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ENTREPRENEURS IN SERVICE OF THE POOR MODELS FOR
BUSINESS CONTRIBUTIONS TO SUSTAINABLE DEVELOPMENT

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ENTREPRENEURS IN SERVICE OF THE POOR: MODELS FOR BUSINESS CONTRIBUTIONS TO SUSTAINABLE DEVELOPMENT

Abstract

Social entrepreneurship is trendy! It offers all the challenges and rewards of traditional entrepreneurship, combined with the vision of changing society, if not the world. One social entrepreneur has just received the “Alternative Nobel Prize”; in 2004 Jeff Skoll, the founder of e-Bay, donated 4.4 million pounds to establish a research center on social entrepreneurship; and many social entrepreneurs are mingling with their business colleagues at the World Economic Forum in Davos. At IESE, a first course on Social Entrepreneurship has received enthusiastic attention from MBA students, and a recent conference organized by IESE students brought together social entrepreneurs, managers of corporate social responsibility programs, and NGOs. This article provides an introduction to the exciting world of entrepreneurial creation of social value.

Keywords: social entrepreneurship, corporate social responsibility, sustainable development.

ENTREPRENEURS IN SERVICE OF THE POOR: MODELS FOR BUSINESS CONTRIBUTIONS TO SUSTAINABLE DEVELOPMENT

Social entrepreneurship is trendy! It offers all the challenges and rewards of traditional entrepreneurship, combined with the vision of changing society, if not the world. One social entrepreneur –Ibrahim Abouleish– has just received the “Alternative Nobel Prize” for creating the Sekem initiative; in 2004 Jeff Skoll, founder of e-Bay, donated 4.4 million pounds to establish a research center on Social Entrepreneurship at a European business school; and many social entrepreneurs are mingling with their business colleagues at the World Economic Forum in Davos. Social entrepreneurs seem to ignore the seemingly established fact that one cannot do business with the poor. So who are these social entrepreneurs? What do they do? And could they become a model, or even future partners, to inspire more mainstream companies in their efforts towards greater “corporate social responsibility” (CSR)?

This article offers an introduction to the exciting world of entrepreneurs who create social value as their primary mission and generate economic profits more as a byproduct.

Services are failing the poor

Human needs and wants are central drivers of companies’ decisions as to which products and services they produce. While human needs seem unlimited in the aggregate, companies struggle to find new markets and value propositions. Two fundamental rules seem to be at play. First, in industrialized countries, many people are unwilling to pay, or to pay enough, for some of the products and services they want – a fact that broke the neck of many dotcom startups in the nineties which offered free services that were used by millions but were unable to implement fees for the services when venture capital dried up. Second, the very basic needs of millions of people in non-industrialized countries remain unsatisfied, mainly because those people are very willing, but unable, to pay for products and services that would satisfy their needs. However, that is not the only reason why these people’s needs have failed to attract the business community in its search for new markets. The World Bank (2004) argues that services that satisfy basic human needs, particularly those that contribute to health and education, are failing poor people – in access, in quality, and in affordability. The main reason for this failure appears to be the fact that public spending effectively does not reach the poor, and even if it does, service provision is inefficient and of poor quality.

Increasingly, corporations are expected to go beyond mere legal compliance and proactively address social and environmental challenges. The efficiencies of markets combined with the resources and managerial expertise of large multinationals are considered

crucial to tackling many of the world's development problems. As Margolis and Walsh (2003) point out, "Manifest human misery and undeniable corporate ingenuity should remind us that our central challenge may lie in blending the two." United Nations Secretary-General Kofi Annan, in his address to the World Economic Forum on January 31, 1999, called on global business leaders to embrace a set of shared values and principles in the areas of human rights, labor standards and environmental practices. Kell and Levin (2002) describe the consecutive formation of a Global Compact network –consisting of several hundred companies, dozens of NGOs, major international labor federations, and several UN agencies– to collaborate on creating a more stable, equitable and inclusive global market by making shared values and principles an integral part of business activities everywhere. Despite these welcome commitments, the UNDP Human Development Report (2003) provides evidence that for a large number of people on this planet the reality remains grim, and hope for improving their situation is frail.

A new phenomenon - Social Entrepreneurship

A growing number of initiatives all over the globe seem to defy the hurdles towards service provision to the poor. They collectively define a phenomenon that is termed social entrepreneurship (SE). How these entrepreneurs find and employ novel resources and combine them in new ways holds a rich field of discovery for inspired models of value creation. The following three case examples set the stage for an attempt to provide a perspective on the field.

Case 1: The Institute for OneWorld Health (USA)

Victoria Hale, a research scientist with Genentech and former reviewer of New Drug Applications (NDAs) for the Food and Drug Administration (FDA), was aware of the economic and logistical barriers that prevented drug companies from developing drugs for third world countries. To overcome these barriers she founded OneWorld Health as the first US non-profit pharmaceutical company. OneWorld Health is an entrepreneurial business model that aims to deliver medicines to those most in need in developing countries. It attempts to redesign the whole value chain of drug delivery and thus challenges traditional profitability thinking that seems incompatible with developing such cures.

Large philanthropic organizations and governments provide much of the initial funding. For OneWorld Health, being a non-profit company is thus an enabling structure for social value creation because it allows it to access capital that business entrepreneurs usually cannot. OneWorld Health establishes a new set of partnerships aimed at creating value for everyone involved. Biotechnology companies find an appealing outlet for idle intellectual property. Compassionate research and development efforts attract scientists and volunteers to donate time, effort and knowledge to the project. The company pushes strongly to utilize and integrate the scientific and manufacturing capacity of the developing world to be able to "deliver affordable, effective and appropriate new medicines where they are needed most."

Case 2: Sekem (Egypt)

Founded by Ibrahim Abouleish on a piece of desert land north of Cairo in 1997, Sekem has grown from the vision of a single individual to a multi-business firm that combines

economic, social, and cultural value creation with significant impact on Egyptian society. The profits from these businesses fund institutions such as schools, an adult education center and a medical center. Sekem now plans to open a university for holistic education in the second half of 2004. These institutions cater directly to basic needs of individuals. Furthermore, Sekem is filling an institutional void in Egypt by providing structures that people trust and that enable them to escape the poverty trap and gain control over their lives. On the environmental front, Sekem has pioneered biodynamic agriculture in Egypt. It has deployed a new system of plant protection in cotton which led to a ban on crop dusting throughout Egypt. By 2000, pesticide use in Egyptian cotton fields had fallen by over 90%. In 2003, Sekem received the “Alternative Nobel Prize” in recognition of its achievements in integrating commercial success with social and cultural development. The jury saw in Sekem the business model for the 21st century.

Case 3: *Grameen Bank (Bangladesh)*

Muhammad Yunus, an economics professor, believes that the poor have skills that remain unutilized or under-utilized, mainly because the existing institutions and policies fail to offer the support they require. He founded the Grameen Bank in 1976 to provide credit to those who do not qualify as customers for established banks. Today, Grameen operates 1,191 branches, serving over 3 million poor people residing in 43,459 villages in Bangladesh.

The bank provides credit to the poor in rural Bangladesh without any collateral. It operates differently from other existing credit providing organizations in three respects: firstly, priority is given to designing the system so that the loans will be repaid, and on time. Secondly, only the poorest villagers, the landless, are eligible. Thirdly, the bank makes an effort to lend money primarily to women, who are socially, as well as economically, impoverished.

The loan disbursement design is unique. To qualify for a loan, the villager has to demonstrate that her family assets are below the bank’s threshold. The villager is not required to put up collateral but instead has to join a five-member group and a forty-member center and attend a weekly meeting. The villager also has to assume responsibility for the loans of her group’s members; it is the group, not the bank, that initially evaluates loan proposals. Defaulters would spoil things for everybody else, so group members have to choose their partners wisely. The Grameen Bank has been profitable ever since it was founded and has inspired a global micro-credit movement that has spread to 65 developing countries, reaching 17 million borrowers.

What does it all mean?

What the above cases and many other entrepreneurial initiatives all over the globe have in common is that they challenge the status quo and our thinking about what is possible. While the scale and scope of global environmental and social grievances often seem overwhelming, inspired entrepreneurs have started to defy our collective resignation. They come up with new solutions that are designed starting from local needs rather than the centralized assumptions of large institutions about what needs to be done. Increasingly, SE is attracting the attention of academia, international organizations, charities and corporations who seek to better understand this phenomenon and to replicate and scale some of the models and processes for value creation that social entrepreneurs are inventing. So far there is no

theory that can sufficiently describe or explain what SE is, and this limits the recognition and focused support that these initiatives need in order to grow to the scale required for them to make a broad contribution to eliminating poverty in its many forms.

Based on our research, we offer the following definition of SE: Social entrepreneurs find new and efficient ways to create products and services that directly cater to social needs that remain unsatisfied by current economic and social institutions. Social entrepreneurs use the same skills as traditional entrepreneurs, but they operate in a very different competitive environment. Like business entrepreneurs, social entrepreneurs see and act upon what others miss: opportunities to improve systems, to create solutions, and to invent new approaches. Venkataraman (1997), studying traditional entrepreneurship, sees the creation of social wealth as a byproduct of economic value created by entrepreneurs. In SE, economic value is often a byproduct of social value creation. Thus, unlike business entrepreneurs, social entrepreneurs operate within a social rather than a purely economic context, which means they have limited access to capital and traditional market support systems. Their “customers” may be willing but often are unable to pay even for a small part of the products and services provided. Many social entrepreneurs operate in developing countries that have no structures or resources that would enable and support traditional entrepreneurship. Social entrepreneurs must therefore create novel business models, organizational structures and unique strategies for brokering between very limited, disparate and often dynamic resources to create social value. As a result, social entrepreneurs must be exceptionally skilled at mustering and mobilizing resources – human, financial, and political.

What makes SE unique is the primary social mission of the businesses. The greatest challenge in understanding SE, however, lies in drawing the boundaries of what is to be considered “social.” There is no “non-social” entrepreneurship. In fact, Reynolds, Bygrave et al. (2002) report that traditional entrepreneurs create the majority of jobs in developed countries – certainly an important social function. Further complicating is the fact, that the term “social” has very different meanings to people with different personal and cultural backgrounds. Which “social needs” should be given priority? To overcome this ambiguity we have chosen a widely recognized metaphor that integrates social needs to which many institutions and businesses have committed themselves – the metaphor of sustainable development (SD). The most commonly used definition of SD is that put forward by the World Commission on Economic Development (1987). It says that SD is: “development that meets the needs of the present without compromising the ability of future generations to meet their own needs.” Extending the definition given above, we thus conceive of SE as entrepreneurship that produces products and services that directly cater to social needs underlying sustainable development goals, such as the Millennium Development Goals defined by the United Nations Millennium Declaration (2000). Social entrepreneurs often create tremendous value when they cater to very basic humanitarian needs; for example, by providing medicines or food which can be a matter of life or death for those who receive them. The Institute for OneWorld Health is a case in point. Often, they act as trusted intermediaries orchestrating a fair distribution of scarce resources, as in the case of Grameen Bank. They also act on behalf of the needs of future generations by establishing more environmentally friendly practices. Sekem has changed the ways in which cotton is produced in Egypt and avoided the spraying of thousands of tons of pesticides.

Social and profit motives of entrepreneurs

It has been suggested that social entrepreneurs are a very distinct type of individuals. Attempts to define distinctive features of social entrepreneurs tend to portray a social hero

with “entrepreneurial qualities.” Bill Drayton (2002), the founder of Ashoka, considers this a very special and scarce trait that goes beyond altruistic motivation and reflects a relentless motivation to change the whole of society, a trait shared by only a very small percentage of the population. Interestingly, most social entrepreneurs do not even know they are “social entrepreneurs” until they receive an award or are recognized by organizations such as Ashoka or the Schwab Foundation. Our experience teaching SE at a leading European business school, as well as conversations with students and faculty from other schools, shows that many MBAs are looking at their career much more in terms of personal values and making a contribution to society. Social needs allow for a wide range of motivations for being an entrepreneur, including the possibility of making significant profits. SE is a structure that balances the desire to make a contribution to society with a personal need to capture an economic return from doing so.

Social entrepreneurship is a global phenomenon

Powerful clusters of social entrepreneurs exist in Latin America (Brazil, Ecuador) and especially South-East Asia (Bangladesh and India), where social entrepreneurs play an important role in society, as they provide vital public infrastructures and services. For example, BRAC, the world’s largest NGO, established in Bangladesh in 1972, follows a holistic concept to alleviate poverty and empower the poor. Their multifaceted development organization comprises companies and institutions engaged in such diverse activities as poultry farming, land and housing, banking, and education. In the United States, social entrepreneurship consists mainly of entrepreneurial initiatives by foundations or charities, while in the UK it is more associated with bottom-up community base programs, such as programs to assist the homeless or alleviate urban poverty. Finally, in large parts of Europe but also parts of Asia (Singapore), there is little evidence of independent initiative. However, this is not so much because the welfare state works as because the social sector has mobilized the public sector and has been able to establish efficient partnerships (as in the Netherlands).

Social entrepreneurs - partners for corporations and institutions?

Social entrepreneurship may provide some fascinating new insights that could expand the thinking and toolkits of traditional entrepreneurs as well as enrich designs for more socially acceptable and sustainable business strategies and organizational forms. Most definitely, the insights are of huge relevance to the wider social sector. The interfaces between SE, CSR efforts, and public institutions have great potential for developing new forms of collaborative value creation in support of sustainable development.

Institutions and social entrepreneurs

Increasingly, we see examples of overlap and joint efforts between SE and International Organizations. The Development Marketplace is a World Bank program that promotes innovative development ideas through early stage seed funding. The World Bank links social entrepreneurs with poverty-fighting ideas to partners with resources to help implement their vision. In 2003, World Bank President James Wolfensohn awarded more than \$6 million in seed money to be shared by 47 small-scale, innovative development

projects from 27 countries. In his opening remarks he said, “What we recognize very acutely here in the Bank is that there is no way that we as an institution can be the effective transmitter of all the ideas to people in poverty and people that need assistance. And, therefore, what is crucial is to have proposals which can be replicated and can be handled at the field level and can, in fact, allow us to scale up with simple ideas well executed that can be carried from one place to another and one country to another and one region to another.” Many organizations such as Ashoka or the Schwab Foundation directly support social entrepreneurs by providing seed capital and access to crucial support networks. Particularly those SE efforts that cater to very basic human needs often depend on foundations, at least initially, until their “customers” can make a contribution to the value created. It will be important to define the exact needs of SE given the specific challenges of meeting various SD goals.

An exciting opportunity for enlightened corporate social responsibility

The interface between SE and corporations is probably the most promising interface in terms of impact. We refer to it as “social intrapreneurship” – entrepreneurial initiatives with a social purpose within corporations. Particularly in less-developed countries, implementation of CSR efforts may be facilitated and gain credibility and effectiveness through collaboration with local social entrepreneurs. A smart way for corporations to think about CSR is in terms of competing for topic ownership. For example, a corporation may pick one of the Millennium Development Goals where it can really make a contribution, given its resources and knowledge. By building partnerships with local entrepreneurs, the company could engage in projects that match specific and relevant needs with corporate resources. Hart and Christensen (2002) show how some companies have started to experiment with tapping into a market for social needs. However, entrepreneurs are usually much better than companies at scanning for opportunities and building up grassroots efforts from very limited capital. By using corporate funding instead of purely philanthropic sources of capital, entrepreneurs could tap into an additional resource pool of corporate knowledge, managerial skills and capabilities to implement SE efforts. Since social entrepreneurs are often good at starting things up but not necessarily so good at managing organizations or projects once they have reached a certain size, companies at some stage could take on ownership of projects and free up entrepreneurs to start a new venture and become serial social entrepreneurs. This type of relationship between social entrepreneurs and corporations would use CSR budgets to invest in developing new markets by transforming people with basic needs into customers and building the trust necessary to acquire a license to operate. This is what corporations are really good at and is also very much in line with the expectations of providers of corporate capital.

Social entrepreneurs have paved the way into a future that we can all shape together. As managers of large global corporations, we have a unique opportunity to share their spirit and reinforce the contract between corporations and society, based on trust and mutual respect as the foundation of growth and development to create a better world for all.

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