

The Promise and Limits of Social Entrepreneurship

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Through creative innovation, opportunism and other entrepreneurial tools, “social entrepreneurship” ventures advance their social objectives. A prevailing concept of “social entrepreneurship”—for-profit ventures that interweave money-generating and social goals—is changing the traditional corporate landscape.¹ These “hybrid” or “fourth sector” ventures do not clearly fit within the three traditional sectors (government, business or non-profit entities),² yet are gaining in prominence. The rising phenomenon of this sector raises a series of questions for entrepreneurs and policymakers that were addressed on May 1st, 2008 by the Silicon Flatirons Center Roundtable on Entrepreneurship, Innovation, and Public Policy entitled *The Promise and Limits of Social Entrepreneurship* (the “Roundtable”).

The Roundtable convened a group of top flight academics, entrepreneurs, and professionals who work with entrepreneurs (e.g., venture capitalists and lawyers, among others). Moderator Brad Bernthal, Associate Clinical Professor of Law at the University of Colorado Law School, framed the defining question for the discussion: *how much can we look to market forces and entrepreneurship to help resolve social problems and achieve public goals?* In particular, the Roundtable inquired whether achieving social objectives is realistic in light of the commitment of for-profit business to maximize wealth for its shareholders and the often short term focus of investors on profits. The

¹ In addition to for-profit entities seeking social objectives, “social entrepreneurship” is often viewed as not-for-profit entities which employ entrepreneurial tools. There are important similarities between the two concepts, but we only address the issues related to for-profit ventures in this report. In so doing, we appreciate, as reflected by one recent discussion of the topic, that the concepts are often discussed in tandem. See David E. Pozen, *We Are All Entrepreneurs Now*, 43 Wake Forest L. Rev. 283, 294 (Spring 2008). In his article, Pozen identifies five variants to the social entrepreneur definition: (1) “anyone who starts a nonprofit organization,” (2) “public-minded activities of for-profit corporations,” commonly known as “corporate social responsibility,” (3) “efforts of non-profit organizations to start profit-making ventures or otherwise adopt strategies from the for-profit world,” (4) “essentially the same phenomenon as capitalist entrepreneurship, except with a social, as opposed to a profit-based, motive”, and (5) adding to definition four the requirement that the social activity must be “groundbreaking in scale and effect.” Pozen, *We are All Entrepreneurs Now*, at 294-7. See also J. Gregory Dees, *The Meaning of ‘Social Entrepreneurship*, (May 30, 2001), available at http://www.fuqua.duke.edu/centers/case/documents/dees_SE.pdf. See also *infra* note 7. Moreover, several Roundtable participants provided thought-provoking and insightful comments on corporate social responsibility. Indeed, the practice of corporate social responsibility augments the for-profit sector’s ability to enhance social change. Nevertheless, although corporate social responsibility is an important part of the equation of the private sector addressing social issues, in order to better confine the discussion to entrepreneurship, it is not included in the current Roundtable report.

² Stephanie Strom, *Make Money, Save the World (Business and Nonprofits are Spawning Corporate Hybrids)*, N.Y. Times, May 6, 2007, at 3-1, 3-8 (discussing hybrid and fourth sector ventures and noting they are “driven by both social purpose and financial promise that fall somewhere between traditional companies and charities”). The sector has also been recognized as including hybrid financiers “important to the growing movement.” *Id.* at 8. These financiers are “willing to invest patient capital that supports businesses that produce both profit and social benefits.” *Id.*

participants were asked to look at how for-profit entities could address social issues and the role that government should play in encouraging or enabling social entrepreneurs in the fourth sector to achieve important policy goals.

Several participants recognized that entrepreneurs are well positioned to exploit opportunities created by certain social issues. The notion, however, that social entrepreneurs in the for-profit sector, acting *alone*, are able to solve serious social problems - - such as environmental degradation or poverty - - met with some skepticism by attendees. Many opined that the investors' ultimate concern with profits and the ventures' rate of return conspire to limit social for-profit companies' ability to achieve meaningful solutions without government intervention or collaboration with other entities. Others recognized that the potential impact that business may have should not be underestimated. For example, a business may be able to change behavior, bring resources to populations that would normally be without, and raise awareness of certain issues. In general, as the discussion highlighted, government can play an important role by taking a number of steps to better enable this phenomenon to succeed.

Following the lines of discussion in the Roundtable, this paper proceeds in three parts. Part I discusses the various definitions of social entrepreneurship and the parameters of the discussion at the Roundtable. Part II addresses the phenomenon of for-profit social enterprises, sometimes referred in the media as "profits with purpose."³ It summarizes participants' comments about opportunities that current social issues present, the characteristics of entrepreneurs that may allow for some measure of success in addressing certain issues, and the limitations of the for-profit sector due to legal constraints and constraints imposed by investors. Finally, Part III considers how government can support this emerging phenomenon.

I. Conceptions of Social Entrepreneurship

Recognizing that social entrepreneurship can be defined in numerous ways, this section isolates the main characteristics of an entrepreneur – value creation, creative destructive innovation and opportunism – which guided the working definition of a social entrepreneur for purposes of the Roundtable. In setting the parameters of social entrepreneurship, the report also follows the discussion of Roundtable participants of whether and why there is a rising trend in fourth sector ventures.

A. Definition of Social Entrepreneurism: Value Creation, Creative Destructive Innovation and Opportunism

As recognized by several roundtable participants, the definition of social entrepreneurship varies greatly within different circles. For example, Brad Feld, Managing Director of the venture capital firm Foundry Group, explained that the concept of social entrepreneurship differs on a macro versus micro level. He pointed out that the concept varies widely from Boulder County as to other parts in the world.

³ Alex Goldmark, *10 Profits with Purpose*, Fast Co., Dec. 2007 – Jan. 2008, at 121.

Indeed, there are several works of scholarship that address the definition of social entrepreneurship. For example, Roger Martin and Sally Osberg define a social entrepreneur as

someone who targets an unfortunate but stable equilibrium that causes the neglect, marginalization, or suffering of a segment of humanity; who brings to bear on this situation his or her inspiration, direct action, creativity, courage, and fortitude; and who aims for and ultimately affects the establishment of a new stable equilibrium that secures permanent benefit for the targeted group and society at large.⁴

Meanwhile, the Skoll Foundation defines a social entrepreneur on its website as “society’s change agent: pioneer of innovations that benefit humanity.”⁵

Bernthal recognized that social entrepreneurship is defined differently (and, often, broadly) in various circles, but solely for the purpose of limiting the discussion in this Roundtable, he set out the following defining characteristics: (1) for-profit entities; (2) entities seeking the “double bottom line,” where the social goal is bound up as the core purpose of the business; (3) companies seeking to scale (*viz.*, the entity has ambitions extending well beyond current resources and will likely seek outside financing in order to achieve significant growth)⁶; and (4) companies seeking to do something disruptive and innovative and are opportunistic about change. Neither Bernthal nor this roundtable paper sought to take a position on the outer boundaries for a definition on social entrepreneurship. As recognized by several participants, the Roundtable’s definition does not encompass all there is to say about social entrepreneurship.⁷

⁴ Roger L. Martin & Sally Osberg, *Social Entrepreneurship: The Case for Definition*, Stan. Soc. Innovation Rev., Spring 2007, at 39.

⁵ <http://www.skollfoundation.org/aboutsocialentrepreneurship/index.asp> (last visited Dec. 30, 2008)

⁶ According to one contemporary entrepreneurial theorist, Professor Howard Stevenson from Harvard Business School, an entrepreneur will pursue opportunities “without regard to resources currently controlled.” Dees, *supra* note 1, at 2 (discussing proposition by Professor Stevenson). The view is that “entrepreneurs do not allow their own initial resource endowments to limit their options.” *Id.* In this respect, focusing the Roundtable discussion to ventures seeking/obtaining additional financing is compatible with Stevenson’s characterization.

⁷ For example, Julie Van Domelen noted that entrepreneurship to solve certain social issues occur in the nonprofit sector as well. She spoke about a research program she was involved with that created a local focus group to review initiatives to improve communities. The program reviewed social entrepreneurs in the private, nonprofit and religious sectors; looked at the marshalling of resources and the advancement of innovation; and evaluated why certain activities, businesses and programs are more successful in one community versus others. Paul Ohm, Associate Professor of Law at the University of Colorado, also expressed his frustration with the proposed social entrepreneurship definition. As Ohm explained, if the market provides a reward, it is entrepreneurship, not social entrepreneurship. Brad Feld also gave an example of a social entrepreneur in the nonprofit field that falls squarely within category 4 of the Pozen definition. *See supra* note 1. He spoke about John Wood, the former senior executive from Microsoft, who founded Room to Read. Recognized by Fast Company as one of the 45 social entrepreneurs who are changing the world, John Wood left his position as the director of Microsoft’s business development in China to found Room to Read where he applied many corporate business practices to the successful nonprofit. <http://www.fastcompany.com/social/2008/profiles/room-to-read.html> (last visited December 30,

In thinking about the possibilities entrepreneurship can offer when applied to social issues, Bernthal isolated three defining characteristics for entrepreneurship: *value creation*, *creative destructive innovation*, and *opportunism*. Bernthal cited the work of J. Gregory Dees, Faculty Director of the Center for the Advancement of Social Entrepreneurship at Duke University's Fuqua School of Business, in his overview of social entrepreneurship. Dees' work entitled "the Meaning of 'Social Entrepreneurship,'" explained that the term entrepreneur originated from the French as early as the 17th or 18th century and means "undertaker" (of an activity or project).⁸

The first defining dimension of an entrepreneur – value creator – is attributed to the French philosopher Jean Baptist Say. He ascribed the term entrepreneur to someone who finds new and better methods for doing something and creating value. Say is attributed to having observed that "[t]he Entrepreneur shifts economic resources out of an area of lower and into an area of higher productivity and greater yield."⁹

The second dimension – creative destruction – is associated with the twentieth century economist, Joseph Schumpeter. Dees explains that Schumpeter defines "entrepreneurs as the innovators who drive the 'creative-destructive' process of capitalism."¹⁰ Further, according to Schumpeter, "the function of entrepreneurs is to reform or revolutionize the pattern of production." and "entrepreneurs are the change agents in the economy."¹¹ Bernthal summarized this view at the Roundtable by explaining that entrepreneurs rely on "truly disruptive technologies that do not just take market share away from competitors, they create their own markets." Along these lines, Brad Feld suggested that *social entrepreneurship* and *corporate social responsibility* ("CSR") should be viewed as separate constructs. Corporations act socially responsible when their managers consider social impact on outside stakeholders and the effect on the environment when making business decisions. According to Feld, although big companies like to be thought of as entrepreneurial, the incentives to create new markets which usurp existing ones are more powerful in entrepreneurial ventures than in CSR-related efforts.

The third defining dimension of an entrepreneur is an opportunistic nature. Peter Drucker, a contemporary management and business writer, states, "the entrepreneur always searches for change, responds to it, and exploits it as an opportunity."¹² Following Drucker's view, entrepreneurs are not required to cause change, but instead, they exploit "the opportunities that change (in technology, consumer preferences, social norms, etc.) creates."¹³ Thus, as Bernthal explained at the Roundtable, entrepreneurs are

2008). Room to Read is a 501(c)(3) nonprofit organization that seeks to erase poverty through education. <http://www.roomtoread.org/about/index.html> (last visited June 9, 2008).

⁸ Dees, *supra* note 1, at 1.

⁹ *Id.*

¹⁰ *Id.*

¹¹ *Id.*

¹² *Id.* at 2 (italics removed).

¹³ *Id.*

highly responsive to the trends and needs of certain segments of the population and, in turn, are opportunistic in exploiting them.

In addition to the three characteristics above, Dees adds a public-oriented mission as a defining element for the *social* entrepreneur. “Mission-related impact becomes the central criterion, not wealth creation.”¹⁴ Dees recognizes that the model may include profit-making, but profit is a “means to a social end, not the end in itself.”¹⁵ As Bernthal explained, there must be social returns for a social enterprise: the business cannot succeed where the social goal is not met. Furthermore, at least in the near term, social entrepreneurship may not be solely wealth maximizing. As suggested by Phil Weiser, Executive Director of the Silicon Flatirons Center and Professor of Law and Associate Dean for Research at the University of Colorado Law School, true social entrepreneurs should be viewed as ones doing good works such that (1) investors are willing to accept a lower return; or (2) consumers are willing to pay more for the socially conscious product or service.

B. Social Entrepreneurship in Context

One commentator recently stated that “[s]ocial entrepreneurship is at its tipping point; it is at ‘that magic moment when an idea, trend, or social behavior crosses a threshold, tips, and spreads like wildfire.’”¹⁶ Bernthal asked the Roundtable participants to consider whether this is so for social entrepreneurship and what would explain the phenomenon.

One explanation of a social entrepreneurship phenomenon is that it flows from the tech boom of the 1990s.¹⁷ Scott Peppet, Associate Professor of Law at the University of Colorado Law School, explained that in recent years, there was a large amount of wealth generated by younger people, and now they are trying to decide what to do with it. He explained that there are different extremes: one end is philanthropic and the other end is where people just want to make money without any considerations. Most people, according to Peppet, fall in between. He continued by recognizing that there is a lot of buzz surrounding entrepreneurs who now have a lot of capital. The question, continued Peppet, is how these entrepreneurs and investors should proceed: by investing in socially good companies, or with a mixed portfolio. According to Peppet, the choice comes down to self branding and whether money will be made, and how entrepreneurs want to be perceived. Many are choosing social goals as the defining image.

As entrepreneurs with new wealth are looking for places to invest or determine where their finances will have the most weight in advancing a social issue, many may

¹⁴ *Id.*

¹⁵ *Id.* at 4.

¹⁶ Janet E. Kerr, *Sustainability Meets Profitability: The Convenient Truth Of How The Business Judgment Rule Protects A Board's Decision To Engage In Social Entrepreneurship*, 29 *Cardozo L. Rev.* 623, 629 (Nov. 2007) (quoting Malcolm Gladwell, *The Tipping Point: How Little Things Can Make a Big Difference* (2002) at back cover).

¹⁷ *Id.* at 624.

arguably be more apt to consider entities in the for-profit or “hybrid” sector, where they had achieved success.¹⁸ The Roundtable, as discussed below, next examined whether such a sector presents plausible mechanisms for bringing about social change.

II. “Profits with a Purpose”: Opportunism and the Fourth Sector’s Potential

Certain social problems – e.g., poverty, disease, global warming – present potential business opportunities for social entrepreneurs. For example, providing access to credit and other banking services to the poor, one solution advanced to help break the cycle of poverty, could be perceived as a potential business opportunity. In addition, individuals living in poverty have fundamental needs that previously unprovided goods and services could help address. Environmental degradation presents its own “opportunities” for an entrepreneur. For example, the environmental crisis creates a need to lessen human energy consumption, as well as a need to develop and advance alternative sources of clean and renewable energy. The Roundtable examined whether for-profit entities are able to exploit these “opportunities” in a manner that would effectuate marked social change, or whether traditional concerns associated with raising capital (e.g., providing competitive rates of return) and other considerations would prove too much of a hindrance.

A. Addressing Environmental Issues

The potential for the social entrepreneurship movement to drive social change in the context of global warming served as an inspiration behind the Roundtable. Maxine Burkett, Associate Professor of Law at the University of Colorado Law School, explained that after reading a provocative article by Ted Nordhaus and Michael Shellenberger,¹⁹ she was interested in examining the role that a lawyer and the private sector could play in acting as a catalyst in the movement to adequately address climate change. Burkett emphasized the incredible challenge facing the country to meet the mandate to quickly address climate as well as environmental justice concerns.

In *A New Manifesto for a New Environmentalism*, Nordhaus and Shellenberger argue that government investment in the clean energy market is the most important driver for addressing global warming.²⁰ The authors argue that pollution regulation alone will not solve global warming.²¹ They take the controversial position that although high

¹⁸ Take for example Pierre Omidyar, one of the founders of eBay. See Kerr, *Sustainability Meets Profitability*, at 624. Omidyar’s organization, the Omidyar Network, has a 501(c)(3) arm that gives grants to nonprofits, and an LLC arm, that invests in for-profit social enterprises. As explained on the organization’s website: “Inspired by the social impact of eBay, we believe that business can create extraordinary opportunity and value, and that market-based solutions can generate significant social returns. Sustainability, innovation, and scale are hallmarks of the private sector, and they are critical to addressing the global challenges we face today.” <http://www.omidyar.net/about.php> (last visited August 23, 2008).

¹⁹ Ted Nordhaus and Michael Shellenberger, *A Manifesto for a New Environmentalism*, The New Republic, September 24, 2007, available at http://www.organicconsumers.org/articles/article_7279.cfm.

²⁰ *Id.*

²¹ *Id.*

energy consumption is the main cause of global warming, they do not advocate “dramatically” limiting energy use because “it is also the primary cause of rising prosperity, longer life spans, better medical treatment, and greater personal and political freedom.”²² Instead, according to the authors, a “new paradigm centered on technological innovation and economic opportunity” is needed for the goal of reducing the price of clean energy below “dirty energy” and that, private firms will not succeed on their own to initiate the necessary technological revolution.²³ According to Nordhaus and Shellenberger, government needs to provide significant investment to insure the success of the technological revolution necessary to address climate threats. The authors explain that “government has always been at the center of technological innovation, and most of America’s largest industries have benefited from strategic government investments in their development.”

Indeed, without government help, financing challenges are potentially problematic for a technological revolution. For example, James Linfield, partner at Cooley Godward Kronish LLP, highlighted the difficulties that the clean energy sector is having raising capital. Linfield explained that companies cannot raise capital unless they offer investors a competitive rate of return. He noted that capitalists may feel good about social return, but ultimately, a pecuniary rate of return is of paramount importance for most investors.

Moreover, technologies that may offer solutions to ease the crisis are not being commercialized because of the “price premium,” which reflects the unknown costs associated with being on the leading (and some might say bleeding) edge of innovation.²⁴ For example, the New York Times reported about the existence in the laboratory of “very promising systems. . . for capturing carbon dioxide before pumping it under ground” from coal burning utilities, yet, such systems have not been put into mainstream use.²⁵ As reported in the article, the executive director of the nonprofit Clean Air Task Force stated, “No one wants to go into the new world. . . . We have very few takers because of the price premium.”²⁶ The article explained that the price premium includes the high costs of going first, where everyone in the industry can learn from the mistakes of the first player, as well as the unknown costs of the technology, “which makes everyone in the industry especially wary.”²⁷

²² *Id.*

²³ *Id.*

²⁴ *Id.*

²⁵ Matthew L. Wald, *Running in Circles Over Carbon*, N.Y. Times, June 8, 2008, available at <http://www.nytimes.com/2008/06/08/weekinreview/08wald.html>. This report is not putting forth an opinion on whether an underground carbon capture system is an appropriate method for addressing carbon emissions, and is merely noting the existence of technology and the barrier to its development.

²⁶ *Id.*

²⁷ As an example of the barrier presented by the unknown price premium, Wald’s article discussed the decision of the Virginia State Corporation Commission, the entity regulating utilities, to deny a regulated power company’s request to build a plant with the capability of capturing 90% of its carbon output. *Id.* In denying the company’s application to build the plant, the commission explained that the costs for building such a plant were uncertain. *Id.* Moreover, as the article explained, “in a Catch-22 that plagues the whole effort, the commission said A.E.P. [the power company] should not build a commercial-scale plant because no one had demonstrated the technology on a commercial scale.” *Id.*

Although financing issues may impede a private-sector-led technological revolution that addresses the energy crisis, the Roundtable participants discussed instances where for-profit ventures have successfully played a role in part of the solution to the crisis: alleviating energy demand. Two participants in the Roundtable, for example, are leaders of for-profit enterprises that have turned the environmental crisis into an opportunity and have created businesses that serve a social good.

Tendril Networks, Inc., founded by Adrian Tuck, provides an example of a fourth sector company where the social goal of preserving the environment is aligned with the purpose of the company. The company recently launched “the Tendril Residential Energy Ecosystem (TREE)” which, according to the company website is “a consumer-centric residential energy management system (REMS) designed to save consumers money, provide access to information on their energy consumption and allow users to benchmark against their peers.”²⁸ In preparing to launch his company, Tuck explained that he spent hours behind a one way glass studying various demographics. His studies showed that the less affluent you are, the more you are economically driven, and that the more affluent you are, the less you are financially concerned. He also concluded that competition was a big driver for his product. By presenting information to people about their consumption, consumers are able to draw comparisons with each other. The product, which is placed into consumers’ homes and gives information about the consumer’s energy consumption, benefits both consumers and utility companies.²⁹ Consumers are able to have better information to control their energy usage and utility companies can communicate messages to avoid brown outs and have more information about “customer consumption patterns.”³⁰ In essence, Tendril Networks found an opportunity from the energy crisis by creating a product that appeals to a segment of the population that wants to play a role in energy conservation.

Sunflower Corporation, like Tendril Networks, Inc. discussed above, is another exemplary example of a fourth sector hybrid company where profits and social purpose are aligned. The company develops day lighting systems which provide “controlled, glare-free natural lighting” in buildings.”³¹ The concept behind the company is socially and economically driven, and as Sunflower’s CEO, Peter Novak, explained, Sunflower was founded on the following principle: “doing well by doing good.” He expressed the view that a certain segment of the market was demanding this type of a business while another segment was purely profit oriented. To make the company successful, Novak took into consideration both the profit and the “doing good” aspects. Moreover, Novak mentioned his own personal enjoyment of working with Sunflower and “starting from scratch” to “create products that also impact wellness, energy and sustainability in a broader sense.”³²

²⁸ <http://www.tendrilinc.com/news/faqs/> (last visited August 12, 2008).

²⁹ *Id.*

³⁰ *Id.*

³¹ <http://www.sunflowercorp.biz/about.htm> (last visited June 10, 2008).

³² Sunflower Corporation in effect is testing a thesis of another Roundtable participant, Vic Fleischer, Associate Professor of Law at the University of Illinois. Fleischer explained that he was considering the

The entrepreneurs behind Tendril Networks and the Sunflower Corporation have seized on economic opportunities created by the energy crisis, and have built successful models seeking to be part of the solution. Their companies are serving as catalysts in changing behavior of energy consumption. Nevertheless, as discussed above, other opportunities presented by the crisis that require greater technological innovation, may present challenges too great to be solved by the private sector alone.

B. Addressing Poverty

The solutions to other deep rooted social issues, such as poverty, arguably do not require the same technological revolution explored above for the environmental crisis. Thus, social entrepreneurs often do not face as high a barrier to entry when addressing poverty concerns. Moreover, certain solutions, i.e. micro lending, have the potential to provide a strong rate of return to investors. In addition to micro lending, entrepreneurs are starting to recognize the opportunities behind providing services and goods to previously overlooked impoverished populations, as reflected by some of the comments at the Roundtable.

It is next to impossible to discuss social entrepreneurship and poverty in the same context without referring to microfinance (and the 2006 noble peace prize recipients Muhammad Yunus and Grameen Bank).³³ Microfinance includes microcredit (small economic loans to impoverished individuals without previous access to credit) and other financial services provided to the poor, such as access to savings accounts and insurance.³⁴ As the Norwegian Nobel Committee recognized when granting its 2006 Nobel peace prize to Dr. Yunus and his bank, the Grameen Bank, microcredit is one means for helping large segments of the population break the cycle of poverty.³⁵ In 1983, Dr. Yunus created the Grameen bank to give micro loans to individuals who were previously without access to credit.³⁶ By the time the 2006 Nobel Prize for Peace was awarded, the bank had given loans to approximately 7 million poor individuals (97%

following questions: how preferences are formed, how demand is formed, and the role of the entrepreneur in creating demand. According to Fleischer, consumers do not know what is wanted until the entrepreneur creates the demand. In this instance, the entrepreneur is creating the demand for “day lighting.” As Novak explained, ninety percent of the (American) market was unaware of day lighting and its benefits. According to Novak, it is mandated by some communities in Europe. In the United States, there has been a slight shift towards day lighting because of the benefits. For example, day lighting is being considered for schools since students work better in such surroundings. Prisons are also being considered for day lighting. The extent of the company’s success, it seems, will rely in part on how well it can create demand by informing the public about day lighting and its benefits and providing a suitable product.

³³ http://nobelprize.org/nobel_prizes/peace/laureates/2006/ (last visited August 23, 2008).

³⁴ See *Understanding Microfinance and Microcredit*, the Internat’l Year of Microcredit 2005 (pamphlet) available at http://www.yearofmicrocredit.org/docs/MicrocreditBrochure_eng.pdf (last visited December 8, 2008).

³⁵ http://nobelprize.org/nobel_prizes/peace/laureates/2006/press.html (last visited December 8, 2008).

³⁶ Dr. Muhammad Yunus, Nobel Lecture in Oslo (Dec. 10, 2006), available at http://nobelprize.org/nobel_prizes/peace/laureates/2006/yunus-lecture-en.html (last visited December 8, 2008).

women).³⁷ Loans by the bank included “collateral-free income generating, housing, student and micro-enterprise loans.”³⁸ As Dr. Yunus explained in his acceptance speech for the Nobel Peace Prize, the repayment rate for the Grameen Bank loans was 99%, and the bank was self-reliant as it had not used donor funds since 1995.³⁹ According to Dr. Yunus, the Grameen bank model may now be found in almost every country.⁴⁰

Indeed, several success stories have emerged in the field. In a discussion about applying entrepreneurial skills to social ventures, one of the participants raised an example that also touches upon the promise of microfinance enterprises to address poverty issues as well as the opportunity for lenders to make a profit. Julie Van Domelen provided the case study of Bolivia where she lived in the late 1980’s as an example. During that time, the country faced an economic crisis. According to Van Domelen, Fernando Romero, a private businessman, was brought into the government to use entrepreneurial principles to address social issues. Romero was charged with creating and running a social investment fund. After Romero left government, he set up the most successful microfinance bank in Latin America, BancoSol. His experience in government and business led him to realize the market potential of such an institution. He put in capital and transformed a small NGO revolving loan scheme into BancoSol, a full service commercial microfinance bank.

In addition to the micro-credit sphere, hybrid for-profit entities have capitalized on other opportunities to impact poverty and at the same time, turn a profit or achieve financial sustainability. One example of a program that is trying to address poverty with a for-profit business model, Reuters Market Light, was developed by an entrepreneur who pitched his plan to the internal venture fund Reuters Innovation and is currently being tested in Maharashtra, India.⁴¹ The service provides farmers with direct information (through a text message on a mobile phone) about the going price for a commodity so that farmers can make informed choices about selling their crops.⁴² As explained by an individual at the Grameen Foundation, “the Reuters program ‘is a great example of how information can be used to improve economic inefficiencies and help alleviate poverty in general.’”⁴³ The company charges for services provided, which are sold to families with an average monthly income of about \$50 month.⁴⁴ The business has

³⁷ *Id.*

³⁸ *Id.*

³⁹ *Id.*

⁴⁰ In his acceptance speech, Dr. Yunus also touched upon his vision of a “social business,” which he defined as a business with the goal of “making a difference in the world.” *Id.* Investors in a social business, according to Dr. Yunus, would get their original investment in the business back, but would not receive any dividends. *Id.* Instead, the business receives the profits, which would be used to further advance the social goals of the business. *Id.* Indeed, the model proposed by Dr. Yunus avoids some of the inherent conflicts discussed in this paper where the initial social goal could be eclipsed by the desire to produce a high rate of return for investors.

⁴¹ Tim Arango, *Market Data, Far From the Market*, N. Y. Times, June 29, 2008, at Bu4 available at http://www.nytimes.com/2008/06/29/business/29essay.html?_r=1&oref=slogin.

⁴² *Id.*

⁴³ *Id.*

⁴⁴ *Id.*

a three-year funding commitment from Reuters.⁴⁵ After that time, the head of Reuters Innovation explained, “it will be either a very healthy business, or it won’t exist.”⁴⁶ Yet, is three years enough for a social enterprise? As Bernthal stated at the beginning of the Roundtable, there is a conception that a longer time horizon is needed to measure returns for socially focused entities. The question remains whether investors will be willing to wait. As shown by the three year funding window by Reuters, the willingness to wait may not be likely.

Other concerns arose throughout the discussion. The limited ability of individuals living in poverty to pay for a social entrepreneur’s services or goods may lessen the prospects for sustainable profit margins. One of the Roundtable participants pointed to a potential opportunity for a social entrepreneur yet questioned whether the solution was affordable for the target community. Lakshman Guruswamy, Professor of International Environmental Law and Director of the Center for Energy and Environmental Security at the University of Colorado Law School, spoke about the need for, and distribution of, cook stoves to populations that currently rely on fire to prepare food. Guruswamy explained that although two thirds of the world relies on the use of fossil fuel, one third still use fire for certain fundamental necessities. Fires for cooking food are one of the largest contributors to pollution. In addition, the pollution created by these fires inside dwellings has caused the loss of one and a half million lives. Cook stoves were developed to solve this problem, but, according to Guruswamy, they cannot be given away. Guruswamy questioned whether social entrepreneurship and markets could solve this problem, especially considering that most of the people involved were earning less than one dollar a day.

Another Roundtable participant took a different approach regarding the market potential for individuals living at global poverty levels. John Bennett, the Director of ATLAS at the University of Colorado, explained that the overwhelmingly large population that lives on less than two dollars a day⁴⁷ could represent a significant market. (The same market targeted by the Reuters program discussed above.) Bennett further explained his view regarding the opportunity for an entrepreneur to take part in addressing poverty issues. According to Bennett, an entrepreneur will likely take risks and a longer view toward social goals and objectives. He explained that in this regard, an entrepreneur may be well suited to address social equity through a product that services all demographics equally and addresses social advancement issues.

C. Other Opportunities

As with addressing poverty concerns, there are other instances where a for-profit model is deployed to address social issues. For example, the case of In2Books suggests that the hybrid for-profit model presents certain advantages that may not exist in the other sectors. One perceived advantage is the easier ability to attract financing, at both the

⁴⁵ *Id.*

⁴⁶ *Id.*

⁴⁷ According to the UN Millennium project, there were 2.7 billion people living under \$2 per day at the end of 2006. http://www.unmillenniumproject.org/resources/fastfacts_e.htm

nascent and later stages in the enterprise. By attracting financing at a later stage, the entity has the ability to grow to scale, which is not usually the case in a non-profit organization. In the case of In2Books, the founders of a non-profit (In2Books) acquired a for-profit company (EPals) in order “to expand on the original mission and support the foundation” as the founders believed their enterprise “need[ed] to be a large business to have a really significant social impact.”⁴⁸ A for-profit model may be better positioned to have a wider impact than a nonprofit model as it “can more easily attract financing for growth.”⁴⁹ But, as the New York Times points out, “outside investors raise the risk that original social ideals will be lost in a single-minded pursuit of profit.”⁵⁰ The EPals founders were able to avoid that risk as they limited their funding solely to angel investors who were “longtime business friends” with the same social ideal and who were not “interested in making another financial score.”⁵¹

The risks presented by outside investors were reflected in one of the Roundtable participant’s remarks. Adrian Tuck, Chief Executive Officer of Tendril Networks, Inc, explained that in instances where the entrepreneur’s company is financed by venture capitalists or other investors, there may be additional restraints. As he explained, not all venture capitalists are “enlightened,” and that in some instances, an entrepreneur will be required to explain to investors the “value” behind steps taken to advance a social goal. As Tuck explained, the more successful you are, the more creative you can become. If a company becomes more successful, the entrepreneur can push the boundaries a little with investors. Tuck added that the mantra of his company is “have fun, make money, save the planet [which is tied to the goal of his company],” but depending on who he is talking to, the order of the mantra changes.

Thus, the use of the for-profit entity to address a social goal is not without its limitations. As discussed above, the social goal could be at risk compared to the desire to obtain a profit. Nevertheless, although certain trade-offs exist, as discussed above, social hybrid ventures’ ability to attract financing as well as other attributes, allow these ventures to play a viable role in social solutions. Thus, the Roundtable participants considered at different points in the conversation how best to support or encourage the social entrepreneurship phenomenon. Most participants agreed that the entities could not have an impact without the involvement of other sectors, mainly the government.

III. The Role of Government to Facilitate Social Entrepreneurship

Participants pointed to the problems and inefficacies of traditional institutions – business, government, and non-profits – which have tried to address social problems. These struggles underscore the potential value added by the alternative “fourth sector” approach. Yet many questioned whether a solution could be crafted solely by the for-profit/hybrid sector. In general, many expressed skepticism that the for-profit/hybrid

⁴⁸ Steve Lohr, *A Capitalist Jolt for Charity (Can Business Extend the Reach of Nonprofits)*, N.Y. Times, February 25, 2008, at 3-1, 8, 9.

⁴⁹ *Id.*

⁵⁰ *Id.*

⁵¹ *Id.*

sector could succeed in bringing solutions on its own without the assistance of government or other entities.⁵² The participants' comments suggested that thoughtful government policy would bolster the sector's possibility of success in achieving marked social change.

For example, Tim Connor, partner at the venture capital firm Sequel Venture Partners, noted that the for-profit sector had limited potential to address social problems without government intervention. According to Connor, we should not expect the for-profit world to be the drivers of social advancements. Alone, the basic foundations of a for-profit business - - markets and good returns for capital - - make it a tenuous base for social entrepreneurship. According to Connor, there is a need for government to set certain standards to drive policy. Connor explained that the government must play a meaningful role in addressing social issues by using subsidies to point business in the right direction or place barriers that will require businesses to recognize social issues. In other words, government needs to "tilt" the market so that entrepreneurs have incentives to develop businesses that achieve certain social objectives.

Sarah Krakoff, Associate Professor of Law at the University of Colorado Law School, also turned the discussion to the role that government should play in utilizing the power of markets to solve certain social issues. In her view, the Nordhaus and Shellenberger article avoided hard questions. She explained, for example, that although the article suggested that the unleashing of creativity to address the global warming issue was needed, the authors failed to suggest how it could be done. Krakoff pointed to three mechanisms where government can affect the markets and bring about a response to a social issue: (1) subsidies; (2) top down regulation and (3) government imposed caps. According to Krakoff, the government's role depends on what we want to achieve.

Throughout the Roundtable, participants suggested a variety of potential policies for governments to consider. These included the following suggestions which addressed the goal of shaping markets which could favor social entrepreneurs:

- *Trust Mechanisms -- Labels for Social Businesses and Products:* Government could play a role in setting a standard for a social business. As Professor Weiser explained, people need to trust whether they are buying organic products for example, or whether some other aim is truly being addressed. To ensure that such an offering can be trusted, it is critical that trust mechanisms are in place. According to Professor Weiser, the question remains whether government can play a role in establishing that trust by facilitating the dissemination of information about a social business's reputation, establishing an industry standard (e.g., labeling information), or providing some form of regulatory oversight..

⁵² Not all participants agreed with this point of view. For example, Hunter Lovins, President and Founder of Natural Capitalism Solutions, questioned the role that government needed to play to bring about social solutions through social entrepreneurial private ventures. Instead, she explained that we need solutions at the speed of business. She then mentioned instances that she perceived as successes by the private markets. She explained, for example, that carbon credits "got" the bio plants up and running again, and that CCX, the for-profit financial institution that oversees the greenhouse gas emissions allowance trading system, is a company that is "seriously in this business to make money and save the world."

Weiser concluded that the need to protect consumer's trust is vital: if the purported social benefits are not real, then cynicism will prevail and the model will falter.

- *Removing Barriers to Address Social Issues:* Professor Weiser opined that government can play a role in clearing barriers for markets to address certain social issues. He then explained that in certain instances deregulation worked, but in others it did not. (One participant had noted earlier that Texas was surprisingly out front on the energy issue, and had concluded that this was due to the deregulation of the industry in Texas.) Weiser noted that although deregulation worked in Texas, it did not go well in California.
- *Tax Benefit for Charitable Contributions:* Vic Fleisher asked the participants about the changes they would like to see in the legal system that would remove barriers facing social entrepreneurs. Brad Feld responded that he would like companies to get a tax benefit if they make charitable contributions to 501(c)(3) organizations. He also mentioned that the benefit should be extended to equity contributions.
- *Establish Consumer Incentives to Reduce Energy Consumption:* According to Morgan Rogers, Director of the Boulder County Civic Forum at the Community Foundation, the government should play a role in influencing consumer's demand. Rogers explained that "we" (high income Boulderites) are a big part of the problem here as we are consuming ever higher amounts of energy. She raised the issue of consumer driven incentives based on the premise that people do not generally make the right decisions for the environment. She is interested in learning more about what drives consumers to change, and how the government can help with the demand side of the equation.
- *Create Incentives for Entrepreneurs to Establish Ventures with Certain Social Goals:* Professor Paul Ohm recognized that some reliance on government was needed to incentivize companies and entrepreneurs to address social problems that are not being addressed yet.⁵³
- *Invest in Social For-profit Enterprises:* Professor Ohm also suggested that government should play a role similar to a venture capitalist, which invests and advises early stage companies. A similar argument was also proposed in the Nordhaus and Schellenberger article to address global warming, in that the authors requested that government investment in clean energy should increase from \$3 billion per year to \$15 to \$30 billion.⁵⁴

⁵³ Participants noted that reliance on government brings about other challenges. For example, Brad Feld opined at a different point in the conversation that the problem with direct government economic incentives is that someone has to decide what the incentives are and the decision makers are affected by a host of issues. Feld concluded that as a result, the process gets perverted.

⁵⁴ Nordhaus, *supra* note 19.

- *Level the Playing Field for Alternative Energy Sources:* Another participant explained that the coal and oil industries are heavily subsidized by the government, which places solar and other clean energy alternatives at a significant disadvantage.
- *Legislate that the “best interests of the corporation” should include a wider set of stakeholders:* Some states have already taken the lead in changing their corporate statutes to include consideration of other stakeholders when deciding the corporation’s best interests.⁵⁵ Bernthal, in his opening statements, recognized that some social hybrid entities will have a slower rate of return and noted that some advocate that in considering the “best interests of the corporation,” directors should consider not just shareholders, but a wider set of stakeholders, such as employees, customers, and effects in the community. The advancement of the social goal, over the profits, will be in the “best interest” of the organization, especially if the directors can consider stakeholders other than the shareholders of a company. With a statute to protect them, directors will have more leeway to focus on the social goal rather than fear of a lawsuit for breach of a fiduciary duty.⁵⁶

Conclusion

Social hybrid ventures present certain viable, sustainable solutions to social issues that are not currently addressed by the other sectors. Solutions on a grand scale, however, may face limitations due to traditional realities associated with raising capital and the need to produce a higher rate of return for investors. Recognized by several participants, active participation by government and multinational institutions would enhance the fourth sector’s level of impact on a social issue. Indeed, the participants gave varied suggestions for the government from greater investments to providing oversight regarding the labeling of social business, creating or lessening consumer demand, removing market barriers, protecting consumer trust regarding social benefits of certain commercial activities or products, or providing incentives to enhance a solution.

The entrepreneur, through value creation, creative destructive innovation and opportunism, may provide novel and successful ways to address certain social issues.

⁵⁵ See <http://www.bcorporation.net/become/legal.php>

⁵⁶ This proposal, which essentially legislates that directors and officers can consider the double bottom line in making decisions for the company, does present certain drawbacks. Mark Loewenstein, Professor of Law at the University of Colorado Law School, discussed the inherent problem that would arise if directors have the freedom to make decisions that may not be profitable. Loewenstein raised the concern that if directors are able to make a company less profitable and less competitive as a trade off for some social benefit, do we sacrifice the gate keeping mechanism of accountability? He explained that we want a system where directors are held accountable to something or someone. If directors are not held accountable to shareholders, then who are they held accountable to? Indeed, policy changes that include an investment fund and a new definition of a corporation’s best interests, will also need to include a method for oversight to insure accountability.

Yet, the need for the other sectors to enhance an entrepreneur's efforts and play a part in the equation should not be understated.