Rediscovering Social Innovation

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In the spring of 2003, the Center for Social Innovation at the Stanford Graduate School of Business launched the *Stanford Social Innovation Review*. Our first "Editors' Note" defined social innovation as "the process of inventing, securing support for, and implementing novel solutions to social needs and problems." That same manifesto also described the publication's unique approach to social innovation: "dissolving boundaries and brokering a dialogue between the public, private, and nonprofit sectors."

Over the last 20 years, we have seen an explosion in applications of business ideas and practices to nonprofit and government works.[1] We have also watched businesses take up the cause of creating social value under the mantle of corporate social responsibility, corporate citizenship, and socially responsible business. Indicative of growing cross-sector exchanges, we have witnessed the proliferation of terms that juxtapose the word "social" with private sector concepts, producing such new terms as *social entrepreneurship, social enterprise*, and of course our favorite, *social innovation*.

We contend that social innovation is the best construct for understanding—and producing—lasting social change. In order to gain more precision and insight, we redefine social innovation to mean: *A novel solution to a social problem that is more effective, efficient, sustainable, or just than existing solutions and for which the value created accrues primarily to society as a whole rather than private individuals.*

Consider, for example, the quintessential social innovation: microfinance—the provision of loans, savings, insurance, and other financial services to poor people who lack access to the conventional financial system. Microfinance combats the widespread and intractable problem of poverty: Billions of people trapped in a cycle of subsistence because they cannot gain access to capital to invest in activities that might allow them to escape poverty. Despite questions about the overall impact and effectiveness of microfinance, many believe it is more effective, efficient, sustainable, and just than existing solutions.[2] In addition, though there are exceptions, the bulk of the financial value created by microfinance institutions accrues to the poor and the general public rather than to individual entrepreneurs or investors.[3]

In this article, we explain how we arrived at our definition of social innovation and why we think it is more useful than terms such as social entrepreneurship and social enterprise. We then describe how the free flow of ideas, values, roles, relationships, and money across sectors is fueling contemporary social innovation. Finally, we suggest ways to continue dismantling the barriers between the sectors, and in doing so unleash new and lasting solutions to the most vexing social problems of our times.

LIMITATIONS OF SOCIAL ENTREPRENEURSHIP AND SOCIAL ENTERPRISE

In 2006, the Norwegian Nobel Committee split the Nobel Peace Prize evenly between Muhammad Yunus and the Grameen Bank—the pioneers of microfinance. Advocates of social entrepreneurship celebrated and redoubled their long-standing efforts to figure out how to identify and develop more individuals like Yunus. Meanwhile, advocates of social enterprise—a field concerned with social purpose organizations—have tried to understand how to design, manage, and fund self-sustaining social purpose entities like Grameen Bank.

But the social innovation that Yunus helped to develop and that Grameen Bank delivers is microfinance. We believe that microfinance deserves to be on the radar along with Muhammad Yunus and Grameen Bank. By focusing on the innovation, rather than on just the person or the organization, we gain a clearer understanding of the *mechanisms*—which *The Oxford English Dictionary* defines as "an ordered sequence of events" or "interconnect[ed] parts in any complex process"—that result in positive social change.[4]

Let's examine more closely the fields of social entrepreneurship and social enterprise. Much like its parent field of entrepreneurship, social entrepreneurship focuses on the personal qualities of people who start new organizations, and it celebrates traits like boldness, accountability, resourcefulness, ambition, persistence, and unreasonableness.[5] In contrast, the field of social enterprise tends to focus on organizations. Although some pockets of work explore broader issues of managing social purpose organizations, most research on social enterprise focuses on commercial activities, earned income, and for-profit ventures that give financial and operational support to traditional social service programs.[6]

The terms *social entrepreneurship* and *social enterprise* both have their roots in the nonprofit sector, and as a result they tend to limit their domains to nonprofits, implicitly or explicitly excluding public and for-profit organizations.[7] Although scholars have made valiant efforts to broaden prevailing conceptions of social entrepreneurship and social enterprise, their efforts have had little influence on the composition of affinity groups and funder choices.[8]

The underlying objective of virtually everyone in the fields of social entrepreneurship and social enterprise is to create *social value* (a term we define later). People have embraced these fields because they are new ways of achieving these larger ends. But they are not the only, and certainly not always the best, ways to achieve these goals. Social entrepreneurs are, of course, important because they see new patterns and possibilities for innovation and are willing to bring these new ways of doing things to fruition even when established organizations are unwilling to try them. And enterprises are important because they deliver innovation. But ultimately, innovation is what creates social value. Innovation can emerge in places and from people outside of the scope of social entrepreneurship and social enterprise. In particular, large, established nonprofits, businesses, and even governments are producing social innovations.

In addition, social innovation is grounded in the robust academic literature on innovation. Relative to the research on entrepreneurship, research on innovation defines its concepts more precisely and consistently. As a result, this research is a stronger foundation for building knowledge about new ways to produce social change.[9] Indeed, even the godfather of entrepreneurship, the Austrian economist Joseph Schumpeter, was interested in entrepreneurs only as a means to the end of innovation. In his classic *Capitalism, Socialism, and Democracy*, the "creative destruction" associated with entrepreneurship is primarily a vehicle for producing economic growth. The advantage of examining the pursuit of positive social change through an innovation lens is that this lens is agnostic about the sources of social value. Unlike the terms social entrepreneurship and social enterprise, social innovation transcends sectors, levels of analysis, and methods to discover the processes—the strategies, tactics, and theories of change—that produce lasting impact. Social innovation may indeed involve finding and training more social entrepreneurs. And it may entail supporting the organizations and enterprises they create. But it will certainly require understanding and fostering the conditions that produce solutions to social problems.

WHAT IS INNOVATION?

To define social innovation more clearly, we first take a closer look at what *innovation* means, and then examine what *social* denotes. Innovation is both a process and a product. Accordingly, the academic literature on innovation divides into two different streams. One stream explores the organizational and social *processes* that produce innovation, such as individual creativity, organizational structure, environmental context, and social and economic factors.[10] The other stream approaches innovation as an *outcome* that manifests itself in new products, product features, and production methods. This branch of research examines the sources and economic consequences of innovation.[11]

Practitioners, policymakers, and funders likewise distinguish between innovation as process and innovation as outcome. From the point of view of process, practitioners need to know how to produce more and better innovations. Likewise, policymakers and funders need to know how to design contexts that support innovation. And from the point of view of outcome, everyone wants to know how to predict which innovations will succeed.

To be considered an innovation, a process or outcome must meet two criteria. The first is novelty: Although innovations need not necessarily be original, they must be new to the user, context, or application. The second criterion is improvement. To be considered an innovation, a process or outcome must be either more effective or more efficient than preexisting alternatives. To this list of improvements we add more sustainable or more just. By *sustainable* we mean solutions that are environmentally as well as organizationally sustainable—those that can continue to work over a long period of time. For example, some solutions to poverty might entail natural resource extraction, such as oil drilling or fishing, which would be inherently limited by the constraints of the resource. We use "or" intentionally to indicate that a social innovation need be better only in one of these respects.

Some definitions exclude minor or small innovations from consideration, whereas others distinguish between incremental and radical innovations.[12] We do not specify the magnitude of the improvement as part of our definition. Our view is that such judgments are highly subjective and that it is better to treat magnitude as falling within a continuous range of values.

Other conceptions of innovation exclude creative solutions that are not broadly diffused or adopted. Yet the processes underlying the diffusion and adoption of innovations are distinct from the processes that generate them. Some superior products, such as the Dvorak keyboard, fail to diffuse for reasons that have little to do with their performance.[13] To explain the differences between innovations that are adopted and those that are not, we need a definition that does not conflate adoption and diffusion with innovation itself.

To summarize, it is essential to distinguish four distinct elements of innovation: First, the *process* of innovating, or generating a novel product or solution, which involves technical, social, and economic factors. Second, the product or invention itself—an outcome that we call *innovation* proper. Third, the *diffusion* or *adoption* of the innovation, through which it comes into broader use. Fourth, the ultimate value created by the innovation. This reasoning gives us the first half of our definition of social innovation: *A novel solution to a social problem that is more effective, efficient, sustainable, or just than existing solutions.* (We elaborate what constitutes a social problem in a moment.)

WHAT IS SOCIAL?

Explaining what *social* means is both central to our argument and especially vexing. Many observers rely on U.S. Supreme Court Justice Potter Stewart's approach: "I can't define it, but I know it when I see it." As a result, some of the finest thinkers in the fields of social entrepreneurship, social enterprise, and nonprofit management use *social* to describe very different things: social motivations or intentions, the social sector as a legal category, social problems, and social impacts.

A number of efforts to define *social* have focused on the intention or motivation of the innovator or entrepreneur. For example, Greg Dees's classic article, "The Meaning of 'Social Entrepreneurship,'" identifies "adopting a mission to create and sustain social value (not just private value)" as central to the distinction between business and social entrepreneurs.[14] He notes further that "making a profit, creating wealth, or serving the desires of customers … are means to a social end, not the end in itself." Similarly, innovation guru Clayton Christensen views social change as the "primary objective" rather than a "largely unintended … byproduct" in distinguishing between catalytic (social) and disruptive (commercial) innovations, respectively.[15]

Yet motivations cannot be directly observed, and they are often mixed. As a result, they are not a reliable basis for determining what is social and what is not. As Roger Martin and Sally Osberg point out in the spring 2007 issue of the *Stanford Social Innovation Review*, "it is important to dispel the notion that the difference between entrepreneurs and social entrepreneurs can be ascribed simply to motivation—with entrepreneurs spurred on by money and social entrepreneurs driven by altruism."

Sector is also a limited proxy for determining what is social, because it arbitrarily excludes methods and institutional forms that can generate social value. Most people use the term *social sector* to mean nonprofits and international nongovernmental organizations (NGOs). Yet the complexity of social problems, as well as the growth of cross-sector approaches that involve business and government, means that definitions of social that are tied to organizational form are swiftly becoming outdated.

Another use of the word *social* is to describe a class of needs and problems. Indeed, in our own definition of social innovation, we say that these innovations address social problems. This formulation gives us a bit more traction, because although there might be debate over the social character of specific innovations, there tends to be greater consensus within societies about what constitutes a social need or problem and what kinds of social objectives are valuable (for example, justice, fairness, environmental preservation, improved health, arts and culture, and better education).

A final way that people use the word *social* is to describe a kind of value that is distinct from financial or economic value. A number of leading writers allude to social value or similar terms.[16] Drawing on this work, we define social value as the creation of benefits or reductions of costs for society—through efforts to address social needs and problems—in ways that go beyond the private gains and general benefits of market activity. Because these benefits can involve the kinds of social objectives noted above, they may accrue both to disadvantaged or disenfranchised segments of society and to society as a whole.

Many innovations create benefits for society, primarily through increasing employment, productivity, and economic growth. Some even generate social value above and beyond their obvious economic impact. The computer dramatically enhanced individual productivity, learning, and creativity. The automobile promoted feelings of freedom and independence while uniting people who would otherwise rarely see each other. Pharmaceuticals save lives. Deodorant probably strengthens our social fabric. And so these products benefit not only individuals, but also society as a whole.

Yet that does not make these products social innovations. According to our definition, an innovation is truly social only if the balance is tilted toward social value—benefits to the public or to society as a whole—rather than private value—gains for entrepreneurs, investors, and ordinary (not disadvantaged) consumers. We want to differentiate social innovations from ordinary innovations because the world is already amply equipped to produce and disseminate ordinary innovations. It is only when markets fail—in the case of public goods—that social innovation becomes important as a way to meet needs that would not otherwise be met and to create value that would not otherwise be created.[17]

Let's return to the example of lifesaving drugs created by forprofit pharmaceutical companies. Although these innovations are socially valuable and even generate benefits for society beyond the gains for investors, inventors, and consumers, they are innovations that traditional market mechanisms produce and allocate relatively efficiently—except for the subset of the population that cannot afford them. To relieve this social problem, nonprofits such as the Institute for OneWorld Health have emerged to develop drugs for impoverished people, and companies like Merck & Co. have built public-private partnerships to donate drugs like Mectizan to patients in developing nations.

Many innovations tackle social problems or meet social needs, but only for social innovations is the distribution of financial and social value tilted toward society as a whole. This leads us to our complete definition of social innovation: *A novel solution to a social problem that is more effective, efficient, sustainable, or just than existing solutions and for which the value created accrues primarily to society as a whole rather than private individuals*. A social innovation can be a product, production process, or technology (much like innovation in general), but it can also be a principle, an idea, a piece of legislation, a social movement, an intervention, or some combination of them. Indeed, many of the best recognized social innovations, such as microfinance, are combinations of a number of these elements.

Consider the example of fair trade, which is often juxtaposed as a moral alternative to "free trade." Fair trade entails the certification and labeling of coffee, flowers, cotton, and other products. The umbrella organization, Fairtrade Labelling Organizations International (FLO), sets standards for fair pricing, humane labor conditions, direct trade, democratic and transparent organizations, community development, and environmental sustainability. FLO and other fair-trade organizations not only promote these standards, but also enforce them by training and then independently certifying producers and traders. Finally, fair trade educates consumers about the benefits of buying certified fair-trade products.

What's novel about fair trade is that it works at so many links in the value chain—from farmers to salespeople to consumers. The model not only is novel, but it also creates tremendous social and environmental value by deploying a host of safeguards, including sustainable agricultural techniques, international certification and labeling, child labor prevention, and fair prices. Fair trade also generates significant economic value: Between 1999 and 2005, coffee farmers selling to the U.S. fair-trade market earned approximately $75 million in additional income, finds TransFair USA. Reasonable and guaranteed wages release farmers from the trap of preharvest predatory lending, help them to afford better health care and better education for their children, improve their financial skills, and foster community solidarity. FLO estimates that in 2007 the fair-trade system directly benefited 1.5 million farmworkers in 58 developing countries in Africa, Asia, and Latin America.

MECHANISMS OF SOCIAL INNOVATION

Social innovations are created, adopted, and diffused in the context of a particular period in history. Although our definition of social innovation transcends time, the mechanisms of social innovation—the underlying sequence of interactions and events—change as a society and its institutions evolve. Therefore, the dynamics driving one of the most fruitful periods of social innovation in the United States—the Great Depression—differ from those driving contemporary social innovation. To understand social innovation fully, we must also examine the historical period.

The economic downturn of the 1930s, for example, had devastating effects nationally and internationally. International trade declined sharply, as did personal incomes, tax revenues, prices, and profits. Around the world, entire cities and whole regions wrestled with hunger, homelessness, joblessness, and disease.

These dramatic economic changes led to the rise of large social movements, which put pressure on governments to relieve citizens' suffering. In the United States, the federal government responded with the New Deal. Under the New Deal, the Works Progress Administration (WPA) created jobs for the unemployed; the Social Security Administration gave senior citizens, many of whom had little or no money, monthly stipends; and the Federal Deposit Insurance Corporation (FDIC) reassured rattled Americans that they could trust banks with their money. These social innovations were driven by a more expansive and direct role of government in solving social problems, and they took place amid a climate of suspicion and antagonism among the sectors.

In recent decades, the dominant trends shaping social innovations are much different. Upon taking office in 1981, President Ronald Reagan in his inaugural address assailed the notion that government could or should be the primary vehicle for solving social problems: "In this present crisis, government is not the solution to our problem; government is the problem." His administration then proceeded to cut programs such as food stamps, Medicaid, and Aid to Families with Dependent Children (AFDC). It also deregulated broad sectors of the economy including the airline, trucking, and savings and loan industries.

The devolution of public services to the private and nonprofit sector continues today. Increasingly, for-profits and nonprofits run charter schools, deliver health care, operate nursing homes, and—like the WPA—move people off welfare and into work. Blackwater Worldwide, for example, provides military services, and Edison Schools Inc. provides education.

At the same time, pressure on the private sector to consider the social impact of its conduct has grown tremendously. The term corporate social responsibility (CSR) has been in wide use since the 1960s. Yet it was not until the late 1980s when companies like the Body Shop, Ben & Jerry's, and Patagonia embraced an active vision of CSR that "regarded their businesses both as a vehicle to make money and as a means to improve society."[18] Many more companies have now accepted and even embraced this ambitious view of corporations' role in society.

Since the Reagan administration, nonprofits and government agencies have also changed greatly. The increased demand on nonprofits' services, coupled with the shrinking supply of public funding for nonprofits, has caused many organizations to pursue earned income through commercial ventures. Nonprofits and governments have also turned to business for techniques to operate more efficiently.

Over the past 30 years, nonprofits, governments, and businesses have developed a better appreciation of the complexity of global problems such as climate change and poverty. Many have also come to understand that these problems require sophisticated solutions. As a result, we increasingly see the three sectors joining forces to tackle the social problems that affect us all.

A host of factors have eroded the boundaries between the nonprofit, government, and business sectors. In the absence of these boundaries, ideas, values, roles, relationships, and capital now flow more freely between sectors. This cross-sector fertilization underlies three critical mechanisms of social innovation: exchanges of ideas and values, shifts in roles and relationships, and the integration of private capital with public and philanthropic support.

EXCHANGING IDEAS AND VALUES

When nonprofits, businesses, and governments were relatively sequestered, their ideas likewise remained locked inside their sectors' walls. Nonprofits rarely discussed management or legislation. Businesses seldom sought solutions to social problems, and their contacts with government were often adversarial. And governments taxed and regulated business and handed off responsibility for many social ills to nonprofits.

In recent years, however, nonprofit and government leaders have looked to businesses to learn about management, entrepreneurship, performance measurement, and revenue generation. Government and business leaders have sought nonprofits' wisdom on social and environmental issues, grassroots organizing, philanthropy, and advocacy. And business and nonprofit leaders have engaged with governments to shape public policy. As a consequence of this cross-pollination, a host of social innovations have emerged.

Take socially responsible investing (SRI), for example. SRI simultaneously considers the social, environmental, and financial consequences of investments, applying the ethos of the nonprofit sector to the most purely financial of decisions: investment. An early example of SRI in the United States was the Quaker ban on investment in the slave trade in the 1750s. A more well-known instance of SRI took place in the 1980s, when many individual and institutional investors divested their holdings in companies doing business in South Africa to protest apartheid. Recent years have seen tremendous growth in the value and visibility of SRI assets. Between 1995 and 2005, SRI investments rose more than 258 percent, from $639 billion to $2.29 trillion, according to the Social Investment Forum. In the last two years, SRI assets surged more than 18 percent, whereas all investment assets under management edged up by less than 3 percent.

SRI takes three forms: investment screening (investing only in companies that meet certain social or environmental criteria); community investing (directing capital to underserved communities); and shareholder activism (trying to influence companies' social or environmental conduct through corporate governance procedures).[19]

Despite the uncertainty about the performance of SRI funds, the very phenomenon highlights the convergence between sectors, with individuals and institutions striving to effect social change through capital markets. Shareholder activism applies a time-honored technique for disciplining corporate executives who destroy shareholder value to discipline those who destroy social value.

Without the transfer of these core ideas and values, SRI would not exist, let alone have had the impact on corporate decision making that it has had. Through SRI, investors large and small have leveraged the power of the capital markets to force modern corporations to consider the social implications of their conduct, contributing to the growth of yet another social innovation—the emergence of CSR.

SHIFTING ROLES AND RELATIONSHIPS

A second source of contemporary social innovations is the shifting roles and relationships between the three sectors. Businesses are leading the way on many social issues, working with governments and nonprofits as partners rather than as adversaries or supplicants. Similarly, nonprofits are partnering with businesses and governments in social endeavors. Meanwhile, governments have moved away from the antagonistic roles of regulator and taxer and toward the more collaborative roles of partner and supporter.

These shifts in roles and relationships are central to the effectiveness of a number of social innovations, such as emissions trading. Emissions trading is a market-based approach to reducing air pollution. Also called "cap and trade," emissions trading relies on all three sectors to work. First, a central authority—usually a government—sets limits on how much pollution companies can generate. The central authority then issues credits that represent how much of a particular pollutant a company may emit. If the company needs to produce more pollutants, it can buy credits from another company. But if the company reduces its emissions, it can sell its credits to other companies. By creating appropriate incentives and allowing voluntary exchanges among parties, emissions trading decentralizes choices about how, when, and where to reduce pollutants, ensuring that the most cost-effective reductions are made first.

For example, the U.S. Environmental Protection Agency (EPA) implemented emissions trading with the Clean Air Act of 1990. This innovation is widely credited with reducing the problem of acid rain in the northeastern United States, and it holds promise for application to greenhouse gases.[20]

Nonprofits support businesses and governments throughout the emissions-trading process. For example, NGOs provide technical assistance by measuring and verifying how much businesses are reducing their emissions. Similarly, the Carbon Disclosure Project (CDP) uses data about the carbon emissions of the world's largest companies to guide investment decisions. The CDP organizes institutional investors to request voluntary disclosure of carbon emissions data and informs shareholders and businesses about the business risks and opportunities presented by climate change and greenhouse gas emissions. Investment banks Merrill Lynch, Goldman Sachs, and HSBC are signatory investors in the CDP, with free access to all reported data from 3,000 of the world's largest companies.

Emissions trading requires nonprofits, businesses, and governments to assume new roles. Traditionally, government agencies established regulations and monitored businesses, businesses fought regulation and monitoring, and nonprofits acted as watchdogs, blowing the whistle on malfeasant businesses and lax government agencies. Now government, nonprofits, and businesses work together to improve the environment. In the absence of these new roles, emissions-trading systems would likely not have come into being. And without ongoing interaction between industry, government agencies, and environmental advocates in designing, monitoring, and refining specific programs, it is unlikely they would have achieved their desired objectives.[21]

INTEGRATING PRIVATE CAPITAL WITH PUBLIC AND PHILANTHROPIC SUPPORT

Underserved and neglected segments of society are often unable to pay for basic goods such as health care, food, and housing. As a result, unfettered markets will not produce the goods and services these populations need. To fill these gaps in the market, governments and charitable organizations have paid for or subsidized these goods and services—in effect, giving alms. But with the melting of sector divisions, nonprofits, governments, and businesses are blending sources and models of funding to create sustainable, and sometimes even profitable, social innovations.

Many social innovations involve the creation of new business models that can meet the needs of underserved populations more efficiently, effectively, and if not profitably, at least sustainably. They do this by having lower cost structures and more efficient delivery channels, and often by blending market and nonmarket approaches, in particular by combining commercial revenue with public or philanthropic financial support. These hybrid business models involve trade-offs and are rife with tensions, but they do overcome many of the limitations purely commercial or charitable organizations face when attacking social problems and needs.

In the mid-1990s, for example, an innovative community development finance organization named Self-Help embarked on an aggressive campaign to provide low-income, often minority families in North Carolina greater access to homeownership. The organization did this through a creative model that increased the availability of capital to local banks. In the process, Self-Help pioneered the secondary market for mortgage-backed securities based on loans to low-income households.

The model works like this: Self-Help buys the mortgages that commercial banks make to low- and moderate-income borrowers. Self-Help then repackages the loans and sells them to the Federal National Mortgage Association—also known as Fannie Mae. To work around Fannie Mae's underwriting constraints, Self-Help assumes the risk of default on the bundled loans. With the funds from Fannie Mae, Self-Help can purchase even more loans from commercial banks, thereby giving these commercial banks additional funds to make loans to underserved communities. Self-Help draws on its deep knowledge of lower-income households to help its commercial partners design mortgages that meet clients' needs.

In 1998, the Ford Foundation committed $50 million to expand Self-Help's program nationally. By mitigating the risk to for-profit banks and demonstrating the creditworthiness of low-income borrowers, Ford's $50 million grant became more than $2 billion in affordable mortgages by 2003. Fannie Mae subsequently committed to repurchasing $2.5 billion more in loans from Self-Help through 2008. This solution to the problem of low homeownership among poor and minority communities is a market-based solution created by cross-sector partnerships. The program got off the ground because of a relatively small infusion of philanthropic capital. This grant in turn enabled the funds to flow between commercial banks, a nonprofit community development agency, a federally chartered but publicly traded for-profit financial institution, and ultimately, private investors.

Admittedly, the subprime mortgage crisis casts a shadow over this social innovation. But a closer examination of the crisis reveals that the problem lies not in the innovation itself, but in its overzealous commercialization—a kind of social innovation gone wild. Self-Help founder Martin Eakes is furious about these subprime loans' exploitative features, including excessive fees, high initial rates, exploding adjustable interest rates, and penalties for paying the loan off early.(For an interview with Eakes, see the *Stanford Social Innovation Review*, summer 2008.) He notes that Self-Help and other responsible lenders use more consumer-friendly practices such as 30-year fixed rates, required down payments, no prepayment penalties, and close, fair scrutiny of loan applicants.[22]

IMPLICATIONS OF SOCIAL INNOVATION

Our conception of social innovation has implications for thought leaders, policymakers, funders, and practitioners. It captures not only the ends to which agents of social change aspire, but also the full range of means through which we can attain those ends. The fields of social entrepreneurship and social enterprise examine only a subset of paths—specifically, the creation of new and typically nonprofit ventures. Yet large, established nonprofits and government institutions also produce significant social change, as do the businesses that increasingly contribute their resources to building a more just and prosperous society. People creating social change, as well as those who fund and support them, must look beyond the limited categories of social entrepreneurship and social enterprise. In fact, this broadening of scope echoes Ashoka founder Bill Drayton's claim that "everyone is a changemaker."[23]

If thought leaders are going to generate the kind of knowledge that can truly support the development of social innovation, our conceptions of the phenomenon need to be clearer, more precise, and more consistent. One of the most critical implications of this paper is that we need to recognize that the processes through which social innovations emerge, diffuse, and succeed (or fail) need to be seen as distinct rather than conflated with our definitions of social innovation, social entrepreneurship, or social enterprise.

Finally, we believe the most important implication is the importance of recognizing the fundamental role of cross-sector dynamics: exchanging ideas and values, shifting roles and relationships, and blending public, philanthropic, and private resources. In principle, many people accept the trend of dissolving sector boundaries; in practice, however, they continue to toil in silos. Sector-based professional networks such as Business for Social Responsibility and the National Council of Nonprofit Associations still dominate. Even within sectors, communities are fragmented by roles. In the nonprofit world, for example, the most prominent foundation groups—the Center for Effective Philanthropy, the Council on Foundations, and Grantmakers for Effective Organizations—strictly limit attendance at their conferences to grantmakers.

Most difficult and important social problems can't be understood, let alone solved, without involving the nonprofit, public, and private sectors. We cannot even think about solving global warming, for example, such as Exxon Mobil Corp. and BP p.l.c., national agencies such as the EPA and the Department of Energy, supranational governmental agencies such as the United Nations and the World Bank, and nonprofit groups such as Greenpeace and Environmental Defense.

Increasingly, innovation blossoms where the sectors converge. At these intersections, the exchanges of ideas and values, shifts in roles and relationships, and the integration of private capital with public and philanthropic support generate new and better approaches to creating social value. To support cross-sector collaborations we have to examine policies and practices that impede the flow of ideas, values, capital, and talent across sector boundaries and constrain the roles and relationships among the sectors.

The world needs more social innovation—and so all who aspire to solve the world's most vexing problems—entrepreneurs, leaders, managers, activists, and change agents—regardless of whether they come from the world of business, government, or nonprofits, must shed old patterns of isolation, paternalism, and antagonism and strive to understand, embrace, and leverage cross-sector dynamics to find new ways of creating social value.

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Notes

1 James C. Collins, *Good to Great and the Social Sectors: A Monograph to Accompany Good to Great*, 1st ed., Boulder, Colo.: Jim Collins, 2005; Mark Harrison Moore, *Creating Public Value: Strategic Management in Government*, Cambridge, Mass.: Harvard University Press, 1995; Albert Gore and Scott Adams, *Businesslike Government: Lessons Learned from America's Best Companies*, Washington, D.C.: National Performance Review, 1997; and Christine Letts, William P. Ryan, and Allen Grossman, *High Performance Nonprofit Organizations: Managing Upstream for Greater Impact*, New York: Wiley, 1999.

2 Beatriz Armendáriz de Aghion and Jonathan Morduch, *The Economics of Microfinance*, Cambridge, Mass.: The MIT Press, 2005:21.

3 Grameen Bank's financial statements reveal Yunus's salary in 2006 to be $6,879.99.

4 "Mechanism, n.," *The Oxford English Dictionary* OED Online, Oxford University Press, 2008. Paul Light makes exactly this point in his plea to broaden the definition of social entrepreneurship in his fall 2006 *Stanford Social Innovation Review* article, but this stretches the fundamental meaning of entrepreneurship. Hence we still see innovation as a better tool for analyzing social innovations.

5 Skoll Foundation, "Background on Social Entrepreneurship," http://www.skoll.org/aboutsocialentrepreneurship/index.asp; Schwab Foundation for Social Entrepreneurship, "What Is a Social Entrepreneur?" http://www.schwabfound.org/definition.htm; Ashoka, "What Is a Social Entrepreneur?" http://www.ashoka.org/social_entrepreneur; and John Elkington and Pamela Hartigan, *The Power of Unreasonable People: How Social Entrepreneurs Create Markets That Change the World*, Boston: Harvard Business School Press, 2008. In the context of management education, some who teach entrepreneurship and social entrepreneurship do tend to focus on entrepreneurial processes (i.e., the means through which individuals create and grow new organizations). Although this is closer to a social innovation perspective, it still tends to emphasize individual entrepreneurs and the managerial challenges of starting new firms rather than the broader economic system of society. See, for example, William B. Gartner, "'Who Is an Entrepreneur?' Is the Wrong Question," *American Journal of Small Business*, 12, no. 4, 1988; and Jane Wei-Skillern et al., *Entrepreneurship in the Social Sector*, Thousand Oaks, Calif.: Sage, 2007.

6 For a review, see Cynthia Massarsky, "Coming of Age: Social Enterprise Reaches Its Tipping Point," in *Research on Social Entrepreneurship: Understanding and Contributing to an Emerging Field: ARNOVA's Occasional Paper Series*, edited by Rachel Mosher-Williams, Washington, D.C.: Association for Research on Nonprofit and Voluntary Organizations, 2006.

7 See Paul Light, "Searching for Social Entrepreneurs: Who They Might Be, Where They Might Be Found, What They Do," in *Research on Social Entrepreneurship: Understanding and Contributing to an Emerging Field: ARNOVA's Occasional Paper Series*, edited by Rachel Mosher-Williams, Washington, D.C.: Association for Research on Nonprofit and Voluntary Organizations, 2006: 13-37.

8 See, for example, J. Gregory Dees and Beth Battle Anderson, "Framing a Theory of Social Entrepreneurship: Building on Two Schools of Thought and Practice," in *Research on Social Entrepreneurship: Understanding and Contributing to an Emerging Field: ARNOVA's Occasional Paper Series*, edited by Rachel Mosher-Williams, Washington, D.C.: Association for Research on Nonprofit and Voluntary Organizations, 2006: 39-66. Our claim about the influence of such efforts is based on our own analysis showing that the composition of grantees/award winners of notable networks, including Ashoka, Fast Company Social Capitalists, the Schwab Foundation for Social Entrepreneurship, and the Skoll Foundation, are predominantly nonprofits. One notable exception in the funding world is the Omidyar Network, which changed its name and legal form to support for-profit social entrepreneurs.

9 Although this is a relatively broad and sweeping claim, it is supported by the contrast between two reviews of the innovation and entrepreneurship literatures (J.T. Hage, "Organizational Innovation and Organizational Change," *Annual Review of Sociology*, 25, 1999; and Patricia H. Thornton, "The Sociology of Entrepreneurship," *Annual Review of Sociology*, 25, 1999).

10 Rosabeth M. Kanter, *The Change Masters: Innovation and Entrepreneurship in the American Corporation*, New York: Simon & Schuster, 1983: 20; and T.M. Amabile, "A Model of Creativity and Innovation in Organizations," in *Research in Organizational Behavior*, edited by Barry M. Staw and L.L. Cummings, Greenwich, Conn.: JAI Press, 1988.

11 William J. Abernathy and James M. Utterback, "Patterns of Industrial Innovation," *Technology Review*, 80, no. 7, 1978; and Eric von Hippel, *The Sources of Innovation*, New York: Oxford University Press, 1988.

12 See von Hippel, *The Sources of Innovation*; and John E. Ettlie, William P. Bridges, and Robert D. O'Keefe, "Organization Strategy and Structural Differences for Radical Versus Incremental Innovation," *Management Science*, 30, no. 6, 1984.

13 For examples of unsuccessful diffusion of an effective innovation, see Everett M. Rogers, *Diffusion of Innovations*, 5th ed., New York: Free Press, 2003. For an example of the successful diffusion of an ineffective innovation, see Sarah A. Soule, "The Diffusion of an Unsuccessful Innovation: The Case of the Shantytown Protest Tactic," *The Annals of the American Academy of Political and Social Science*, 566, November 1999.

14 J. Gregory Dees, "The Meaning of 'Social Entrepreneurship,'" Center for the Advancement of Social Entrepreneurship, 2001.

15 Clayton M. Christensen et al., "Disruptive Innovation for Social Change," *Harvard Business Review*, 84, no. 12, 2006: 96.

16 A detailed description of related notions of social objectives, public value, and public good and externalities can be found in J. Gregory Dees, *Social Enterprise: Private Initiatives for the Common Good*, Boston: Harvard Business School, 1994; Mark Harrison Moore, *Creating Public Value: Strategic Management in Government*, Cambridge, Mass.: Harvard University Press, 1995; and Charles Wolf Jr., *Markets or Government: Choosing Between Imperfect Alternatives*, 2nd ed., Cambridge, Mass.: MIT Press, 1993.

17 For a more detailed discussion, see *Public Goods and Market Failures: A Critical Examination*, edited by Tyler Cowen, New Brunswick, N.J.: Transaction Publishers, 1992.

18 David Vogel, *The Market for Virtue: The Potential and Limits of Corporate Social Responsibility*, Washington, D.C.: Brookings Institution Press, 2005: 28.

19 Joshua Humphreys et al., *2005 Report on Socially Responsible Investing Trends in the United States*, Washington, D.C.: Social Investment Forum, 2006.

20 John McMillan, *Reinventing the Bazaar: A Natural History of Markets*, New York: W.W. Norton & Company, 2002; and A. Denny Ellerman, Paul L. Joskow, and David Harrison Jr., *Emissions Trading in the U.S.: Experience, Lessons, and Considerations for Greenhouse Gases*, Pew Center on Global Climate Change, 2003.

21 McMillan, *Reinventing the Bazaar*.

22 Eric Nee and Martin Eakes, "15 Minutes: Interview with Martin Eakes," *Stanford Social Innovation Review*, 5, no. 3, 2008.

23 Special thanks to Greg Dees for his suggestions about this section and drawing our attention to this quotation. William Drayton, "Everyone a Changemaker: Social Entrepreneurship's Ultimate Goal," *Innovations, 1*, no. 1, 2006.