The social entrepreneurship matrix as a “tipping point” for economic change

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Abstract

As social entrepreneurs and the enterprises they create gain momentum in the marketplace, research aimed at better understanding the effects of this growing form of social commerce has burgeoned. However, consensus regarding how a social entrepreneur differs from a traditional one or exactly how a social enterprise or social entrepreneurial program differs from other forms of social commerce has not been reached. Indeed, confusions involved in defining social entrepreneurship can hamper attempts to apply the constructs and methods of complexity theory to this burgeoning new arena of “social capital.” To remedy this lack of clarity and, accordingly to more fully grasp the nature of social entrepreneurship, the current paper introduces the diagramic construct of the Social Entrepreneurship Matrix (SEM). Using a systems thinking perspective, the Matrix combines entrepreneurial mission concerns with enterprise profit requirements. It is hoped the interaction that results can serve as a mechanism for better conceptualizing and exploring social commerce.

Introduction

As social entrepreneurs and the enterprises they create gain economic strength, research to understand the phenomenon has burgeoned (Drayton, 2002; Dorado, 2006). Not only does the literature contain rich descriptions of dedicated individuals creating a variety of socially beneficial and profitable businesses (Van Slyke & Newman, 2006), there has also been a concerted effort to differentiate these achievements from those of traditional entrepreneurial efforts (Dart, 2004; Harding, 2004). A clear distinction between the two would help investors, analysts, researchers as well as other interested stakeholders, be better able to value the strategic and operational outcomes each brings to the marketplace. However, to date, most of the efforts at differentiation have done more to confuse the issues rather than clarify them (see, e.g., Mort et al., 2003; Peredo & Chrisman, 2006). One prominent avenue of differentiation has focused on identifying personal traits that distinguish between social and traditional entrepreneurs (Roberts & Woods, 2005; Drayton, 2002) while another has sought to differentiate business approaches by who funds a given type of enterprise (Ligane & Olsen, 2004; Hartigan, 2006).

Interestingly, no one has yet offered a way to practically develop the social enterprise approach to business as a mechanism for fundamental economic change in the marketplace. Even while Dart (2004) seeks to legitimize the social enterprise approach, we are still lacking the unifying guidance needed to propel the phenomenon forward. The current paper seeks to re-conceptualize previous efforts and provide a framework for distinguishing between entrepreneurial efforts, including socially conscious ones, and the types of businesses they create. The paper seeks to use the integrating properties of systems thinking to offer guidance for assessing
Social entrepreneurship defined

Whether because the notion of someone starting a business for reasons other than profit maximization might seem oxymoronic to some or because there is something fundamentally different about individuals who choose to do this, much research on social entrepreneurship has focused on identifying characteristics that make such individuals stand out (Dees, 2001; Fiet et al., 2006). Table 1 provides a sample of the ways social entrepreneurs have been defined in the literature as well as the characteristics that have been attributed to their success.

It is interesting that Table 1 points out how efforts to distinguish social entrepreneurs from traditional ones has led to a finding of greater similarity than difference. For example, the evidence indicates that all entrepreneurs are passionate, driven individuals, who believe their ideas will make the world a better place, regardless of whether they receive the title of “social” entrepreneurs or not (Hayward et al., 2006). Take, for example, Howard Schultz of Starbucks Coffee Company. Based on the definitions and traits listed in Table 1, he could readily be categorized as a social entrepreneur. He is a passionate, socially-conscious individual, who has based his coffee business on offering people a sense of community, comfort, and extended family. He is also the first entrepreneur in the U.S. to provide stock options and healthcare access to part-time employees (Schultz, 2004). Yet, he is commonly considered a well-intentioned, successful traditional entrepreneur.

So far, therefore, it does not appear that there is a distinguishing set of traits that delineate social from traditional entrepreneurs. Rather, the differentiating factor appears to be the nature of the mission the entrepreneurs select for their businesses (Mort et al., 2003). Social entrepreneurs focus more on social concerns, while traditional ones focus more on market-oriented ones. Both seek profits to drive their businesses forward and both seek to make important changes in the marketplace. The difference appears to be in the degree of intent. Figure 1 offers a practical way to conceptualize this mission-driven distinction.

Entrepreneurs can exist in either direction along the continuum, depending on how they define their mission. An entrepreneur who defines his or her organization in terms of social causes would be on the left side of the continuum; one who combines market-defined interests with those of social causes would be in the middle; and one who chooses a market-only orientation would be on the right side of the continuum.

Applying a continuum perspective is useful in understanding the nature of social entrepreneurship for a variety of reasons. First, it allows entrepreneurs to be defined in terms of what they do, rather than for what they are. Second, it introduces the notion of “degree”

Table 1

<table>
<thead>
<tr>
<th>Article</th>
<th>Definition</th>
<th>Traits</th>
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<tbody>
<tr>
<td>Drayton (2002)</td>
<td>Social entrepreneurs see something in society that is stuck, that is not working and envision a systemic change that will allow them to shift society to a new and better way. They have a drive that will not stop until it is done.</td>
<td>1) A powerful, new, system-change idea, 2) creativity, 3) entrepreneurial spirit to drive change across society, and 5) strong ethical fiber.</td>
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Those who are driven by the social mission of creating better social value than their competitors which results in their displaying entrepreneurially virtuous behavior.  
1) Balanced judgment, 2) a coherent unity of purpose and action in the face of stakeholder complexity, 3) creates better social value for clients, 4) innovative, 5) proactive, 6) risk-taking propensity, 7) passion

Roberts & Woods (2005)  
Social entrepreneurship is the construction, evaluation, and pursuit of opportunities for transformative social change carried out by visionary, passionately dedicated individuals.  
1) Passion, 2) dogged persistence, 3) creativity, and 4) see things differently, 5) recognize the importance of thinking like a business

Hartigan (2006)  
Entrepreneurs whose work is aimed at progressive social transformation.  
1) capacity to envisage what does not exist and make it happen, 2) innovative, 3) resourceful, 4) opportunity aware

Korosec & Berman (2006)  
Individuals or private organizations that take the initiative to identify and address important social problems in their communities. They exhibit vision, energy, and ability to develop new ways of alleviating social problems.  
1) See opportunity, (2) have an entrepreneurial personality, (3) work well in teams and provide collaborative leadership, and (4) have a genuine, long-term, focused commitment to their communities

**Fig. 1: Figure 1**

*A Continuum of the Concept of Social Entrepreneur*

into the distinction process so that entrepreneurial efforts can be more realistically assessed. Third, it accounts for the possibility of mission transformation over time. Entrepreneurs who begin with a social mission may be tempted to change to a more market driven one depending on operational needs, while those who start with a more market-driven idea may develop very socially conscious practices depending on market demands (Tiku, 2008).

**Social commerce defined**

In order to fully grasp the potential of social entrepreneurship as a force for economic change, consensus regarding the concept of “social enterprise” also needs to be reached (Dart, 2004). Specifically, some in the literature see a social enterprise as a more efficient outgrowth of not-for-profit institutions, while others see the
concept as a for-profit business attempting to address social needs in the marketplace (Harding, 2004). For example, the United Kingdom’s Global Entrepreneurship Monitor has isolated social enterprises into three categories, depending on the form of funding stream used by each. Moreover, it has been argued that a social enterprise is a new form of organization, while others claim it has been around for hundreds of years (Drayton, 2002; Roberts & Woods, 2005). To further demonstrate this lack of consistency, Table 2 provides a review of some recent definitions of a social enterprise.

Table 2

Sample Variety of Definitions for Social Enterprises

<table>
<thead>
<tr>
<th>Article</th>
<th>Definition</th>
<th>Examples</th>
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<tr>
<td>Dart (2004)</td>
<td>Differs from the traditional understanding of the nonprofit organization in terms of strategy, structure, norms, values, and represents a radical innovation in the nonprofit sector.</td>
<td>Ashoka; Schwab Foundation for Social Entrepreneurship</td>
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<td>(Ligane &amp; Olsen, 2004)</td>
<td>A seed-stage or early-stage venture that is designed to be profitable and that has an integrated social mission. The social impact of its operations is greater than the industry standard.</td>
<td>Wilson Turbopower; Mobius Technologies; Bronx Arts; and, Calvert Social Investment Note Program</td>
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<td>(Peredo &amp; Chrisman, 2006)</td>
<td>Entails a community acting corporately as both entrepreneur and enterprise in pursuit of the common good.</td>
<td>Mondragon Corporation Cooperative; Retirement Living at Elliot Lake; Communal Sheep Farms of Quero; Friday Fairs at Chaquicocha</td>
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<tr>
<td>Korosec and Berman (2006)</td>
<td>Organizations and individuals that develop new programs, services, and solutions to specific social problems and those that address the needs of special populations.</td>
<td>Children’s Place at Home Safe; Fair Oaks Community Center; Medbank; and North Greenwood Health Resource Center</td>
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<td>Harding (2004)</td>
<td>They are orthodox businesses with social objectives “whose surpluses are principally re-invested for that purpose in the business or in the community, rather than being driven by the need to maximize profit for shareholders and owners” (p. 41).</td>
<td>ECT group recycling; Greenworks; Ashoka;</td>
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<tr>
<td>Hartigan (2006)</td>
<td>A business to drive the transformational change. While profits are generated, the main aim is not to maximize financial returns for shareholders but to grow the social venture and reach more people in need effectively. Wealth accumulation is not a priority—revenues beyond costs are reinvested in the enterprise in order to fund expansion (p. 45).</td>
<td>Grameen Bank; Schwab Foundation; Project Impact; Aurolab; Aravind Eye Hospital; DMT Toilets; SEKEM; easybeinggreen; and Irupana</td>
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Regardless of the wide variety of examples and differing perspectives taken on this form of social commerce, the integrating common denominator that consistently remains is the extent to which profits are required to operate the business (Dorado, 2006). Social businesses differ from traditional not-for-profit institutions in that social businesses must have profits to successfully function. Also, they differ from traditional profit-based businesses in that their profits are used to support social causes rather than to increase the wealth of investors, managers, and owners. Figure 2 offers a continuum delineating the nature of this relationship.

Businesses can exist anywhere along the continuum. Institutions not expected to produce profits according to their legal status are on the extreme left side of the continuum, while organizations that are required to produce profits by investors, shareholders, and the government are on the extreme right. Social businesses exist anywhere along the continuum, with an enterprise’s exact location depending on the extent to which it requires profits to sustain itself. Differentiating business options in this manner allows for a more comprehensive conceptualization of social commerce, while keeping attention focused on the bottom line aspects of organizational performance.

The social entrepreneurship matrix

Something all research seems to agree on is that social entrepreneurship is a complex phenomenon not yet well understood (Fuller & Moran, 2001). And, given the power of systems-based theory to explain complex phenomena (Schoderbeck et al., 1985; Taylor, 2001), a useful next step in the process of understanding is to consider how factors relevant to social entrepreneurship might interact. Consequently, Figure 3 introduces the Social Entrepreneurship Matrix (SEM), which combines the social entrepreneurial, mission-orientation continuum with the social business, profit-requirements continuum.

As can been seen in Figure 3, the social entrepreneur can exist in any of the four resulting quadrants. Each offers a different approach to business and can serve as a guide to the social entrepreneur as he or she attempts to develop and grow his or her business. Moreover, the matrix can help investors, analysts and other interested
stakeholders more fully consider the nature of social commerce in relation to all potential business form options. A brief description of each follows beginning with Quadrant IV, flowing in a counter-clockwise direction, backwards through Quadrants III and I, and ultimately to Quadrant II. An explanation of how the social entrepreneur fits into each is also included.

**Quadrant IV: The Traditional Business Quadrant.** Quadrant IV represents the most familiar, classic approach to business: those firms that primarily have a market-driven mission and are required to make profits. The organizations in this quadrant are of great interest to and well-researched by all types of stakeholders, including venture capitalists, management consultants, banks, and the government (Harjula, GMI 51; Tiku, 2008). They produce goods and services the marketplace wants and they use the profits they generate to pay investors and taxes as well as to expand and grow. If they fail to generate profits, they cease to function as they are bought by competition or forced into some form of bankruptcy.

Their strategy for survival is to keep abreast of the marketplace and change to suit demand. It is this aspect of their approach to business that introduces opportunities for social entrepreneurship. If and when the marketplace decides that a social cause is worth paying for, the social entrepreneur in this quadrant will address it by supporting activities that are useful in generating sales because they are considered socially responsible. One could expect to see firms in this quadrant donating a portion of the proceeds from a sale to a particular charity, building “green” facilities, and/or paying premium prices to purchase supplies from developing countries. If a socially responsible action has a demonstrable payback that can arguably enhance profits, then the company will choose to do it. Starbucks is an example of a social enterprise firm that falls into this category.

**Quadrant III: The Transient Organization Quadrant.** Quadrant III represents organizations that respond to market needs but are not driven by the need to make a profit. Hence, they may only be operational for a short period of time. As Dorado (2006: 236) explains, “the motivation for [social] entrepreneurs is not the creation of a new organization, but the creation of a path defined so participants can alleviate a complex social problem; whether or not the initiative derives a profit is irrelevant.” Organizations in this quadrant must find support for their efforts through public and private donations, grants, or governmental support. They identify a need in the marketplace, and then use the proceeds from satisfying that need to support a social cause. Examples include Live Aid and Partnership for a Drug Free America.

The only means of survival for social enterprises in this quadrant is to keep the support flowing. As a result, they must continually play to market forces, changing their offerings to suit both the supporting forces and market desires. Once, the supporting forces no longer see a benefit, or if market demands change and their offering is no longer interesting, the organization ceases to function.

**Quadrant I: The Traditional Not-for-Profit Quadrant.** Quadrant I represents organizations that are driven by a social mission and do not need to make a profit. They do not pay taxes on surpluses and must only cover expenses to survive. Foundations, charities, public museums, and churches fall into this category. In general, they perform socially necessary work that governments and traditional businesses allow to slip through the cracks. They rely on donations, grants, and member fees to support their operations.

Social entrepreneurs in this category focus on using surpluses to drive efficiency of operations and grow their operations. While they may receive support from outside sources, they design their organizations to provide some good or service for which they can charge a fee. Because the organizations in this quadrant achieve social goals by design, some consider this quadrant to be the birthplace of the modern social enterprise (Dart, 2004).

**Quadrant II: The Tipping Point Quadrant.** Quadrant II represents organizations that are not only driven by social missions, but must also make profits to survive. This quadrant is currently receiving a lot of attention in the entrepreneurial literature (Dorado, 2006; Tracey & Phillips, 2007), as organizations in this quadrant hold the most promise for economic transformation. Depending on whether their “double-bottom line” approach to
business reaches critical mass in the marketplace, they may tip the scale for how all business performance is measured (Gladwell, 2002).

Traditional profit-based businesses have spent the previous few decades externalizing all goals except those concerned with profit maximization, seeking to focus ever more narrowly on those tasks that will produce the greatest monetary return for owners. In fact, the corporate form of business legally requires managers to put profits above all other social interests. As a result, they have become extremely adept at saying or doing anything to increasingly enhance their narrowly-focused bottom lines (Achber et al., 2004; Olliman et al., 2004). The marketplace has become their theater rather than their audition within society.

Unfortunately, the costs to society of this approach are rising rapidly. Pollution, corruption and propaganda are increasingly supported, while health and human rights are increasingly ignored. For the most part, even with access to the Internet, we as constituents and consumers are unable to get the information we need to make reasonable choices (Gore, 2007; Alterman, 2003). And, as frustration and confusion grow, instability will emerge. A new perspective becomes essential to the maintenance of our economic foundations (Keen, 2007).

Enterprises within Quadrant II can provide the needed stability as well as a new perspective. Social entrepreneurs in this quadrant are committed to correcting the fundamental problems that stem from both the not-for-profit and profit sides of our economic system. First, rather than focus on any marketplace demand that provides profits regardless of its societal impact, they seek to accomplish only goals that benefit society as a whole. Second, rather than taking pride in any positive difference they may make in society regardless of the effort expended, they use profit as an efficiency measure for ensuring that their resources are not wasted. Third, as their profits fund their growth, they keep themselves independent from the whims of market forces, like: the desire for venture capitalists to earn back their investments more quickly; a foundation’s requirement to have social goals treated in one specific way; or government’s lowered funding in the face of congressional budget cuts. In other words, successful social entrepreneurs in this quadrant have found a way to have their cake and eat it too. They can accept funding from traditional social support systems and rely on the profits they generate to keep agile and independently responsive to their missions, all while undeniably making the world a better place.

Conclusion

While academic research on social entrepreneurship has burgeoned over the past several years, traditional market-driven and profit-focused enterprises remain the dominant business form. In fact, depending on how the concept is defined, social enterprises only represented 2.9% to 4.6% of all U.S. businesses in 2006 (www.Bizstats.com; nccsdataweb.urban.org), and many venture capitalists still believe they are not worth the required effort (Tiku, 2008). Clearly, social entrepreneurship, as an approach to business, has not yet had the impact on society in general that it has the potential to do.

Part of the difficulty social entrepreneurship has had in effecting widespread economic change stems from the lack of a clear and comprehensive definition for the concept. To help overcome this barrier, the current paper has introduced the Social Entrepreneurship Matrix. Based on whether a business has a more market- or socially-driven mission and whether or not it requires profits, the SEM combines those factors that most clearly differentiate social entrepreneurship from traditional entrepreneurship. As a result, it becomes easier to determine what impact a given business approach is likely to have. Moreover, it is hoped that the Matrix will be useful to anyone planning to study, start, or analyze a social business.
References

- Schultz, H. (2004). Speech given at Entrepreneur of the Year Award, Lloyd Grief Center for entrepreneurial Studies at Marshall School of Business, University of Southern California.