

1 Background, Characteristics and Context of Social Entrepreneurship

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Learning goals

Upon completing this chapter, you should be able to accomplish the following:

- Understand the evolution and historical background of social entrepreneurship.
- Understand the role of social entrepreneurship in societies, economies and politics.
- Get first insights into social entrepreneurship research.

1.1 Introduction

Social entrepreneurship has become a relevant topic in business, society and politics. Public attention has also been aroused through the increasing presence of social entrepreneurs in the media and numerous popular science publications. Here we may mention David Bornstein's book "How to Change the World: Social Entrepreneurs and the Power of New Ideas" (2004) as well as "The Power of Unreasonable People" by Elkington und Hartigan (Bornstein, 2004, Elkington and Hartigan 2008).¹ In his case-study based publication, Bornstein highlights the power (vision, mission and passion) of individual social entrepreneurs in various historical, economic, legal, political and socio-cultural contexts. Many other recent publications in this field focus on the person of the social entrepreneur rather than on the economic function of social entrepreneurship. Social entrepreneurs act as „change agents and engines“ of social and economic progress and bring about positive change in the economy as well as the society through their pro-active and innovative activities. Literature on social entrepreneurship often focuses on role models such as Muhammad Yunus.

Some researchers argue that social entrepreneurship is a phenomenon which is anything but new (Boddice, 2009). For example, Bornstein and Davis (2010, p. 2) state: "Social entrepreneurs have always existed. But in the past they were called visionaries, humanitarians, philanthropists, reformers, saints, or simply great leaders". Maybe social entrepreneurship is as old as mankind itself. Nonetheless, their work today is different because it has achieved a potentially global scale (Nicholls, 2006a). At any rate, the term social entrepreneurship is relatively new. Therefore, it is worthwhile to investigate how this modern-day, worldwide social movement came about and how the concept of social entrepreneurship could be described and explained.

¹ For introductory works in the scientific field of social entrepreneurship see for example: Dees (1998), Introduction to social entrepreneurship academia; Leadbeater (1997), The role of social entrepreneurs in society; and Nicholls (2006b), Academic anthology.

1.2 The Role of Social Entrepreneurship in Societies, Economies and Politics

"Many young people today feel frustrated because they cannot recognize any worthy challenge that excites them within the present capitalist system. When you have grown up with ready access to the consumer goods of the world, earning a lot of money isn't a particularly inspiring goal. Social Business can fill this void."

(Muhammad Yunus, 2007)

In 2006, Muhammad Yunus won the Nobel Peace Prize and the idea of social business and social entrepreneurship reverberated around the globe. While working with the poor in Bangladesh, Yunus recognized that many desired to stand on their own feet, for example, by founding their own small business. To do this they needed capital, mostly small amounts, to buy a sewing machine or similar basic tools. Yet, banks were not willing to give the poor loans. They found the risk too high, as no income existed to date, and there was no security available. The bureaucratic processing of these credits also resulted in more costs than the microloans could cover.

The Grameen Bank, founded by Yunus, created an innovative way to make microloans feasible. The bank developed an administration and collection process led by "lending circles", formed by a number of borrowers in each community. Within this circle, borrowers monitor each other and check that each one of them pays back their loans timely and correctly. Defaults make the community as a whole lose credibility. Like this, debtors are motivated to comply with their payment commitments, as they do not want to let down their social network. By involving the community, both the administrative work and a payback security are ensured. These lending circles lead to payback rates higher than those of many large-scale banks. In a social entrepreneurial sense, through this innovative action, social goals are achieved through business. On the one hand, the poor have access to the microloans they need to establish a source of regular income and to look after themselves. On the other hand, like any other bank, the Grameen Bank collects interest, thereby earning revenue. Thus, it acts as a business and in doing so helps a social cause. This is social entrepreneurship.

On this note, Bill Gates spoke at the 2008 World Economic Forum in Davos: "If we can spend the early decades of the twenty-first century finding approaches that meet the needs of the poor in ways that generate profits and recognition for business, we have found a sustainable way to reduce poverty in the world" (Bill Gates, as cited by Kinsley, 2009, p. 16).

The Grameen Bank and numerous other early social entrepreneurial initiatives have their roots in emerging market countries, for instance: Aravind Eye Clinic (www.aravind.org), Fabio Rosa's Agroelectric System of Appropriate Technology (STA), Hippo Roller (www.hipporoller.org), KickStart water pumps (www.kickstart.org), one laptop per child (one.laptop.org), world bike (worldbike.org), BoGo Light (www.bogolight.com), Center for Digital Inclusion (www.cdiglobal.org). But Western societies have followed. For example,

in 2003, the association “startsocial” began supporting social initiatives in Germany. In 2006, Ashoka appointed seven social entrepreneurs as the first German Ashoka Fellows. All over the world the relevance of social entrepreneurship in business, society and politics is growing further. While Seelos and Mair (2009) reported that in 2006, a Google search for “social entrepreneurship” resulted in over 1 million hits, six years later, in 2012, it results in about 4 million.

There are both supply and demand side catalysts that contribute to this increasing importance of social entrepreneurship (Nicholls, 2006a):

■ **Supply side**

- increase in per capita wealth
- better education levels
- improved communication

■ **Demand side**

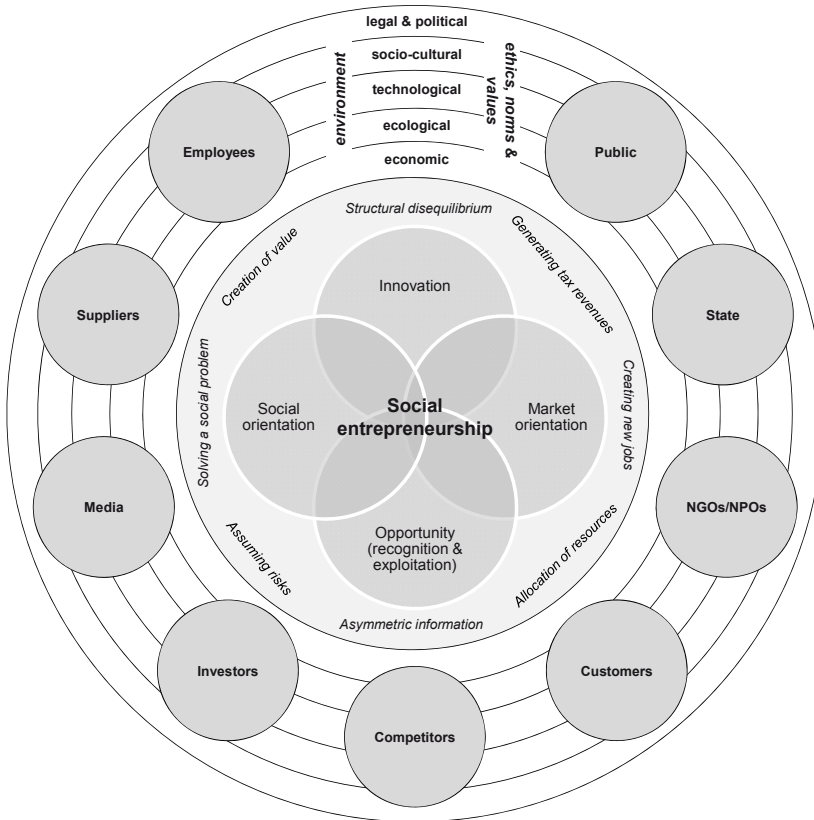
- rising crises in environment and health
- rising economic inequality
- institutionalization of professional NGOs
- inefficiencies in public service delivery

The relevance of SE depends on the economic characteristics and conditions in the individual countries but also on the legal, political, socio-cultural, technological and ecological framework. With regard to the degree of welfare there are significant differences around the globe, especially between the developed countries on the one hand and the developing countries on the other. Even among the Western developed nations differences can be noted with regard to the extent of the allocation of public goods by the government. Germany, for example, is a relatively well-developed welfare state in comparison to Great Britain. At the same time, a great heterogeneity and complexity of social problems and challenges form the specific characteristics of social entrepreneurship. Geographically, the business and growth models of social enterprises can range from a local or regional level to an international or even global level. Socio-economic change can take place in an evolutionary or in a revolutionary way. Social entrepreneurship may develop in various contexts such as poverty, economic inequality, (drug-related) crime, crises, climate changes or corruption in the private economy or the state.

From an ecosystem perspective, social entrepreneurship can be categorized into the dimensions *social orientation, market orientation, innovation and opportunity (recognition & exploitation)*. Essential elements of the social entrepreneurship framework are *society, economy, politics, culture (including ethics, norms & values)* and the regulatory framework. Furthermore, several types of *stakeholders (e.g. employees, suppliers, media, investors, competitors, customers, non-governmental or non-profit organizations, state and public)* are key elements of the system. The social entrepreneurial ecosystem *reduces a structural disequilibrium, creates value, solves a social problem, assumes risks, deals with asymmetric information, allocates resources, creates new jobs and generates tax revenues.*

The dimensions and key elements of the social entrepreneurial ecosystem are summarized in **Figure 1.1**. It has to be noted that these dimensions and elements of social entrepreneurship are not conclusive.

Figure 1.1 Social entrepreneurial ecosystem



Own illustration

There has been a long way to establish social entrepreneurship in society, and there are still challenges to meet. For example, the fact that social entrepreneurship levels are low is, actually, a challenge for German society, as the country may be missing out on an innovative way to support its citizens. *Entrepreneurship*, in general, is an improvement for society, leading to innovations, fostering employment and resulting in economic growth (e.g., Drucker, 1985; Schumpeter, 1936). "In an entrepreneurial society individuals face a tremendous challenge, a challenge they need to exploit as an opportunity: the need to continuous learning and relearning" (Drucker, 1985, p. 263)... "the emergence of the entrepreneurial society may be a major turning point in history" (...p. 265).

In this sense, social entrepreneurship as a form of entrepreneurial activity can be considered beneficial to society as a whole. Additionally, social entrepreneurship targets social needs unmet by government or business. For example, in 2012, looking back on a welfare state which has offered assistance since the late 19th century, the German government has come to realize that it cannot financially maintain its ample support system. First steps have been taken to reduce unemployment benefits and welfare, and the extent of public healthcare is being reduced. Additionally, the role of the Christian church is diminishing, as fewer citizens pay church taxes and, hence, less money reaches the social causes the churches traditionally address. Overall, large gaps are appearing in the network of social needs which are not catered to by the state or church. This situation in Germany makes innovative solutions for social problems equally more relevant and difficult.

Social entrepreneurship means acting within markets to help a societal cause. This appears when markets fail: either businesses cannot fulfill existing needs, because they cannot be catered to profitably, or governments are not able to fulfill them, as they have low priority in terms of public support (Mair and Marti, 2009). These institutional gaps appear more frequently and to a larger extent in today's societies, as they are embedded in the vast and complex, dynamic structures that are the global markets (Faltin, 2008). The UN millennium development goals (www.un.org/millenniumgoals) are a good example of the large problems the world battles today, e.g., attempting to fight poverty globally. Traditionally, Non-profit Organizations (NPOs) have acted within these institutional voids left by businesses and government (Sud et al., 2009). Yet nowadays, the situation for NPOs has become more challenging (Bull, 2008). On the one hand, competition has increased in this field, with numerous NPOs battling over scarce financial resources (Dees, 1996). On the other hand, the call of money has also reached philanthropy, and investors or donors are expecting more for the funds they put into a social cause (Sud, VanSandt and Baugous, 2009). Frances (2008) describes the situation of NPOs as a fake safety haven which is comfortable and complacent, yet doesn't manage to create thought-changing impact. Hence, traditional NPOs often cannot live up to expectations, and new sustainable and scalable solutions are needed to successfully fill the existing institutional gaps (Dees, 1996).

This is where social entrepreneurship jumps in. Social enterprises attempt to target unfulfilled social needs with (more or less) market-based approaches, aiming for sustainable solutions. They do so by creating additional value (social value creation). By moving resources to areas of more efficient use, they create value which can be translated into revenue (Mair and Marti, 2006). For example, the Spanish dairy company La Fageda (www.fageda.com) employs mentally challenged people to produce their high quality yoghurts, offering them the employment this group of people is often denied. In an economic sense, the employees are placed in a situation of higher productivity, involving them in economic value creation. Social enterprises also internalize externalities which the market normally ignores, further increasing the output of social value (Santos, 2009). On top of this, some additional value is created by offering consumers socially aware products, for which they are prepared to pay a price above market value. For example, consumers are willing to pay more for Fair Trade chocolate (see e.g. the GEPA-case in the chapter by Blank in this book) or socially oriented print media like the Big Issue in the UK (see case study in this chapter). These different additional value sources lead to increased sustainability of the

venture, making it more attractive for donors and/or investors. Hence, the multiple forms of social value creation are a core function of social enterprises (Auerswald, 2009). By doing this, social entrepreneurship, in its historical establishment through the course of time, fills gaps left unattended by other institutions. Hence the development of social entrepreneurship in the individual countries depends on the gaps and positions which the respective established agents (E, SE, and the government) left open in their distribution of goods.

However, quasi-entrepreneurial activities, which addressed social needs, also took place long before in history. The origins of social entrepreneurship can be found in the establishment of the private sector. Coming from a situation of oppression by feudal lords, churches or slavery, the Enlightenment movement of the 17th century paved the ground for the creation of the private sector, and hence the introduction of the enterprise (Bornstein and Davis, 2010). Over the next decades, laws and practices were introduced which protected individual's ideas and property and led to a thriving private sector. As these laws were first established in the USA, its entrepreneurial sector stood in the forefront to flourish substantially on a broad scale. Together with the progression of the business sector, the state regressed in its responsibilities, leaving institutional gaps and welcoming NPOs and philanthropists into the field (Shaw and Carter, 2007). In Europe, the UK followed suit and was amongst the pioneers to introduce entrepreneurship into the social realm, as in the case of the Victorian private hospitals (Shaw and Carter, 2007). For many years, the coexistence of government, business and NPOs covered a large amount of the occurring social needs.

Here, the organisation Ashoka, founded by Bill Drayton in 1980, a former McKinsey management consultant, played its part (www.ashoka.org; Defourney and Nyssens, 2008). Having travelled India, watching new social enterprises appear, Drayton recognized the value of such sustainable endeavours (Bornstein and Davis, 2010). Subsequently, he founded the first support institution specifically for social entrepreneurs, Ashoka. This organization aims at identifying social entrepreneurs early on and offering them a wide range of assistance, e.g., business consulting, to pursue their goal. With Ashoka's global set-up and their public relations work, the term "social entrepreneur" spread worldwide. Alongside the pioneers and initial support institutions, global developments further aided the creation of social enterprises. Bornstein and Davis (2010) name numerous supporting factors, largely the fall of totalitarian regimes due to a higher level of education and knowledge in societies caused by liberation movements, such as striving for independence for women, and international media such as the internet, especially social media (sites), which helps people worldwide understand the opportunities they have as an individual.

Established on a worldwide level, social entrepreneurship has run through several developmental steps. Various additional support institutions have established themselves, for example the Schwab Foundation and the Skoll Foundation joining Ashoka on a global level. All around the globe national support organizations have also emerged such as the Canadian Centre for Social Entrepreneurship or the Social Entrepreneurship Foundation SEF-Swiss. In Germany, "Bertelsmann Foundation" and "BMW Foundation Herbert Quandt" are examples of organizations which are active in the field of Social Entrepreneurship. Within Europe, Italian cooperatives in the 1980s marked the beginning of wide-scale social entrepreneurship (Defourney and Nyssens, 2008).

Since the 2000s, the UK has established itself as the strongest social entrepreneurial region in Europe (Defournay and Nyssens, 2008). The Global Entrepreneurship Monitor reports levels as high as 6.6% of the UK population participating in social enterprises (Harding, 2004). Bornstein and Davis (2010) even believe that the preoccupation with social entrepreneurship has already reached its third generation. In their view, it started with social entrepreneurship 1.0 which identified social entrepreneurs, described their function and developed support systems, followed by social entrepreneurship 2.0 that focused on the organizational excellence of social enterprises, to social entrepreneurship 3.0 today that looks at the change-making potential of all people.

Also, academia has picked up these themes within social entrepreneurship subsequently. Overall, it represents an interesting topic in particular because social entrepreneurship features different interdisciplinary angles relating to its social, cultural, psychological and economic significance. This plurality of perspectives in studying social entrepreneurship led to initial publications aimed at building a common understanding of what social entrepreneurship is (and what it is not) as well as what social entrepreneurs represent and do. This thrust of research into social entrepreneurship is still evolving as discussed in the next section.

1.3 The Story of Social Entrepreneurship in Academia

The idea of social value creation through business has its academic roots in the 20th century. However, up to the end of the 1990s academic attention was paid to Social Entrepreneurship only sporadically and only a few papers were published (e.g. Parker, 1954; Eppstein, 1964; Hage and Aiken 1970).

In 1973, Davis wrote an article on the different opinions towards business assuming social responsibilities (Davis, 1973). On the one hand, researchers such as Milton Friedman (1962) feared that social responsibility in business would disrupt the very basis of the capitalistic market: "few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible" (cited by Davis, 1973, p. 312; cf. also the chapter by Beckmann). On the other hand, researchers such as Paul A. Samuelson saw it as a core responsibility of business to create social value. Researchers have moved a long way since then, with activities such as Corporate Social Responsibility (CSR) having long taken their place in the business realm. In the context of Non-Profit Organization (NPO) management Dennis R. Young compared "nonprofit entrepreneurs" to managers, focusing on their innovative actions (Young, 1986, as reported by Light, 2005, p. 2). However, Social Entrepreneurship is systematically distinguished from CSR, NPO or Non-Governmental Organization (NGO) management by several criteria and approaches (cf. in more detail chapter 1.4). In the 1980s, academia was still doubtful about the subject of social entrepreneurship. For example, Dees is said to have suggested a social entrepreneurship course to

Harvard Business School which he was “cautioned not to do” (Eakin, 2003). The actual research field of social entrepreneurship subsequently started its growth in the late nineties. Dees’ paper on “The Meaning of *Social Entrepreneurship*” (1998) attracted special attention in this phase (see also Waddock and Post 1991; Leadbeater, 1997). Ever since, there has been a dynamically growing scientific interest in the field of social entrepreneurship. Schools introduced their first social entrepreneurship courses and research networks, such as the EMES European Research Network, engaged in the topic (Defournay and Nyssens, 2008).

Academia is obviously embracing the topic, and research as well as teaching programs on social entrepreneurship are growing fast (Nicholls, 2010; Perrini, 2006). For example, numerous special journals on the topic have emerged over the past few years (e.g. Stanford Social Innovation Review, 2003; Social Enterprise Journal, 2004; Journal of Social Entrepreneurship, 2010; Journal of Social Entrepreneurship and Innovation, 2011). In addition, special issues of journals have emerged (e.g. International Journal of Entrepreneurial Behaviour & Research, 2008, Entrepreneurship Theory and Practice, 2010) and edited volumes and monographic books have been published. New social entrepreneurship conferences are being launched (e.g. Skoll World Forum on Social Entrepreneurship, NY-Stern Conference on Social Entrepreneurship). The managers of tomorrow are taking social entrepreneurship classes at top business schools (e.g., Columbia Business School in New York, IESE in Barcelona; also see Tracey and Phillips, 2007; www.aacsb.edu offers an overview of available courses). Furthermore universities are appointing professorships specifically to this research field (e.g., the Leuphana University Lüneburg, Rotterdam School of Management, University of Nottingham, Copenhagen Business School, University of Oxford, Vlerick Leuven Gent Management School, IESE Business School, University of Geneva, School for Social Entrepreneurs, University of Cambridge, Universidad de Los Andes, Asian Institute of Management, Tata Institute of Social Sciences, University of Calgary, Leonard N. Stern School of Business, Portland State University, Duke University, Babson College, Stanford Graduate School of Business, Harvard Business School). Nonetheless, it is widely agreed that the theoretical examination of this phenomenon is in its infancy – and researchers point out the small number of publications and accessible empirical studies on the topic (e.g., Certo and Miller, 2008; Desa, 2007; Mair and Marti, 2006; Peattie and Morley, 2008; Robinson, Mair and Hockerts 2009).

Researchers and educators are positioning themselves as thought leaders of the field and taking ownership in moving it forwards, such as Alex Nicholls (University of Oxford: Saïd Business School), Gregory Dees (Duke University: The Fuqua School of Business), Johanna Mair (University of Navarra: IESE Business School) or Paul C. Light (NYU: Robert F. Wagner Graduate School of Public Service), to name but a few. Besides the broad phenomena, elements of social entrepreneurship are also now being studied in detail.

Additionally, researchers and educators are assisting in the development of practitioner guides to help social entrepreneurs further improve their businesses (Brinckerhoff, 2000; Dees, Emerson and Economy, 2001, 2002; Durieux and Stebbins, 2010).

Hence, while traction is currently high, the field should be treated as the young area that it is and take its time to develop sound theories to build upon (Harding, 2004). In this sense, and moving back to Bornstein and Davis' vision of social entrepreneurship 3.0, the field of social entrepreneurship research has not even fully grasped social entrepreneurship 1.0, the comprehension of what social entrepreneurship is and how it functions. There is currently no established theory (as criticized by Harding, 2004; Light, 2011; Weerawardena & Mort, 2006) or presence of large-scale quantitative studies (as criticized by Hockerts, 2006; Light, 2011). A large part of the field is based on anecdotal cases and is, therefore, phenomenon-driven (as criticized by Mair and Marti, 2006; Nicholls and Cho, 2006).² However, this is fairly typical for a relatively new, evolving field of research in the social sciences. And while it is mandatory to build further large-scale empirical evidence on social entrepreneurship, the field still should preserve its interdisciplinary, multi-faceted origin and core. This seems necessary since social entrepreneurial behavior will almost always involve social and economic action in a rich cultural context. This nature of social entrepreneurship also makes it an interesting, fascinating, and important topic to learn about and to study in depth.

1.4 Concepts and Typologies of Social Entrepreneurship

1.4.1 Social Entrepreneurship and Social Entrepreneur

In the previous chapter, we showed that social entrepreneurship has developed into a dynamically evolving field of research and teaching since the late 1990s. However, literature in this context is still widely based on a variety of definitions and conceptual approaches (see also chapter two of Huybrechts and Nicholls in this book). Up to date there still is no consistent or standard definition of the term. This may result from the fact that the respective research topics have emerged from different disciplines (e.g. economics, entrepreneurship, sociology, psychology). The definitions range from a very narrow to a very wide understanding (for a detailed overview on social entrepreneurship definitions, see e.g. Dacin, Dacin and Matear, 2010; Zahra et al., 2009). The lack of conceptual accordance leads to a lack of clear rules for the description and explanation of the concept. This chapter will present selected conceptual approaches in order to illustrate their variety. In spite of the fact that definitions and approaches are heterogeneous, there is a consensus with regard to the objectives of social entrepreneurship and social entrepreneurs. According to this, social entrepreneurship aims for the exploitation of opportunities and for social change rather than for maximum profit in the traditional sense. In this sense social entrepreneurship re-

² For a selection of case studies, see Alvord, Brown and Letts (2004); Bhawe, Jain and Gupta (2007); Bornstein (2004); Corner and Ho (2010); Elkington and Hartigan (2008); Faltin (2009); Mair and Marti (2009); Spear (2006), Thompson, Alvy and Lees (2000); Thompson and Dorothy (2006) as well as Waddock and Post (1991).

fers “to an ability to leverage resources that address social problems” (Dacin, Dacin and Matear, 2010, p. 38). According to a definition by Mair and Marti (2006, p. 37), social entrepreneurship “is primarily intended to explore and exploit opportunities to create social value by stimulating social change or meeting social needs”. In the context of a general entrepreneurship definition there is a critical debate if the separate term “social entrepreneurship” is actually necessary. This approach is, e.g., reflected by Schramm (2010) who holds the opinion that “all entrepreneurship is social”, because it generates economic and social value (jobs and tax revenues).

In a differentiated analysis of Schumpeter’s thoughts, Swedberg (2006) proposed that according to Schumpeter social entrepreneurship could be defined as a form of dynamic behaviour in a non-economic societal area. Deducing the social entrepreneurship concept from Schumpeter’s general theory of entrepreneurship thus offers a basis for further differentiation and analysis of the concept according to a deductive analytic approach (Volkmann and Tokarski, 2010). **Figure 1.2** suggests a potential basic classification in this field.

Figure 1.2 Economic Change and Social Entrepreneurship

	Economy	Society
Dynamic or entrepreneurial change	Development	<i>Social Entrepreneurship</i>
Static or non-entrepreneurial change	Adaption	Social Evolution

Own illustration based on Swedberg (2006)

Schumpeter himself mentioned that economic development includes social change, which shows that he, too, took the relation and interaction between economy and society into account (Swedberg, 2006).

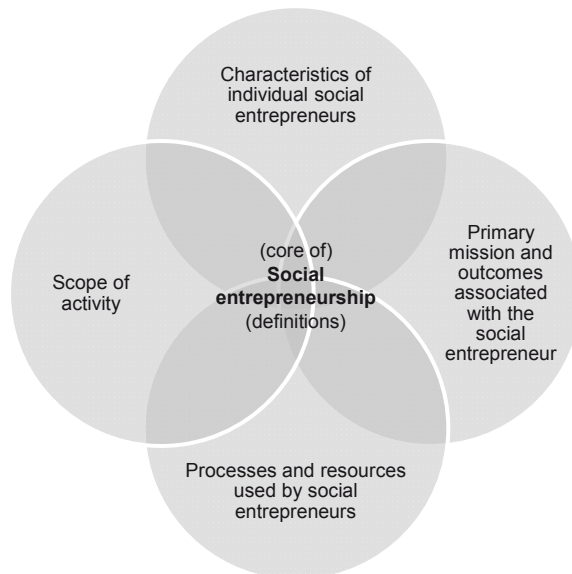
In general, social entrepreneurship can be seen as a form of entrepreneurship. Likewise, social entrepreneurs “are one species in the genus entrepreneur” (Dees, 1998, p. 2). In the view of Dacin, Dacin and Matear (2010) social entrepreneurship is related to or embedded in other forms of entrepreneurship. They distinguish four types of entrepreneurs/entrepreneurship; one of them is a social entrepreneur/social entrepreneurship:

- **conventional entrepreneurship/conventional entrepreneur**, as an agent who enables or enacts a vision based on new ideas in order to create successful innovations. The predominant organizational form is profit oriented whilst the primary motive (aim) is economic.

- **institutional entrepreneurship/institutional entrepreneur**, as an agent who mobilizes resources to influence or change institutional rules in order to support or change an existing institution, or to establish a new one. The predominant organizational form is profit oriented whilst the primary motive (aim) is institutional reform respectively development.
- **cultural entrepreneurship/cultural entrepreneur**, as an individual who identifies an opportunity and acts upon it in order to create social, cultural, or economic value. The predominant organizational form is either non-profit or profit-oriented whilst the primary motive (aim) is cultural diffusion respectively enlightenment.
- **social entrepreneurship/social entrepreneur**, as an actor who applies business principles to solving social problems. The predominant organizational form is non-profit or profit-oriented whilst the primary motive (aim) is social change respectively well-being.

In a detailed literature analysis, Dacin, Dacin and Matear (2010) found that the existing definitions of social entrepreneurship focus on four key factors: the *characteristics of individual social entrepreneurs*, their *scope of activity*, the *processes and resources used by social entrepreneurs*, and the *primary mission and outcomes associated with the social entrepreneur which are creating social value* (see **Figure 1.3**).

Figure 1.3 Four key factors of social entrepreneurship definitions



Own illustration inspired by the textual approach of Dacin, Dacin and Matear (2010)

While in the view of researchers, approaches with the focus on the characteristics of individual social entrepreneurs are not very promising for definition and differentiation purposes (see e.g. Gartner, 1988), recent research concentrates especially on the development of social entrepreneurship concepts which comprise the scope of activity, the processes and (innovative) use of resources as well as the mission and outcomes of social entrepreneurs (social entrepreneurship). The terms and topics which are covered by these concepts range from social entrepreneurial activities versus social activism, not-for-profit versus for-profit, social outcome versus economic outcome to social wealth creation versus economic wealth creation. In contrast to the representatives of such extreme positions there are also researchers who have adopted a more differentiated perspective and have developed more comprehensive and integrated definitions and concepts.

One example of such an economically broader perspective is the definition by Zahra et al. (2009, p. 522) who suggest that “any definition, measurement or evaluation of social entrepreneurship should reflect both social and economic considerations.” Therefore they propose a standard to evaluate those opportunities and organizational processes related to social entrepreneurship which should be reflected by a broader term called “total wealth”, which has tangible outcomes (e.g., products, clients served, or funds generated) and intangible outcomes (e.g., wealth, happiness and general well-being).

Definition of Total Wealth:

- Total Wealth (TW) = Economic Wealth (EW) + Social Wealth (SW)
 - EW = Economic Value (EV)
 - ../. Economic Costs (EC)
 - ../. Opportunity Costs (OC);
 - SW = Social Value (SV)
 - ../. Social Costs (SC)
- As a result the Total Wealth can be calculated as follows:
 - $TW = EV + SV - (EC + OC + SC)$.

The „total wealth“ calculated in this way illustrates the range of possible combinations between the extremes “economic wealth” on the one hand and “social wealth” on the other which may occur in entrepreneurial entities. For a practical application of the total wealth calculation, however, it will be necessary to assess the economic and/or social value as well as the relevant economic costs (e.g. environmental pollution) and/or social costs (e.g. social discord). Since entrepreneurial entities are usually characterized by a scarcity of resources, the calculation must also take opportunity costs into account. Used in this way, the total wealth standard may be useful for scholars and practitioners to evaluate both economic and social opportunities and ventures (Zahra et al., 2009).

Social entrepreneurs can be regarded as driving forces of social and economic change in several contexts. They recognize or discover and exploit new opportunities; they enter a process of innovation, adaptation and learning. They generate social and economic wealth.

Zahra et al. (2009) developed an economic-theory based approach in which they distinguish between three different types of entrepreneurs/entrepreneurship: the *social bricoleur* (Hayek, 1945), the *social constructionist* (Kirzner, 1973) and the *social engineer* (Schumpeter, 1934). The three types are distinguished by the way in which social entrepreneurs recognize opportunities, define mission and goals, acquire and use resources, address social problems and widen their geographical scope (see own **Table 1.1** based on Zahra et al., 2009). Social bricoleurs address social needs and problems at a local level. In contrast to other types of social entrepreneurs they can tap the scarce resources only at a local level and use them to address social issues in their communities. Their actions are ruled by their unique local and tacit knowledge. According to Kirzner's theory, social constructionists have to be alert to opportunities in social contexts. For example, they might take action in cases of market or government failure. Wherever gaps occur in social systems or structures which are not or only insufficiently bridged by existing companies, government organizations or NPOs, social entrepreneurs may discover their entrepreneurial opportunities. In contrast to social bricoleurs, social constructionists aim for a more extensive and scalable solution for social issues. The third type, social engineers, tackles complex national, transnational and global social problems in a systematic way. According to Schumpeter, social engineers do not only bring about incremental social improvements but fundamental, revolutionary social changes. They operate on a large scale and scope and their activities thus have a high social and economic impact.

Table 1.1 Typology of social entrepreneurship/social entrepreneurs

Type	Social Bricoleur	Social Constructionists	Social Engineer
Theory	Hayek	Kirzner	Schumpeter
What they do?	Perceive and act upon opportunities to address a local social needs they are motivated and have the expertise and resources to address.	Build and operate alternative structures to provide goods and services addressing social needs that governments, agencies, and businesses cannot.	Creation of newer, more effective social systems designed to replace existing ones when they are ill-suited to address significant social needs.
Scale, scope and timing	Small scale, local in scope—often episodic in nature.	Small to large scale, local to international in scope, designed to be institutionalized to address an ongoing social need.	Very large scale that is national to international in scope and which seeks to build lasting structures that will challenge existing order.
Why they are necessary?	Knowledge about social needs and the abilities to address them are widely scattered. Many social needs are non-discernable or easily misunderstood from afar, requiring local agents to detect and address them.	Laws, regulation, political acceptability, inefficiencies and/or lack of will prevent existing governmental and business organizations from addressing many important social needs effectively.	Some social needs are not amenable to amelioration within existing social structures. Entrenched incumbents can thwart actions to address social needs that undermine their own interests and source of power.
Social Significance	Collectively, their actions help maintain social harmony in the face of social problems	They mend the social fabric where it is torn, address acute social needs within existing broader social structures, and help maintain social harmony.	They seek to rip apart existing social structures and replace them with new ones. They represent an important force for social change in the face of entrenched incumbents.
Effect on Social Equilibrium	Atomistic actions by local social entrepreneurs move us closer to a theoretical "social equilibrium."	Addressing gaps in the provision of socially significant goods and service creates new "social equilibriums."	Fractures existing social equilibrium and seeks to replace it with a more socially efficient one
Source of Discretion	Being on the spot with the skills to address local problems not on others' "radars." Local scope means they have limited resource requirements and are fairly autonomous. Small scale and local scope allows for quick response times.	They address needs left un-addressed and have limited/no competition. They may even be welcomed and be seen as a "release valve" preventing negative publicity/social problems that may adversely affect existing governmental and business organizations.	Popular support to the extent that existing social structures and incumbents are incapable of addressing important social needs.
Limits to Discretion	Not much aside from local laws and regulations. However, the limited resources and expertise they possess limit their ability to address other needs or expand geographically.	Need to acquire financial and human resources necessary to fulfill mission and institutionalize as a going concern. Funder demands oversight. Professional volunteers and employees are needed to operate organization.	Seen as fundamentally illegitimate by established parties that see them as a threat, which brings scrutiny and attempts to undermine the ability of the social engineers to bring about change. The perceived illegitimacy will inhibit the ability to raise financial and human resources from traditional sources. As a consequence, they may become captive of the parties that supply it with needed resources.

Another strategic approach which is based on economic theories was developed by Santos (2009). Depending on the question whether or not profit is maximized, entrepreneurship is either classified in the category “value creation” or “value appropriation”. The latter means in this context that entrepreneurs will be able to keep a large part of the value they generate. Accordingly, while social entrepreneurship is assumed to create a high social value, it does not offer much potential for value appropriation. In a capitalist economic system commercial entrepreneurs who pursue a profit-oriented strategy would consequently squeeze social entrepreneurs out of the market because the former have more capital at their disposal. Santos also distinguishes several stakeholders (government, business, charity, commercial entrepreneurship, social activism and social entrepreneurship) who represent different roles in the economic system, pursue different institutional goals and differ in their logic of action (see **Table 1.2**). According to this categorization social entrepreneurs are mainly active in less profitable contexts in which positive external effects can be generated (cf. in more detail also the chapter by Berg/Grünhagen in this book). The mitigation of negative external effects is the task of social activists. The dominant logic of action is assumed to be control in managers, innovation in commercial entrepreneurs and empowerment in social entrepreneurs respectively.

While social entrepreneurship is the term most commonly used in the field of study, it relates to the terms of social entrepreneur – the person engaging in social entrepreneurship, and also social enterprise – the venture run by the social entrepreneur. As these terms refer to the same phenomenon, they are all applied in the course of this theoretical excursion. They all relate to the same core at different levels of analysis (Hockerts, 2006; Peredo and McLean, 2006). Therefore, the next step will be to address the construct of the social enterprise at the organizational level.

Table 1.2 Institutional actors in modern capitalist economies

Stakeholders	Distinct role in economic system	Dominant institutional goal	Dominant logic of action
Governments	Centralized mechanism through which the infrastructure of the economic system is created and enforced (and public goods provisioned)	Defend public interest	Regulation
Business	Distributed mechanism through which society's resources and skills are allocated to the most valued activities	Create sustainable advantage	Control
Charity	Distributed mechanism through which economic outcomes are made more equitable despite uneven resource endowments	Support disadvantaged populations	Goodwill
Commercial entrepreneurship	Distributed mechanism through which neglected opportunities for profit are explored	Appropriate value for stakeholders	Innovation
Social activism	Distributed mechanism through which behaviors that bring negative externalities are selected out	Change social system	Political action
Social Entrepreneurship	Distributed mechanism through which neglected positive externalities are internalized in the economic system	Deliver sustainable solution	Empowerment

Own table based on Santos (2009)

1.4.2 Social Enterprise

In analogy to the terms Social Entrepreneurship and Social Entrepreneur, numerous approaches have attempted to classify the term social enterprises (e.g. Dees, Emerson and Economy 2001; John, 2006; Alter, 2007; Neck, Brush and Allen 2009).

For example, Dees, Emerson and Economy (2001) suggest that social enterprises can be differentiated and located on a diametrically opposed scale between *purely philanthropic* (non-profit enterprises, which aim at generating a high social return) and *purely commercial* (for-profit enterprises striving for a maximum financial return). *Hybrid models* exist between these two extremes (see **Figure 1.4**).

Figure 1.4 Social enterprise spectrum

continuum of options			
	purely philanthropic	hybrids	purely commercial
general motives, methods, and goals	<ul style="list-style-type: none"> ▪ appeal to goodwill ▪ mission-driven ▪ social value creation 	<ul style="list-style-type: none"> ▪ mixed motives ▪ balance of mission and market ▪ social and economic value 	<ul style="list-style-type: none"> ▪ appeal to self-interest ▪ market-driven ▪ economic value creation
key stakeholders			
beneficiaries	pay nothing	subsidized rates and/or mix of full payers and those who pay nothing	pay full market rates
capital	donations and grants	below market capital and/or mix of full payers and those who pay nothing	market capital rate
workforce	volunteers	below market wages and/or mix of volunteers and fully paid staff	market rate compensation
suppliers	make in-kind donations	special discounts and/or mix of in-kind and full price	charge market prices

Own illustration based on Dees, Emerson and Economy (2001)

Depending on these three categories (purely philanthropic, hybrid, purely commercial) there are different benefits and returns for stakeholders who commit resources to a social enterprise:

■ **purely philanthropic:**

The general motive of this category of enterprises is that they are mission-driven. Their methods and aims entail the appeal to good-will and the creation of social values. Beneficiaries (customers) do pay nothing for their product or service offers. The capital required to build a philanthropic enterprise is commonly raised by donations and grants. The workforce consists of volunteers. Suppliers make in-kind donations.

■ **hybrid:**

Enterprises in this domain have mixed motives. Their methods and aims embrace a balance of social mission and market orientation in order to create both social and economic value. Beneficiaries (customers) do pay subsidized rates for the goods or services or there is a mix of full payers and those who pay nothing. Financial funds are raised at below market capital rates. Their workforce is paid below market wages and/or there is a mix of volunteers and fully paid staff. Suppliers typically offer special discounts and/or there is a mix of in-kind contributions and full prices.

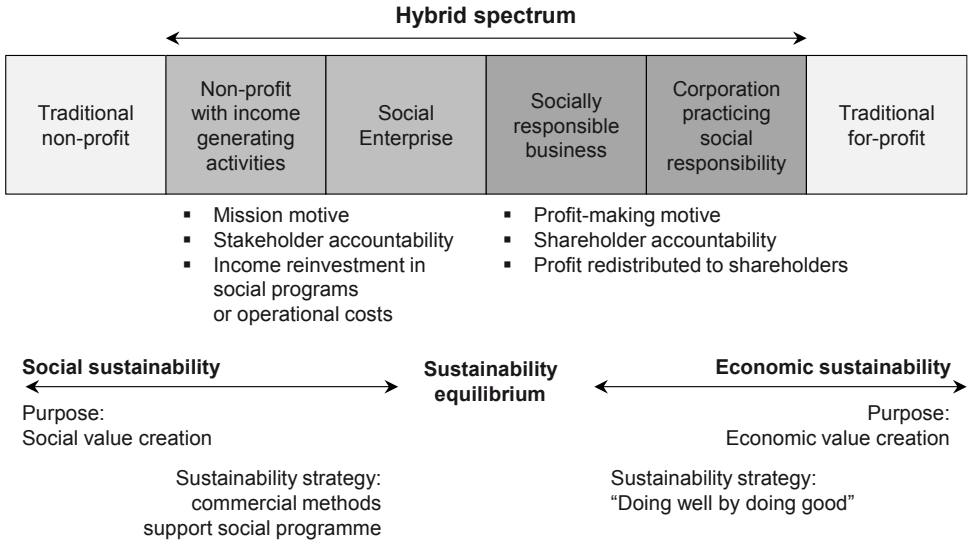
■ **purely commercial:**

These enterprises are completely market-driven. Their methods and aims are the appeal to self-interest, including the creation of economic values. Customers will pay fair market prices. Investors provide capital at market rates. The workforce receives market salaries and suppliers charge full market prices.

In addition, Alter (2007) proposed a differentiation in which the spectrum of social enterprises ranges from (traditional) non-profit enterprises to (traditional) for-profit enterprises including a hybrid category in between (see also the chapter by Mair and Sharma in this book).

The hybrid category can be further differentiated into four sub-categories (non-profit enterprises with income-generating activities, social enterprises, socially responsible businesses and enterprises practicing social responsibility). To the left side of the spectrum among the hybrids are those non-profit enterprises (non-profit enterprises with income-generating activities, social enterprises) whose business activities generate profits to fund their social mission and report back to their stakeholders. To the right side of the hybrid spectrum there are for-profit enterprises (socially responsible businesses and enterprises practicing social responsibility) which create social value but are mainly driven by profits and are accountable to shareholders. **Figure 1.5** shows a combination of two separate illustrations by Alter (2007).

Figure 1.5 Social enterprise typology and dual value creation



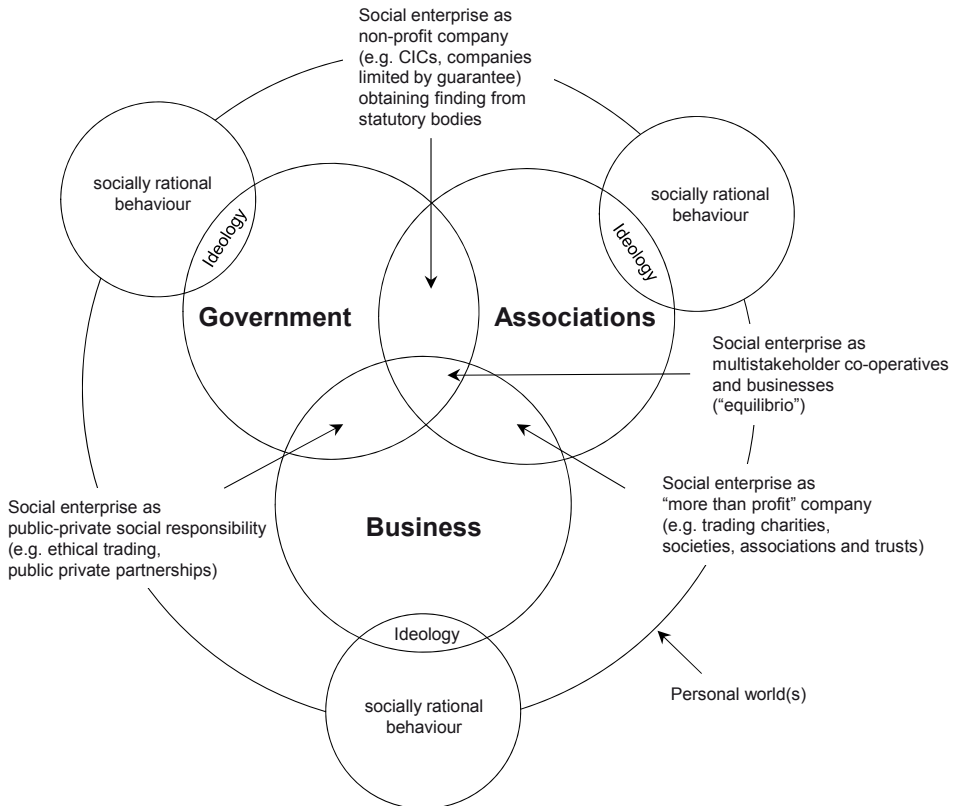
Own illustration based on Alter (2007)

Boyd et al. (2008) note that this model is useful so as to highlight differences and tradeoffs among hybrid organizations. However, for research purposes the category of hybrid organizations cannot be differentiated along a single dimension. Profit and mission motives are relatively independent organizational dimensions. There are hybrid organizations which are strongly driven by both profit and mission, and thus challenge the notion of tradeoffs between mission and profit motives.

Despite the criticism regarding the usefulness for research purposes the model shows the mindset for a social enterprise typology and dual value creation. It generates a better understanding than a mere overview on the topic of the classification of social enterprises.

Another distinction of social enterprises can be made according to the overlapping areas of government, (voluntary) associations and business from an institutional perspective. Ridley-Duff (2008) proposes a model from a stakeholder perspective and governance philosophy/perspective, which balances the disciplines of social responsibility, participative governance and market success (see **Figure 1.6**).

Figure 1.6 Social enterprises and institutional perspectives



 Own modified illustration based on Ridley-Duff (2008)

Ridley-Duff (2008, p. 305) argues that "instead of viewing 'social enterprise' as a subset of the social economy, it can be viewed as a range of business practices that proactively build economic and social capital across the affected stakeholder groups. As such, it regains an ideological character (and basis) that moves the definition away from "profit"-based categorizations towards an understanding of social entrepreneurship as the development of alternative business structures (and practices) that support socially rational objectives."

In particular, the global economic crisis which began in 2008 and left governments with rapidly growing deficits and overstretched budgets may result in increased demands for social enterprises to provide substitute products for (previously) public goods and services (e.g. social casework). For example, social entrepreneurs may be able to claim that there are products and services required which are neither (or no longer) adequately provided by the state nor by pure for-profit businesses in the market. Such negligence by the public and the market may create a demand to be addressed by social enterprises. To address such gaps and the supply of goods and services, social enterprises will need external resources so as to pursue their mission and establish their place in society alongside social, economic, and political considerations. This need to obtain resources and support from stakeholders and society as a whole shows that the establishment of a social enterprise is far from trivial and deserves further attention in terms of managerial challenges and policy-making. The facets and issues involved will be discussed throughout this book.

1.5 Case Study

The magazine *The Big Issue* is a weekly entertainment, news and culture magazine styled like a commercial magazine which is sold on the streets of many British cities by homeless people. It was launched in 1991 by Gordon Roddick and A. John Bird. Roddick and Bird believed that the key to solving the problem of homelessness lay in helping people to help themselves. The aim is to provide work for them so they can earn their own income. So vendors buy an amount of magazines with their own money and sell them at their own risk (profit or loss). This is intended to raise their awareness for their own situation and poverty and their willingness to take over control of their lives again. Another (indirect) aim is to call attention to social grievances.

The magazine is positioned through the quality of the thematic content. It is not just designed as a means to the end of collecting donations. The magazine is sold on the streets exclusively and not in shops or newspaper kiosks. So customers are in direct contact with the vendor when buying a magazine.

The price of the magazine (currently) is 2.50 GBP (3.00 Euros or 4.00 US-Dollars approximately). The street vendors buy the magazine for 1.25 GBP from *The Big Issue Company Ltd.* and sell it at a price of 2.50 GBP to the customers on the streets. Each (certified) new vendor receives short instructions, respectively training, for the sale of the magazine and (five) free copies (in London ten). Copies which are not sold cannot be returned and no money is refunded. Any further turnover of the magazine, for example from advertisements, is realized directly by *The Big Issue Company Ltd.*

The organization behind *The Big Issue* is divided into two parts: On the one hand, there is *The Big Issue Company Ltd.*, which produces the magazine and sells it to a street vendor network. On the other hand, there is *The Big Issue Foundation* (established in 1995), a non-profit foundation which aims at helping the street vendors regain control of their lives. The *Big Issue Foundation* offers counseling services and references in the areas *health* (e.g., access to health care), *finance* (e.g., help gaining ID; opening a bank union account), *housing* (e.g., access to temporary and permanent housing) as well as *personal aspirations* (e.g., access to training and employment opportunities).

The *Big Issue* organization is supported by the government only to a minimum extent. The whole organization depends almost exclusively on selling the issue, advertisements, (voluntary) donations and volunteering. Without the generosity of the individual or company buyers and donors as well as charitable organizations the magazine and the counseling services could not be provided.

Currently the organization supports 2,800 homeless and vulnerably housed people all over Great Britain. Every week 125,000 copies of *The Big Issue* are circulated and read by 522,000 people (NRS Jan-Dec 2010). The *Big Issue* vendors earned more than £5million to release them from dependence.

The Big Issue states that the magazine “has become synonymous with challenging, independent journalism, and renowned for securing exclusive interviews with the most elusive of superstars. The Big Issue is a media phenomenon and one of the world’s leading social enterprises with a business model which has inspired hundreds of imitations; from Johannesburg to Tokyo, Sydney to Addis Ababa, Perth to Sao Paolo, Seoul to Nairobi, The Big Issue is leading a global self-help revolution.” (The Big Issue)

The Development of this case study, data and information based on/retrieved from www.bigissue.com and www.bigissue.org.uk

Questions:

1. Would you call Gordon Roddick and A. John Bird social entrepreneurs?
2. What problems does The Big Issue address?
Is this a (good) example of social entrepreneurship?
3. What kind of value is created?
4. What do you think: Is The Big Issue a social enterprise?
5. How do you (critically) judge the concept(s) and organizational structure(s) of The Big Issue?

Further Questions (related to the other chapters of the textbook)

Let’s assume that the managing director of The Big Issue Company Ltd. is not happy with the present business model and the company’s development. He hires you to (further) develop the business model in order to create a company that can support itself almost alone. In this context, the following tasks and questions will have to be dealt with (You can make realistic assumptions to support your answers.):

6. Outline the current business model of The Big Issue in a short survey (use a model you know as a basis for your argumentation).
7. For the further development of the business model you are expected to make suggestions for a growth strategy. Present a short sketch for a growth-oriented (re-) positioning of The Big Issue.

Use your social entrepreneurship knowledge to find holistic but well-structured arguments on the basis of the (current) business model.

8. What would you (have to) change in order to reduce the dependence on donations?
Sometimes this may involve questions with regard to products and innovations.
9. In general: How do you want to earn your money? What is the value proposition?
Who are your customers? How can you address them?

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