner (Austin, 2000).

The September 11th Fund, one of the largest foundations established in the wake of the September 11th tragedies, provides an example of this resourcefulness (Wei-Skillern, 2002). The foundation leveraged both intrasector and cross-sector collaboration to procure the resources necessary for its success. The fundraising and grant-making expertise of the founding partners, the New York Community Trust and the United Way of New York City, provided complementary skills, while support from businesses such as McKinsey Consulting and International Business Machines provided additional managerial and technical expertise for managing the influx of donations.

Another example might be contributing to and participating in sector-wide knowledge sharing or professional networks that broaden the knowledge base and talent pool available to the organization, and the sector as a whole. Often social-sector entrepreneurs see others serving the same needs as competitors for funding, but these competitors can also be allies in the service of their objectives. For example, in the case of Women's World Banking, the organization invested heavily in building sector-wide networks among leading microfinance organizations to build joint knowledge and to strengthen the sector's ability to affect banking regulations that influenced microfinance (Austin & Harmeling, 1999). While the network members might have viewed each other as competitors, the participants have found participation in the networks to further not only their own organization's objectives, but also those of the microfinance sector as a whole.

To expand organizational capacity with limited resources, the social entrepreneur must focus on building a rich network of contacts and resources, developing the skills to manage the various relationships in this network effectively, and seeking out creative arrangements. NewSchools' venture fund, a leading venture-philanthropy fund in the education sector, established the NewSchools Network, which exemplifies this approach (Bradach & Tempest, 2000). The network consists of a bipartisan community of education, nonprofit policy, and business leaders who work in collaboration toward the goal of education reform. In addition to NewSchools' direct work of funding and providing support to promising education ventures, its network leverages resources outside the organization's boundaries to effect change in the public education system (NewSchools website, http://www.newschools.org).

While networks are important in commercial entrepreneurship, political and relationship management skills are of utmost importance to social entrepreneurs because such a large portion of the resources they rely upon for success are outside their direct control, from board members to donors, partners, and volunteers. For example, research suggests that grantor–grantee relationships are often a more powerful determinant of the grant decision than the particulars of the proposal (Grønbjerg, Martell, & Paarlberg, 2000). Aaron Lieberman, founder of Jumpstart, a fast-growing, early childhood education program, reflected on his experience noting that "the connection between Jumpstart's success at demonstrating impact and its ability to fund raise is, at best, tenuous. Fund raising success comes primarily from building relationships based on trust and reputation—which can be completely disconnected from the actual performance of the organization" (Grossman & McCaffrey, 2001). Although nonprofit organizations often generate a significant amount of their revenues through various earned-income strategies, because the social-sector organization relies so heavily on resources outside organizational boundaries, the social entrepreneur must not only continuously manage and cultivate the organization's network, but should also ensure that key staff also have and develop the skills to contribute to this critical task.

Deals

Deals are mutually beneficial contractual relationships between the entrepreneurial venture and all resource providers. Social and commercial entrepreneurs are all seeking investors to provide financial resources, as well as skills and talent to help them generate a return on their investments, whether financial or social. The sources of talent, contacts, capital, and amounts raised are of primary concern for both types of entrepreneurs.

However, because of the way in which resources must be mobilized and because of the ambiguities associated with performance measurement, the terms of the deals are fundamentally different for commercial and social entrepreneurs. Deals involve the exchange of value. The value transactions in social entrepreneurship differ from commercial entrepreneurship in *kind*, *consumers*, *timing*, *flexibility*, and *measurability*.

In the *kind* of value involved in the exchanges, social entrepreneurs must rely much more upon creative strategies to offset limited financial rewards and incentives with nonfinancial incentives to recruit, retain, and motivate staff, volunteers, members, and funders. Nonpecuniary motivation of staff represents one of the areas that commercial enterprises can learn from practice in social enterprises (e.g., Drucker, 1989). Social entrepreneurs often have to provide value more explicitly with a much more heterogeneous set of stakeholders than companies, and each group is seeking or giving a distinct form of value from the relationship.

The social entrepreneur's transactional relationship with the *consumer* of its goods or services is quite distinct from the commercial entrepreneur's. The former often has little or no economic capability and has few consumption alternatives. Consequently, the social consumers have little economic or market power to exercise in the transactional relationship with the social enterprise. Thus, the market mechanism through which consumers vote with their dollars is virtually absent for social entrepreneurs. Third-party payers or sources of subsidy fill this economic vacuum. Consequently, many social entrepreneurs consider their funders as their primary clients.

In *timing* and *flexibility*, the financial deals made between commercial entrepreneurs and their funders differ markedly from social entrepreneurs and their funders. Commercial entrepreneurs are generally given discretion to use the capital toward those activities that they decide will add the most value to the venture. Social-enterprise investors generally provide a relatively small portion of the enterprise's capital needs for a relatively short period of time (Letts, Grossman, & Ryan, 1999). Social entrepreneurs are thus required to spend a significant portion of their time, on an ongoing basis, cobbling together numerous grants, many of which come with spending restrictions and varied expectations of accountability, just to meet day-to-day operating costs. The duration of funding tends to be considerably shorter in term for social enterprises, with grants often being made on an annual basis, thereby creating an ongoing pressure for social entrepreneurs to give fundraising activities priority ahead of most other management demands.

The ongoing evaluation and return that investors receive from a social entrepreneurial investment pose a major challenge because of the relatively greater complexity of *measurability*. Commercial entrepreneurs and their funders, appropriately, have a central concern about the financial return that they will gain from the venture, and thus focus on the valuation of the company and on the equity distribution of the deal. For investors in social entrepreneurship, considerably more uncertainty is in the deal due to the fact that there is no single factor, such as profit or investment returns, that aligns the interests and actions of the various parties involved. The quantification or precise measurement of social impact is complicated due to the nature of social phenomenon, multicausality of underlying factors, and lengthy temporal manifestation, among other factors.

Although there is no single measure such as rate of return to align the interests of all parties involved, the social enterprise's mission often provides a common anchor for diverse stakeholders. It is critical for social entrepreneurs to have a clear understanding of their enterprise's theory of change, or the process by which the social innovation is going to have a social impact, and moreover, to be able to make a compelling case to participants and contributors so that the enterprise's social-value production chain can generate superior social returns. Because of the aforementioned need to rely continually on external resources, the social entrepreneurs' deals must be robust to change and contemplate the need to expand the base and to provide new opportunities. In forging the many deals necessary to launch and sustain the venture, social entrepreneurs must therefore balance the costs to attain various resources with the potential benefits that accrue to the organization and its clients on a case-by-case basis.

For example, City Year, a nonprofit organization that engages youth in national service, depends upon a wide range of funding sources, from government AmeriCorp grants to a number of prominent corporate sponsors, such as Cisco, Comcast, and Timberland, each of which entails grants of various magnitudes and reporting requirements, among other expectations (City Year website, http://www.cityyear.org). The challenge facing the social entrepreneurs leading the organization is to develop a strategy, weighing the various benefits and concerns with each deal, and to create a portfolio that sustains the organization and enables it to expand nationally to serve its clients and to carry out its mission most effectively. The nature of the social investments is very different from a provider's perspective. Philanthropic funders and volunteers are motivated to donate their money or time for a range of reasons as mentioned previously. Consequently, philanthropic donors also tend to put more varied demands on their grantees in an effort to meet their own objectives. Examples of such demands might include a board position, grant restrictions, or certain reporting requirements. Each of these demands can impose significant limitations on a social entrepreneurs' ability to determine how resources can best be deployed to reach organizational goals. The goals and objectives of the multitude of constituencies of a social enterprise, from the social entrepreneur to board members and other volunteers, funders, and clients may vary widely, and even if there is some consensus, the best means for achieving the goals and objectives may diverge. Thus, negotiating deals between the social entrepreneur and various resource providers that create alignment between goals and incentives is considerably more complex and challenging in social than in commercial entrepreneurship.

A Framework for Social Entrepreneurship

Our analysis reveals that while many commonalities exist between social and commercial entrepreneurship, some important differences related to our original propositions regarding market failure, mission, resource mobilization, and performance measurement also exist. The previous section identified specific managerial considerations for negotiating the unique challenges of applying the PCDO framework to social entrepreneurship. While the PCDO framework is in many ways applicable to the analysis of social entrepreneurship, we suggest that some adaptations might make it even more useful to both practitioners and researchers. To highlight the centrality of the social purpose in social entrepreneurship, we propose that this factor be the integrating driver of the framework. It is analogous to the "deal" variable in the PCDO in that it encompasses the terms of the undertaking, but those terms need to be related to and integrated by the core social-value proposition (SVP). The distinctive nature and central role of mission in social enterprises and the multifaceted nature of the social value generated give the SVP a logical centrality in the framework. We also believe that it would be analytically helpful to practitioners and researchers to separate out the economic and the human resources as distinct variables. Our analysis revealed that the mobilization of financial and of human resources for social entrepreneurship are each quite distinct from commercial entrepreneurship and from each other, and so merit focused attention.[2] The opportunity variable remains, although the nature of what is an opportunity is fundamentally different given the underlying generative effect of market failure. Contextual forces impinge on all the other variables and remain relevant to both forms of entrepreneurship, albeit with often fundamentally differing effects. What might be deemed an unfavorable contextual factor for market-based commercial entrepreneurship could be seen as an opportunity for a social entrepreneur aiming to address social needs arising from market failure. To enable a more disaggregated analysis of contextual forces that seem particularly relevant to social entrepreneurship, we added demographics, political, and sociocultural factors to the contextual factors presented in the original PCDO framework.

Figure 2 presents this revised social entrepreneurship framework as a Venn diagram with the opportunity circle at the top, because this is the initiating point for entrepreneurship. The two enabling variables—people and capital resources—are the bottom circles. The three circles intersect, reflecting the overlapping and interdependent nature of the variables. At the center is the SVP as the integrating variable. Surrounding all three circles are the contextual forces shaping the other variables and requiring scrutiny by the entrepreneur.

Implications for Practice

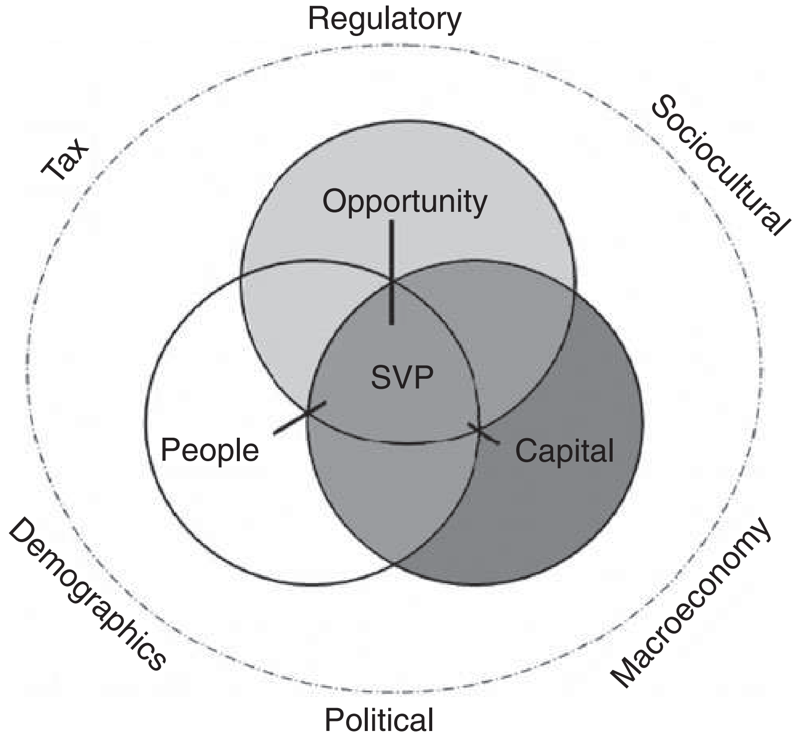
Centrality of the SVP

The foregoing analysis and framework underscore for practitioners the importance of a focus first and foremost on the SVP. This fact may seem patently obvious, as it is what drives most social entrepreneurs to pursue social entrepreneurship in the first place. However, in practice, it is often the case that the social entrepreneur becomes increasingly focused on organizational interests as a means to achieve social impact rather than on social impact itself. This phenomenon is not surprising given that the rationale is often that a larger, better-resourced organization will be better able to deliver on its social mission. However, a number of factors limit the practicality of this approach. While people and resources supporting the venture's growth are important and necessary, as our

2. The separation of economic resources might even be helpful for the PCDO framework's use for commercial entrepreneurship.

Figure 2

Social Entrepreneurship Framework



SVP, social-value proposition

analysis has highlighted, mobilizing human and financial resources for social entrepreneurship is an extremely onerous task. The challenge of procuring resources for the organization can become so all-consuming for the social entrepreneur that it can become a primary focus of the organization's activities. The goal of furthering the organization may inadvertently become an end itself, sometimes at the cost of social-value creation. That is, social entrepreneurs may become so internally focused on procuring resources to support their organization's growth that the paths to creating social value may become blurred. The resources are often a means of delivering on the SVP, but a broader perspective is needed.

Organizational Alignment

To deliver effectively on the SVP, the social entrepreneur must achieve a state of alignment both externally and internally among the key components of the framework, the opportunity, people, capital, and context. For external alignment, the dynamic nature of the context is a complicating fact. Thus, the SVP that made sense at the time of the venture's founding may in fact evolve dramatically as perturbations in the operating context are continuously occurring. Remaining attuned to how contextual changes can affect the opportunity and the human- and financial-resource environment causing the need for realignment is a critical skill for the social entrepreneur. Furthermore, practitioners should remain cognizant of a unique characteristic of the operating context, namely, that the societal demand for social-value creation is enormous. This creates a plethora of opportunities for social entrepreneurs and a concomitant ever-present temptation to address more and more of them. A social entrepreneur's task is then to determine at any given moment how to define the appropriate scope of the opportunity that can be pursued effectively. This will be dependent on ensuring that the scope is aligned internally with the available people and resources. Overextending the scope can cause a misalignment that could erode the core SVP. Seeking to address a very broad set of issues with very limited human and financial resources, may actually result in low social impact because the organizations resources are spread too thin. While a social entrepreneur may devote considerable attention to achieving both external and internal organizational alignment, it is also important to keep in mind that social impact can often be more effectively generated from beyond organizational boundaries.

Organizational Boundaries

Although social value is very often created by bringing resources into the organization's boundaries and by creating outputs directly, in other cases, the organization may actually have greater social impact by working in collaboration with complementary organizations, or even former or potential competitors. Indeed greater social value can often be created by working collaboratively with other entities. The framework in Figure 2 helps conceptualize this latter approach. By being closely attuned to the context in which the venture operates, a social entrepreneur can identify how best to mobilize resources both internally and externally. A social enterprise exists to create social value, regardless of whether that value is generated from within or outside the organization's boundaries. There may be opportunities to leverage resources outside the organization's boundaries to create greater social value than could be generated by the organization alone. Although there are many obstacles to collaboration across organizational boundaries, such as concerns about organizational self-interest or sharing proprietary knowledge, virtually all social issues require far more resources than any single organization is capable of mobilizing independently to solve. Networking across organizational boundaries to create social value is a powerful strategy for social entrepreneurs because the objectives of creating social value do not require that value be captured within organizational boundaries. The social entrepreneurial venture can thus be conceptualized as a vehicle for creating social value, either directly or through facilitating the creation of social value with and by others.

Research Implications

For researchers, a multitude of rich avenues merit further exploration. Building on the theoretical propositions we postulated at the beginning of the article and on our foregoing modified analytical framework, we offer the following sample of areas for investigation:

1. Markets
   - What are the effects of market forces on the formation and behavior of social enterprises?
   - In mixed markets where nonprofit and for-profit organizations are both operating, what are the relative competitive advantages, disadvantages, and interactive dynamics?

- To what extent do social enterprises correct market failure?
- Do social enterprises perform the function of early-stage risk assumption and market development?
- What is the entrepreneurial process of identifying opportunities for social entrepreneurship?
- What affects the extent and form of competition and collaboration among social enterprises?

2. Mission
   - How does the mission affect strategy?
   - How does the mission affect resource mobilization?
   - How can powerful mission statements be created?
   - What gives the mission statement force?
3. Capital
   - What are the key drivers of the philanthropic capital markets?
   - How efficient are these markets?
   - What determines their structure?
   - How does a social entrepreneur determine the optimum mix of financing sources for the social enterprise?
   - To what extent are earned-income strategies successful?
   - To what extent do these activities create tension with mission or organizational values?
   - What have been the effects and effectiveness of applying the venture-capital approach to social entrepreneurship?
   - What new financial instruments could be designed to overcome some of the current deficiencies in the philanthropic capital markets?
4. People
   - What are the motivational constructs of social entrepreneurs and how do they compare with commercial entrepreneurs?
   - What role do nonpecuniary incentives play in the mobilization of people into social enterprises?
   - To what extent can pecuniary incentive systems of businesses be effectively utilized in social enterprises and, vice versa, to what extent can nonpecuniary incentive systems in social enterprises be deployed in businesses?
   - What are the most effective ways for a social entrepreneur to mobilize and manage volunteers?
5. Performance
   - How can one measure social-value creation?
   - How can entrepreneurs best communicate the SVP to different stakeholders?
   - How can performance measures be most effectively integrated into management systems?
6. Context
   - How do contextual forces shape opportunity creation for social entrepreneurship?
   - How do country or community contextual differences change these forces?
   - Which contextual forces foster social innovation and entrepreneurship?

It is our hope that this article will stimulate and enable further scholarly exploration of the exceptionally complex and important issues surrounding social entrepreneurship. There is much intellectual and social value to be created.

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