

From *The Small Business Economy: A Report to the President*, 2007,
by The Small Business Administration, Office of Advocacy.

Social Entrepreneurship & Government

**A New Breed of Entrepreneurs
Developing Solutions to Social Problems**

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A **root**CAUSE  Report

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Acknowledgments

This project was managed by Marie Zemler Wu, senior editor, an independent consultant providing support to government and nonprofit organizations that seek innovative solutions for assisting children and families living in poverty. Through research, analysis, and strategic planning, Marie has helped clients including the Annie E. Casey Foundation, Harvard University's Innovations in American Government Awards program, Columbia University's National Center for Children in Poverty, and New York City's Administration for Children and Families.

Special thanks to Kelley Kreitz and Andrea E. McGrath for their editorial and project management expertise, and to Jackson Shuler for research support.

The author is also grateful to the many people who contributed case studies, provided interviews, and served as reviewers for this report:

CASE STUDIES

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Options for Substance
Abusers (TROSA)

Michael Brown

City Year

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Outside the Classroom

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ITNAmerica

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Benetech

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KaBOOM!

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New Leaders for New
Schools

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Ashoka

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National Corporation
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Mannweiler
Foundation

Billy Shore

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Chris Gabrieli

Massachusetts 2020

Paul Light

New York University

Wagner Graduate

School of Public Service

Edward Skloot

Surdna Foundation

Kirsten Gagnaire

Sustayne, Social
Enterprise Group

Nancy McGaw

Aspen Institute

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New Profit

Stephen Goldsmith

Harvard University
Kennedy School of
Government

Seth Miller

California Center for
Regional Leadership

Rich Trubey

Solar Trade
Corporation

Lance Henderson

Skoll Foundation

Judy Morse

Office of the Louisiana
Lieutenant Governor

Timothy Zak

Carnegie-Mellon
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Environmental
Protection Agency

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Stern School of
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Social Entrepreneurship *and* Government: A New Breed *of* Entrepreneurs Developing Solutions *to* Social Problems

Synopsis

Social entrepreneurship—the practice of responding to market failures with transformative, financially sustainable innovations aimed at solving social problems—has emerged at the nexus of the public, private, and nonprofit sectors.¹ It is a new breed of entrepreneurship that exhibits characteristics of nonprofits, government, and businesses—including applying to social problem-solving traditional, private-sector entrepreneurship’s focus on innovation, risk-taking, and large-scale transformation. While social entrepreneurship is not a new phenomenon, the field has experienced enormous growth over the past 15 years, receiving increasing recognition from journalists, philanthropists, researchers, and policymakers as an important and distinctive part of the nation’s social, economic, and political landscape.

This chapter introduces city, state, and federal government officials to social entrepreneurship. Given the traditional role of the government in responding to market failures—and the \$1 trillion plus per year of federal funds dedicated to resolving domestic social problems²—the author argues that there is a yet-to-be-harnessed opportunity for government leaders and social entrepreneurs to collaborate to leverage public and private resources and generate transformative, cost-effective solutions to the most challenging social problems facing the nation and world. Incorporating insights from experts in

1 This report was published by the Office of Advocacy of the U.S. Small Business Administration as Chapter 6 of *The Small Business Economy: A Report to the President, 2007*. The views presented here are those of the authors and not of the U.S. Small Business Administration or the Office of Advocacy. This report and other Root Cause publications can be accessed through www.rootcause.org.

2 U.S. Bureau of the Census, *Consolidated Federal Funds Report for Fiscal Year 2004*. This figure is based on federal spending in 2004 on direct benefits, service grants and contracts, and government agency staff. This does not include the additional funds raised and spent at the state and local levels, nor does it include money spent on foreign assistance.

the field of social entrepreneurship and case studies examining eight successful social-entrepreneurial initiatives, the chapter answers the following three questions: (1) What is social entrepreneurship? (2) How does social entrepreneurship help government benefit Americans? (3) How is government currently supporting social-entrepreneurial initiatives?

Some may ask, “What does social entrepreneurship have to do with small business?” A short answer might be that social entrepreneurship exhibits many of the attributes of small business entrepreneurship, serving as an engine of innovation, job creation, and economic growth. Moreover, by bringing together aspects of the public, private, and nonprofit sectors to address a market failure, social entrepreneurs have, in a variety of ways, helped create an economic environment in which private entrepreneurs and small businesses can flourish. The longer answer may be to read on and see how this chapter answers the question.

Introduction: Social Entrepreneurship Enters the Public Eye

In his 2007 State of the Union address, President George W. Bush acknowledged an individual who represents an emerging field with a growing significance for policymakers. Among his honored guests at the U.S. Capitol was Julie Aigner-Clark, founder of the profitable children’s video company, Baby Einstein, and current producer of child safety videos with the National Center for Missing and Exploited Children. The president praised her by saying: “Julie represents the great enterprising spirit of America. And she is using her success to help others...we are pleased to welcome this talented business entrepreneur and generous social entrepreneur.”³

That the president of the United States honored a “social entrepreneur” in his State of the Union address exemplifies the growing recognition that social entrepreneurship—the practice of responding to market failures with transformative, financially sustainable innovations aimed at solving social

³ Bush, *State of the Union 2007*, <http://www.whitehouse.gov/news/releases/2007/01/20070123-2.html>.

problems⁴—has received in recent years. The field constitutes a new breed of entrepreneurship that exhibits characteristics of nonprofits, government, and businesses—including applying to social problem solving traditional, private-sector entrepreneurship’s focus on innovation, risk-taking, and large-scale transformation.⁵ This new movement has come into the limelight in a number of ways in recent years:

In 2006, Teach For America Founder Wendy Kopp and City Year Co-Founders Michael Brown and Alan Khazei were profiled among *U.S. News and World Report’s* Top 25 Leaders. Muhammad Yunus and his organization, the Grameen Bank, were awarded a Nobel Peace Prize. Victoria Hale of the Institute for OneWorld Health and Jim Fructerman of Benetech received “genius awards” from the MacArthur Foundation. All identify themselves as social entrepreneurs.⁶

In 2005, the Public Broadcasting System (PBS) and the Skoll Foundation created and aired a two-part miniseries profiling *The New Heroes*, 14 social entrepreneurs from around the globe. They followed the series with a three-year grant program encouraging filmmakers, documentary filmmakers, and journalists to “produce work that promotes large-scale public awareness of social entrepreneurship.”⁷

For the past six years, the World Economic Forum, which annually brings together business, government, and national leaders who are “committed to improving the state of the world,” has hosted a Social Entrepreneurs’ Summit. In partnership with the Schwab Foundation, the forum convenes

4 This working definition of social entrepreneurship will be discussed in more detail and illustrated with examples, in the sections that follow. Market failure occurs when the cost of a good or service is higher than the price that individuals are willing or able to pay, yet the social benefits from that good or service make its availability worthwhile for maintaining a healthy, productive society, (Gruber, *Public Finance and Public Policy*).

5 Early twentieth-century economist Joseph Schumpeter is largely responsible for this conception of entrepreneurship. He argued that, “the function of entrepreneurs is to reform or revolutionize the pattern of production by exploiting an invention,” (Schumpeter, *The Theory of Economic Development*). For a detailed discussion of the history of entrepreneurship and its relationship to social entrepreneurship, see Dees, “The Meaning of ‘Social Entrepreneurship.’”

6 This article uses the term “social entrepreneur” to mean a person or small group of individuals who founds and/or leads an organization or initiative engaged in social entrepreneurship. While those cited here identify themselves as social entrepreneurs, the term is applied throughout the article to any individual who fits this definition regardless of whether they would use it to characterize themselves. Social entrepreneurs are also sometimes called “public entrepreneurs,” “civic entrepreneurs,” or “social innovators.”

7 Skoll Foundation, “PBS Foundation and Skoll Foundation Establish Fund to Produce Unique Programming About Social Entrepreneurship,” http://www.skollfoundation.org/media/press_releases/internal/092006.asp.

social entrepreneurs as one of its special-interest communities, placing social entrepreneurship on par with only nine other interest groups, including global growth companies, international media, and labor leaders.⁸

Popular media have brought the term social entrepreneurship greater household recognition. *The New York Times*, *The Economist*, and the *Harvard Business Review* have all printed stories focused on social entrepreneurship.⁹

As social entrepreneurship is rapidly finding its way into the vocabulary of policymakers, journalists, academics, and the general public, the United States is facing incredible societal challenges and needs. One in eight Americans, including one in four African Americans, lives in poverty.¹⁰ One-quarter of adults fail to finish high school, creating a national graduation rate that lags 8 percent behind rates in the European Union.¹¹ Despite the highest per capita spending on health care,¹² the U.S. health system is ranked number 37 in the world—lower than any other developed nation.¹³ On any given day, one out of every 108 American men is incarcerated.¹⁴

The boom of the field of social entrepreneurship, and its promise as a means of addressing the daunting social problems that America currently faces, are of particular importance for policymakers. By far, the largest sources of services and funding to help solve these problems are federal, state, and local governments. In the domestic budget alone, the federal government spends more than \$1 trillion each year providing direct benefits to constituents, awarding service grants and contracts, and employing government agency staff.¹⁵ State and local governments raise and spend their own funds to benefit their constituents—creating an even larger pool of governmental spending and activities to solve social problems.

8 Schwab Foundation for Social Entrepreneurship, *Summit Report*, <http://schwabfound.org/the.htm?p=102>.

9 Finder, “A Subject for Those Who Want to Make a Difference,” *New York Times*; Bishop, “The Rise of the Social Entrepreneur,” *The Economist*, 11-13; and Dees, “Enterprising Nonprofits,” *Harvard Business Review*, 54-67.

10 DeNavas-Walt et al., *Income, Poverty, and Health Insurance*, 13.

11 Organization for Economic Co-Operation and Development, *Education at a Glance*.

12 California HealthCare Foundation, *Snapshot: Health Care Costs 101*.

13 World Health Organization, “The World Health Organization Assesses the World’s Health Systems,” http://www.who.int/whr/2000/media_centre/press_release/en/index.html.

14 Harrison and Beck, *Bureau of Justice Statistics Bulletin*, 4

15 U.S. Bureau of the Census, *Consolidated Federal Funds Report*, 5.

Government funding dwarfs the amount spent by the nation's largest foundations, which together donate \$16.4 billion annually to nonprofits,¹⁶ as well as the giving by individuals, who donate \$163.5 billion each year to social causes.¹⁷ Of the nation's 144 largest and fastest-growing nonprofits—all of which have \$50 million or more in annual revenue—more than 40 percent rely on government as their primary funding source. The next most common funding comes from service fees, which are paid at least in part by government agencies in 90 percent of cases.¹⁸

Given both the magnitude of needs and the scope of spending, government leaders constantly face tough decisions about how to improve the lives of their constituents while most effectively using tax dollars. As elected officials and government agency staff approach these tough choices, social entrepreneurs offer a new source of assistance. Government leaders and social entrepreneurs share an interest in identifying efficient, effective, and sustainable ways to solve difficult social problems. Despite this common goal, however, little has been published by scholars and researchers to date on the relationship between the two.

Attempting to fill this gap, this chapter provides an introduction to social entrepreneurship for city, state, and federal government officials. Based on case studies and interviews with experts, it breaks new ground in exploring the ways in which government leaders and ultimately their constituents are benefiting from social entrepreneurs' efforts. The author suggests that recent trends affecting business, nonprofits, and government have been instrumental in the emergence of social entrepreneurship as a new field. Collaboration between government leaders and social entrepreneurs is already occurring and generating numerous benefits for American society.

Although collaboration thus far between social entrepreneurs and government has occurred in isolated incidents, working together more strategically represents a yet-to-be-harnessed opportunity for government leaders working to resolve social problems. By adapting some of the same levers that have

16 Foundation Center, *Foundation Giving Trends*, 2. This figure includes grants of \$10,000 or more, made by the nation's 1,154 largest foundations during calendar year 2005. Research has shown this type of calculation generally represents half of all foundation giving, if smaller grants and/or foundations were to be included.

17 John. J. Havens et al., "Charitable Giving," 542. Data given in 2004 and adjusted by the researchers for inflation to 2002 dollars.

18 Fine and Foster, "How Nonprofits Get Really Big," 46–55.

successfully encouraged U.S. entrepreneurialism, government leaders have a similar opportunity to support social entrepreneurship—and thereby generate transformative, financially sustainable solutions to social problems facing the nation. As Roger L. Martin and Sally Osberg state in a recent article for the *Stanford Social Innovation Review*, “Social entrepreneurship, we believe, is as vital to the progress of societies as is entrepreneurship to the progress of economies, and it merits more rigorous, serious attention than it has attracted so far.”¹⁹ Just as government support of private markets and entrepreneurship has fueled growth in the U.S. economy, so too can government’s support of social entrepreneurship accelerate the solving of social problems.

To introduce social entrepreneurship to government and explore the relationship between social entrepreneurship and government, this chapter addresses three key questions:

What is social entrepreneurship? In the first section, the author outlines key trends that have pushed the public, private, and nonprofit sectors to blur their traditional economic and social roles, and show how social entrepreneurship has emerged at the nexus of these sectors. The author lays out his definition of social entrepreneurship in detail, using cases that highlight three successful social-entrepreneurial initiatives.

How does social entrepreneurship help government benefit Americans? The second section discusses how social entrepreneurship can help government benefit American society, as the field is uniquely situated to help improve the lives of public officials’ constituents. Case examples show how social entrepreneurs leverage public and private resources, and test and develop new solutions to social problems.

How is government supporting social-entrepreneurial initiatives? Although government’s efforts do not yet represent a coordinated, strategic approach to supporting social entrepreneurship, local, state, and federal government officials nonetheless have had significant impacts on every initiative considered in the development of this chapter. In this section, the author looks at methods used by government agencies and elected officials to (1) encourage social entrepreneurs to innovate, (2) create enabling environments for their efforts, (3) reward their performance, (4) help scale their successes, and (5) produce knowledge to help them solve social problems.

19 Martin and Osberg, “Social Entrepreneurship: The Case for Definition,” 35.

Three research methods are used to answer the three guiding questions: literature review, consultations with experts, and interviews with leading social entrepreneurs. The author reviewed a variety of academic and popular sources in the fields of social entrepreneurship, nonprofit and business management, public policy, and entrepreneurship, and consulted with leading experts, who were selected based on their reputation and scholarship in social entrepreneurship and related areas from academia, philanthropy, business, nonprofit management, and government.²⁰ Lastly, the author conducted interviews and developed case studies on eight successful examples of social entrepreneurship that are working within each of the three traditional sectors, targeting a variety of social problems, and representing a variety of geographic areas.²¹ The eight examples are Benetech, City Year, ITNAmerica, KaBOOM!, New Leaders for New Schools (New Leaders), Outside the Classroom, Resolve to Stop the Violence Program (RSVP), and Triangle Resident Options for Substance Abusers, Inc. (TROSAs).

What is Social Entrepreneurship?

History abounds with examples of individuals who could be considered social entrepreneurs. Florence Nightingale, whose work in the mid- to late 1800s is regarded as the foundation of the modern field of nursing, and Horace Mann, who greatly reformed public education earlier in the same century, are often cited as historic examples of social innovators who changed America's social landscape.²² Yet social entrepreneurship as a distinctive part of American social and economic life is a more recent development that can only be understood within the context of the changes that have taken place since the 1980s in the roles played by businesses, government, and nonprofits. This section will introduce social entrepreneurship within that context, providing an overview of the roles of the three sectors—public, private, and voluntary; a description of trends that have increasingly blurred the boundaries between these sectors, creating a

20 Many of these conversations took place at the Skoll World Forum on Social Entrepreneurship, held at Oxford University in March 2007, and at New York University's Annual Conference of Social Entrepreneurs, held in April 2007.

21 To be included, each organization must have been an example of social entrepreneurship as defined in this chapter; regarded by others in the field as successful, sufficiently mature in its organizational development to demonstrate results, and based in the United States.

22 Bornstein, *How to Change the World*.

space for social entrepreneurship to emerge; and a detailed discussion of the authors' definition of social entrepreneurship in the context of this blending of sectors, using case examples to illustrate.

Early threads of what would become the field of social entrepreneurship emerged in the United States just over two decades ago,²³ and the various names it has gone by throughout its early development help to illustrate its connection to all three sectors. In 1980, Edward Skloot founded a consulting firm to help nonprofit organizations interested in creating business ventures, which promptly became a pioneering institution of the field. His 1983 *Harvard Business Review* article coined the term “nonprofit entrepreneurship” to describe the use of business ventures as a method for diversifying nonprofit organizations' funding streams.²⁴ In 1981, private-sector consultant Bill Drayton founded Ashoka: Innovators for the Public to seek, support, and publicize individuals he originally called “public entrepreneurs,” and later named “social entrepreneurs.”²⁵ Management expert Peter Drucker's 1985 book *Innovation and Entrepreneurship* was among the first to describe entrepreneurship as a phenomenon that extended into multiple sectors—and was not limited to profit-seeking enterprises.²⁶

The term social entrepreneurship began to appear routinely both in the scholarly and popular presses in the early to mid-1990s. Early descriptions of social entrepreneurs ranged from “anyone who starts a not-for-profit” to “not-for-profit organizations starting for-profit or earned-income ventures”²⁷ to “business owners who integrate social responsibility into their operations.”²⁸ While debate on the exact definition continues to this day, most definitions describe social entrepreneurship broadly enough to include a variety of organizational structures and activities, and yet narrowly enough to recognize social entrepreneurship as a distinct field. Much of the difficulty of settling on the details, it is argued here, stems from the fact that social-entrepreneurial initiatives tend to exhibit characteristics of each of the private,

23 For a more detailed history, see Dees and Anderson, “Framing a Theory of Social Entrepreneurship.”

24 Skloot, “Should Not-for-Profits Go into Business?”

25 Anderson and J Dees, “Rhetoric, Reality, and Research,” 39–66.

26 Drucker, *Innovation and Entrepreneurship*.

27 Earned-income ventures are traditional for-profit businesses run within a nonprofit organization to help cover operational costs.

28 Dees, “The Meaning of ‘Social Entrepreneurship,’” 1. All definitions listed in this sentence come from this article.

public, and nonprofit sectors, without fitting neatly into any one of them. As examples throughout this chapter will show, social-entrepreneurial initiatives can take the form of nonprofits, for-profits, or governmental programs. Unlike traditional nonprofits, businesses, or government programs, however, such social-entrepreneurial initiatives will always exhibit characteristics of each of the sectors.

For this reason, understanding the ways in which the three sectors are well- and ill-suited to meeting America's social and economic needs provides the context, indeed describes the fertile opportunity, from which social entrepreneurship has emerged. As illustrated in Figure 6.1, each of these sectors has traditionally carried out specific roles and responsibilities, making vital contributions to the United States' economic and social health.

The Private Sector

The private sector is defined here as all the corporations, small businesses, and entrepreneurs utilizing markets to exchange goods and services to maximize profit, while driving increased innovation and productivity in the economy. Economists have long identified innovation as one of the private sector's defining characteristics. Writing in the mid-1900s, famed scholar Joseph Schumpeter commented, "entrepreneurial innovation is the essence of capitalism."²⁹ Further, contemporary economist Milton Friedman has argued that free markets, competition, and consumer choices are also essential components of capitalism.³⁰

The private sector is by far the largest sector of the U.S. economy. The United States attains a gross domestic product of approximately \$13 trillion a year.³¹ Private-sector activity has created a national income more than twice that of Japan, the next largest national economy in the world.³² U.S. citizens enjoy the third highest per capita purchasing power—or standard of living—in the world.³³ Among the more than 150 million adults in the U.S.

29 Schumpeter, *The Theory of Economic Development*.

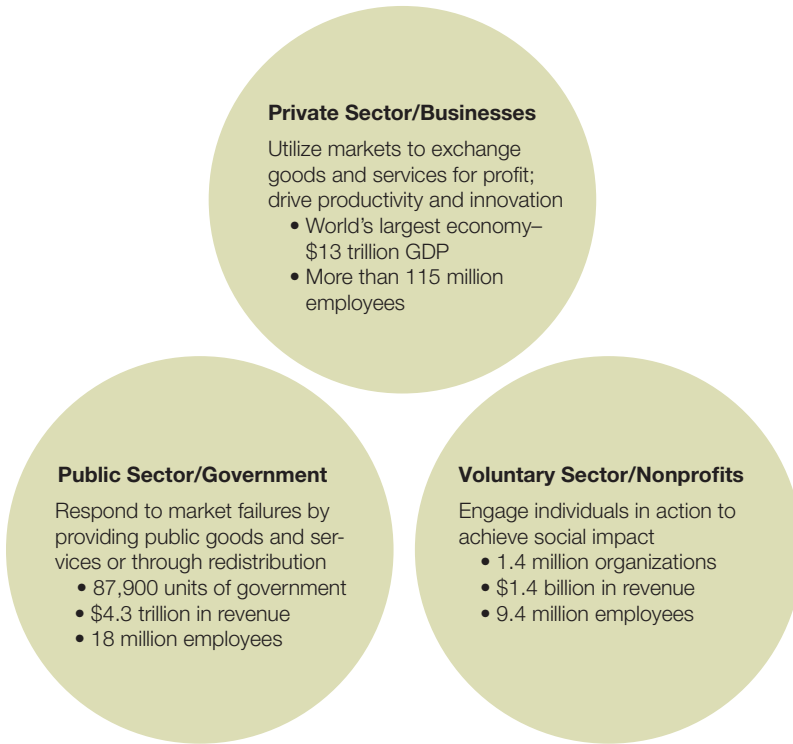
30 Friedman, *Capitalism and Freedom*.

31 Central Intelligence Agency, *The World Factbook 2006*, <https://www.cia.gov/library/publications/the-world-factbook/print/us.html>.

32 World Bank, *World Development Indicators 2006*, <http://devdata.worldbank.org/wdi2006/contents/cover.htm>.

33 Ibid.

Figure 6.1 The Three Sectors' Traditional Economic and Social Responsibilities



work force,³⁴ less than 5 percent are unemployed,³⁵ with the vast majority of jobs provided by private sector businesses.

While the private sector contributes to the well-being of citizens by developing and distributing products and services, meeting consumers' needs, creating jobs, driving innovation, and building wealth for the nation, it is often ill-suited to addressing social problems. Focusing on societal challenges has typically been left to the government and nonprofit sectors.

The Public Sector

Public-finance theory tends to assign two major roles to government: 1) providing public goods, such as libraries, public education, national defense, and

34 Ibid.

35 U. S. Bureau of Labor Statistics, *The Employment Situation*, <http://www.bls.gov/news.release/empsit.nr0.htm>.

policing; and 2) addressing inequalities produced by markets through redistribution—in the form of unemployment benefits, disaster assistance, or benefits to families living in poverty, to name a few of the most common methods.³⁶

It is possible to elaborate on these two roles by thinking in terms of market failure, which occurs when the private sector alone cannot meet a societal need because the cost of providing the needed good or service is more than its beneficiaries are able or willing to pay. Public goods such as public schools and libraries are classic examples of services that address market failures. Since such services do not provide the profits that would make them viable private-sector enterprises, the private sector leaves the need to educate the population unmet. Redistribution, which involves giving support to those not served by private markets, is another way in which government's role can be considered to be addressing market failures. By providing public goods and addressing inequalities in markets, then, government complements the private sector, filling in gaps left by market failures, while providing the structure and stability that allows the private sector and markets to work.

While much smaller than the private sector, the public sector nonetheless occupies a sizable part of the U.S. economy. According to the 2002 Census of Governments, 87,900 distinct government units operate across the nation: they include the federal government, 50 state governments, 3,034 county governments, and 35,937 municipal and township governments, as well as 48,878 “special purpose” local governments, such as school districts.³⁷ In 2006, federal government revenues were approximately \$2.4 trillion per year,³⁸ while state and local governments generated approximately \$1.9 trillion of revenue annually.³⁹ In the same time frame, government at all levels employs approximately 18 million full-time civilian workers.⁴⁰

Despite its size and role, government faces tough choices in allocating its resources to meeting ever-evolving societal needs, and is often ill-suited to meet all those needs. It therefore often seeks the partnership and support

36 Gruber, *Public Finance and Public Policy*.

37 U.S. Bureau of the Census, *2002 Census of Governments*, 1.

38 U.S. Department of the Treasury, *2006 Financial Report*, 11.

39 U.S. Bureau of the Census, *State and Local Government Finances*, <http://www.census.gov/govs/www/state05.html>.

40 U.S. Bureau of the Census, *2002 Census of Governments*, 13.

of citizens, who tend to organize their efforts within the nonprofit/voluntary and private sector.

*The Nonprofit/Voluntary Sector*⁴¹

The nonprofit sector's traditional role is to engage individuals in action to achieve social goals. Typical examples include neighborhood associations, religious organizations, private hospitals and schools, and social service providers. The organizations and activities that constitute the nonprofit sector generally differ from the work of the public and private sectors in two ways. First, the nonprofit sector often acts when both the public and private sectors are unable to meet a particular social need.⁴² Second, while nonprofit-sector organizations are private and self-governing, much like organizations in the private sector, nonprofit-sector organizations cannot distribute profits to their leaders, and must use their revenues and profits to sustain and grow their organizations.

While the nonprofit sector is by far the smallest of the sectors, it is also the fastest growing. Over the past 25 years, the total number of nonprofit organizations has approximately doubled.⁴³ Since 1994, the number of 501(c)(3) groups in the United States expanded from just over half a million to nearly 850,000, for a growth rate of almost 65 percent.⁴⁴ According to a study by the Nonprofit Employment Data Project at Johns Hopkins University, the nonprofit work force now makes up 10.5 percent of U.S. jobs. Between 2002 and 2004, nonprofit job growth outpaced that of the private sector in 46 out of 50 states, generating 5.3 percent more new jobs.⁴⁵ Currently, approximately 1.4 million tax-exempt organizations are registered with the Internal Revenue Service (IRS).⁴⁶ Nonprofit organizations generate nearly \$1.4 billion of revenue annually, hold \$3 trillion in assets, account for 5.2 percent of gross

41 Today, the terms "nonprofit sector" and "voluntary sector" are often used interchangeably, despite the continued existence of many voluntary groups that never formally organize to obtain nonprofit status. The term "nonprofit sector" is used throughout this chapter.

42 Weisbrod, "The Future of the Nonprofit Sector," 542.

43 Independent Sector, *Facts and Figures About Charitable Organizations 2007*, 2.

44 Urban Institute, "The Nonprofit Sector in Brief: Facts and Figures from the Nonprofit Almanac 2007," 3.

45 Johns Hopkins University, "Employment in U.S. Nonprofits Outpaces Overall Job Growth," http://www.jhu.edu/news_info/news/home06/dec06/employ.html.

46 Urban Institute, *The Nonprofit Sector in Brief*, 1.

domestic product (GDP), provide 8.3 percent of wages and salaries paid in the United States,⁴⁷ and employ 9.4 million individuals.⁴⁸

Tax deductions as incentives for charitable contributions have played a significant role in the growth and financing of the nonprofit sector. Yet, while the nonprofit sector has grown substantially in the past two decades and has been instrumental in meeting societal needs, its impact on a national scale is still limited by its ability to sustain or scale initiatives. For future growth, it must rely on the much larger public and private sectors for financial resources and access to the channels that make scaling nonprofit solutions possible.

Blurring Sectors: Trends Creating Fertile Ground for Social Entrepreneurship to Emerge

Traditionally, each of the three sectors has maintained the distinct roles and approaches described above—with the private sector focused on profitable markets, the public sector solving market failures, and the nonprofit sector engaging citizens in meeting societal needs. Since the 1980s, however, several trends have reduced these distinctions, increasingly blurring the social and economic roles that businesses, government agencies, and nonprofits are playing. As Figure 6.2 illustrates, these trends have expanded the overlapping space between the sectors and created ample opportunity for social entrepreneurship to emerge and grow. As a result, social entrepreneurship exhibits characteristics of all three sectors.

In the private sector, businesses and their employees are increasingly engaging in activities that previously fell under the domain of nonprofits and government. For instance, private-sector companies have begun competing in fields such as education and social services, giving such companies opportunities to provide services that were once considered core government activities.⁴⁹ In fact, the number of private-sector contractors paid through federal funds increased by 700,000 from 1999 to 2002—from 4.45 million to

47 Urban Institute, *The Nonprofit Sector in Brief*, 2-3: Note that these figures are inclusive only of the approximately half a million nonprofit organizations reporting to the IRS in 2004, a requirement for any with more than \$25,000 in gross receipts.

48 Salamon and Sokolowski, *Employment in America's Charities*, 3.

49 Salamon, *The Resilient Sector: The State of Nonprofits in America*; and Weerawardena and Mort, "Investigating social entrepreneurship," 21-45.

Figure 6.2 Trends Pushing the Three Sectors to Blur Traditional Roles: Social Entrepreneurship Emerges in the Growing Intersection



5.15 million people.⁵⁰ In another trend, following recent corporate scandals and financial crises, the private sector has faced new calls for business ethics.⁵¹ These have led the private sector to begin to consider the role it plays in society beyond maximizing profits.

The public sector, too, has seen a shift in its practices. As *Reinventing Government* authors David Osborne and Ted Gaebler describe, government is increasingly steering rather than rowing and emphasizing cost-effective

⁵⁰ Light, *Fact Sheet on the New True Size of Government*, 4.

⁵¹ Lyndenber, *Corporations and the Public Interest*.

results over bureaucratic rules.⁵² According to Stephen Goldsmith, Daniel Paul professor of government, and director, Innovations in American Government Awards Program at Harvard University's John F. Kennedy School of Government, "New Deal-style initiatives, in which government assumes the dominant service-delivery role, have become increasingly rare, especially for newly developed programs."⁵³ At the federal level, the past three administrations have "devolved"⁵⁴ and "reinvented"⁵⁵ government, pushing for "citizen-centered, results-oriented, market-based" approaches, respectively.⁵⁶ At state and local levels, limited budgets and persistent social needs have also increased demands for efficiency in the use of government funds.⁵⁷ Many constituents, accustomed to their choices in the marketplace, want to be thought of as consumers and express preferences for choice and competition on issues ranging from public utilities to public schools. In response, government agencies are ceasing to work as monopolies, and instead are relying on nonprofit and private service providers that are managed through contracts and the allocation of grant funds.⁵⁸

For the nonprofit sector, pressures are growing to fill gaps in public service delivery, ensuring that citizens can get the services they need even when government is unwilling or unable to provide it. If they are to provide essential services, nonprofit leaders are striving for sustainability to ensure that they will continue to be able to meet the needs of the populations they serve. Following the national scandal at a major nonprofit in 1992, and as many foundations adopt outcomes-driven approaches to funding, nonprofits also face demands for accountability.

As each sector has entered the territory of the others, the blurring between them has given rise to a host of new phenomena, which Stephen Goldsmith characterizes as: "the reality of a world in which the public and private boundaries are becoming increasingly blurred and governments of

52 Osborne and Gaebler, *Reinventing Government*, chapter 1.

53 Goldsmith (professor, Harvard University), interview with the author, April 24, 2007.

54 Hall, *Inventing the Nonprofit Sector*.

55 National Partnership on Reinventing Government, archived Web site, <http://govinfo.library.unt.edu/npr/index.htm>.

56 Executive Office of the President, *The President's Management Agenda, Fiscal Year 2002*, 6.

57 Osborne and Gaebler, *Reinventing Government*.

58 Salamon, ed., *Beyond Privatization: The Tools of Government Action*.

all ideological bents are partnering with private companies and nonprofit organizations to do more and more of the government's work."⁵⁹ An increase in public-private partnerships has involved more and more businesses and nonprofits as collaborators in government projects. Further, President Bush's competitive sourcing initiative, which is currently being implemented, is slated to open half of the federal jobs that are "not inherently governmental" to market competition.⁶⁰ At the same time, the increased popularity of earned-income ventures has led many nonprofits to develop business-like ventures to generate revenues.⁶¹ Lastly, corporate social responsibility movements have entered the mainstream, motivating businesses to account for their community, environmental, and labor practices along with their profits. Whether to improve their images, gain marketing advantages, or altruistically benefit society, corporations have demonstrated a growing interest in volunteer and philanthropic opportunities.

Social Entrepreneurship Emerges at the Nexus

As trends have pushed the traditional roles of the three sectors to blur, their nexus has provided fertile ground for the growth of social entrepreneurship. As scholar Alex Nicholls from Oxford University's Skoll Centre for Social Entrepreneurship explains, social entrepreneurship is not defined by its organizational form but "is best understood as a multi-dimensional and dynamic construct moving across various intersection points between the public, private, and social sectors."⁶²

By blending some of the social and economic responsibilities traditionally associated with each of the three sectors, social entrepreneurship may take the form of a nonprofit, business, or government initiative. No matter what organizational form it takes, social entrepreneurship also tends to exhibit characteristics of all three. Like business, social entrepreneurship utilizes markets to drive innovation and productivity. Like government, social entrepreneurship responds to market failures by providing public goods and services. Like nonprofits, social entrepreneurship engages individuals in action to achieve social goals. As Nicholls concludes, "The organizational

59 Goldsmith and Eggers, *Governing by Network*, 23.

60 Light, *An Update on the Bush Administration's Competitive Sourcing Initiative*, 2.

61 Aspen Institute, *The Nonprofit Sector and the Market*, 6.

62 Nicholls, *Social Entrepreneurship*, 12.

mechanisms employed are largely irrelevant: social entrepreneurs work in the public, private, and social sectors alike, employing for-profit, not-for-profit, and hybrid organizational forms (or a mix of all three) to deliver social value and bring about change.”⁶³ Returning to the definition, social entrepreneurship, then, is *the practice of responding to market failures with transformative, financially sustainable innovations aimed at solving social problems*.

This section discusses in detail the three essential components of this definition—1) response to market failures, 2) transformative innovations, and 3) financial sustainability—and offers three case studies that illustrate how social entrepreneurship exhibits these components.

Response to Market Failures

The social problems that social entrepreneurs address result from market failures—in which profitable markets are unavailable, insufficient, or underdeveloped and where the potential monetary gains for responding to a societal problem are less than the overall, society-wide positive impact of that response. Because of the lack of opportunity to generate profit, private-sector entrepreneurs—who succeed by finding market opportunities and maximizing profits—often leave these needs unaddressed. Traditionally, government responds in such cases by deploying public funds to address the unmet needs.

Social entrepreneurship presents another option for addressing market failures—which can be considered the sources of the opportunities that social entrepreneurs act on.⁶⁴ Like private-sector entrepreneurs, social entrepreneurs seek opportunities to create value—but the value they pursue is social rather than purely economic. As Gregory Dees, a founding scholar of the field of social entrepreneurship, explains, “Markets do not do a good job of valuing social improvements, public goods and harms, and benefits for people who cannot afford to pay. These elements are often essential to social entrepreneurship. That is what makes it social entrepreneurship.”⁶⁵ Roger L. Martin and Sally Osberg echo this idea that social entrepreneurs can be considered entrepreneurs who pursue social value: “Unlike the entrepreneurial value proposition that assumes a market that can pay for the innovation, and may

63 Ibid.

64 Phills and Denend, *Social Entrepreneurs: Correcting Market Failures (A) and (B)*, 2.

65 Dees, “The Meaning of ‘Social Entrepreneurship,’” 3.

Figure 6.3. Market-Failure Continuum of Social-Entrepreneurial Approaches to Solving Social Problems



even provide substantial upside for investors, the social entrepreneur's value proposition targets an underserved, neglected, or highly disadvantaged population that lacks the financial means or political clout to achieve the transformative benefit on its own."⁶⁶

Through interviews with leading social entrepreneurs and conversations with experts in the field, the author has identified three different types of approaches that social entrepreneurs take in targeting beneficiaries and responding to market failures (Figure 6.3).

No Market

In a no-market approach to solving a social problem, the beneficiaries of the potential product or service will not be able to pay for it.⁶⁷ As a result, a social entrepreneur who selects such an approach cannot rely on any earned revenues from the beneficiary to sustain the initiative. Most commonly, no-market approaches take the form of government initiatives or nonprofit organizations.

Limited Market

In a limited-market approach, the beneficiaries or clients have some ability to pay. As a result, a social entrepreneur who selects such an approach can rely on some earned revenues from the beneficiary to sustain the initiative. Most commonly, limited-market approaches tend to be nonprofit organizations.

Low-profit Market

In a low-profit-market approach, the beneficiary has the potential to pay the full cost while solving the social problem and thus has the potential to generate a profit. However, the market may be underdeveloped, or investments in this market may yield returns that are less than typical for for-profit ventures. Examples of this type of approach exist in both the nonprofit and private

66 Martin and Osberg, "Social Entrepreneurship: The Case for Definition," 35.

67 Seelos and Mair, "Social Entrepreneurship," 241–246.

sectors. In some cases, low-profit-market approaches eventually develop the market for a product or service enough that they become traditional for-profit enterprises.

Transformative Innovations

Ashoka Founder Bill Drayton has famously commented that “social entrepreneurs are not content just to give a fish or teach how to fish. They will not rest until they have revolutionized the fishing industry.”⁶⁸ Like other entrepreneurs, social entrepreneurs are creative thinkers, continuously striving for innovation, which can involve new technologies, supply sources, distribution outlets, or methods of production.⁶⁹ Innovation may also mean starting new organizations, or offering new products or services.⁷⁰ Innovative ideas can be completely new inventions or creative adaptations of existing ones.⁷¹

Many scholars take this focus on innovation even further. Social entrepreneurs are “change agents,”⁷² creating “large-scale change through pattern-breaking ideas,”⁷³ “addressing the root causes” of social problems,⁷⁴ possessing “the ambition to create systemic change by introducing a new idea and persuading others to adopt it,”⁷⁵ and changing “the social systems that create and maintain” problems.⁷⁶ These types of transformative changes can be national or global. They can also often be highly localized—but no less powerful—in their impact. Most often, social entrepreneurs who create transformative changes combine innovative practices, deep and targeted knowledge of their social issue area, applied and cutting-edge research, and political savvy to reach their goals. For all entrepreneurs, whether in the business or social realm, innovation is not a one-time event—but continues over time.

68 Ashoka, “What is a Social Entrepreneur?” http://ashoka.org/social_entrepreneur.

69 Dees, “The Meaning of ‘Social Entrepreneurship,’” http://www.fuqua.duke.edu/centers/case/documents/dees_sedef.pdf.

70 Mair and Marti, “Social Entrepreneurship Research,” 36–44; Peredo and McLean, “Social Entrepreneurship: A Critical Review of the Concept,” 56–65; and Dees, “The Meaning of ‘Social Entrepreneurship,’” http://www.fuqua.duke.edu/centers/case/documents/dees_sedef.pdf.

71 Peredo and McLean, “Social Entrepreneurship: A Critical Review of the Concept,” 56–65.

72 Ashoka, “What is a Social Entrepreneur?” http://ashoka.org/social_entrepreneur.

73 Light, “Searching for Social Entrepreneurs,” 30.

74 Dees and Anderson, “Framing a Theory of Social Entrepreneurship,” 46.

75 Kramer, *Measuring Innovation*, 5.

76 Alvord et al., “Social Entrepreneurship and Societal Transformation,” 260–282.

Of course, while addressing a social problem with a potentially transformative innovation is an essential component of the definition of social entrepreneurship offered here, succeeding in generating such transformation is not. The field, like any other, includes success stories and strong leaders, as well as those who fall short of their aspirations.⁷⁷ Nonetheless, the definition of social entrepreneurship requires that initiatives at least have the potential for transformative social innovation on a local, national, or global scale. This characteristic distinguishes social entrepreneurship from other nonprofit, business, or government service providers that may be more narrowly focused on meeting the most pressing social needs as they emerge.

Financial Sustainability

While social entrepreneurship is not defined by any one standard model for achieving financial sustainability, working toward financial sustainability is essential if an approach to a social problem caused by market failure is to be successful enough to have transformative potential. Each organization must find a model responsive to the unique character of the social problem they are trying to solve, and grounded in the realities of the type of approach to market failure they have adopted. In addition, social entrepreneurs also tend to prefer business-like productivity and efficiency measures to determine their capture and use of resources. Many produce cost-benefit analyses, reports on “social” return on investment, report cards on organizational performance, or other integrated measures of financial and programmatic success that will ultimately help the organization optimize their use of resources and maximize their results.

While the details vary, such financial models generally include two components: nonfinancial resources and predictable revenue sources.

Nonfinancial resources

Nonfinancial resources are skilled or unskilled volunteers, and one-time or recurring in-kind donations that enable social entrepreneurs to increase the sustainability of their initiatives.⁷⁸ For instance, David Eisner, CEO of the Corporation for National and Community Service, points out that “Engaging the public in developing and implementing social solutions is a proven and

⁷⁷ Peredo and McLean, “Social Entrepreneurship: A Critical Review of the Concept,” 59; and Light, “Reshaping Social Entrepreneurship,” 46–51.

⁷⁸ Bhawe et al., “The Entrepreneurship of the Good Samaritan,” <http://ssrn.com/abstract=902685>.

inexpensive strategy. Look at the way nearly 600,000 volunteers were leveraged to complete intensely needed work in the year after Hurricane Katrina in a way we never could have paid for.”⁷⁹

Predictable revenue sources

Predictable revenue sources are long-term, repeat, and performance-based funding sources—foundation, individual, government, corporate, and fee-based—that will provide predictable funding, despite conditions of market failure. Which type of predictable revenue sources a financial sustainability model contains will depend on the organization’s approach to market failure, as well as the social problem being addressed. No-market approaches will look for long-term, repeat, and performance-based funding sources, and may also develop an earned-income venture to build into the model an alternative to receiving income from the direct beneficiary. Limited-market approaches will focus on the same funding sources as no-market approaches, in addition to collecting a portion of their costs from the beneficiaries of their product or service. Low-profit-market approaches will ask the beneficiary to pay, and look for “patient capital” from socially motivated investors who are willing to accept below-market returns, or wait for profits while the market is developed, in exchange for social impact.

Table 6.1 provides a summary of how the three components of social entrepreneurship appear in each of the three major approaches to market failure.

Case Studies of Social-Entrepreneurial Approaches to Solving Social Problems

Resolve to Stop the Violence Program (RSVP): A No-Market Approach to Reducing Recidivism

Market Failure

The United States has one of the highest incarceration rates in the world. According to a 2005 BBC report, U.S. recidivism rates are also high—at about 60 percent throughout the nation.⁸⁰ While reducing these rates would produce significant societal benefits in terms of reducing the overall prison

79 David Eisner (CEO, Corporation for National and Community Service), interview with the author, April 30, 2007.

80 Wikipedia, “Recidivism,” <http://en.wikipedia.org/wiki/Recidivism>.

Table 6.1 Social-entrepreneurial Approaches to Solving Social Problems

Approach to market failure	No market	Limited market	Low-profit market
	Target beneficiaries are unable or unwilling to pay.	Target beneficiaries are willing and able to pay partial costs.	Target beneficiaries are willing and able to pay if markets are developed.
Innovation	Innovation occurs in a variety of forms throughout the market-failure continuum, including starting new organizations; offering new products or services; and developing new or adaptive technologies, supply sources, financing methods, distribution outlets, or methods of production.		
Strategies for financial sustainability	<p>Full subsidy</p> <p>Makes use of nonfinancial resources: skilled or unskilled volunteers and one-time or recurring in-kind donations.</p> <p>Focuses on predictable funding sources.</p> <p>May build an alternative to receiving income from a target beneficiary into the model for addressing the problem.</p>	<p>Partial subsidy</p> <p>Makes use of nonfinancial resources: skilled or unskilled volunteers and one-time or recurring in-kind donations.</p> <p>Asks beneficiaries to pay partial costs to generate earned income while addressing the social problem.</p> <p>Focuses on predictable funding sources.</p> <p>May build an additional income source into the model to supplement income from a target beneficiary.</p>	<p>Patient or below-market investment</p> <p>Often makes use of nonfinancial resources: skilled or unskilled volunteers and one-time or recurring in-kind donations.</p> <p>Creates a market with support of patient capital from socially motivated investors who are willing to accept below-market returns and/or wait for profits in exchange for social impact.</p> <p>Once mature, relies on beneficiary payments and/or revenues generated while addressing the social problem.</p>
Likely organizational form	Government agencies or nonprofit organizations.	Nonprofit organizations.	For-profit companies or nonprofit organizations.

population, cutting down on incarceration costs, and ultimately ending up with more productive citizens, there is little hope of a market-based solution to meeting this need.

Delivering rehabilitation programs to prisoners does not provide an opportunity to generate profit.

RSVP, a San Francisco-based government initiative housed in the city's sheriff's department, provides an example of a social-entrepreneurial initiative addressing a no-market opportunity. The prisoners who are the beneficiaries of its intensive rehabilitation program have no ability to pay for it.

Transformative Innovation

When Sunny Schwartz decided to start the first correctional program in the country to adopt a restorative-justice approach to reducing recidivism, she was already working with violent offenders at a San Francisco County prison and had grown dissatisfied with traditional approaches to prisoner rehabilitation: “It was clear that we weren’t reaching most people in any kind of sustained, pro-social way.” With the support of San Francisco Sheriff Michael Hennessey, Schwartz put together a diverse planning committee of former offenders, crime victims, and community leaders to participate in the development of the RSVP model: “We had victim’s rights advocates. We had formerly abusive men and gang members. We had orthodox rabbis, Baptist ministers, atheists. We had deputy sheriffs from line staff to upper echelon. And then we had the usual stakeholders—probation and people on the bench.”⁸¹

The resulting program differs from the usual approaches, which tend to focus either on punishment for the crime or rehabilitation of the offender, by encouraging and teaching offenders to take responsibility for their crimes. While some elements of RSVP programming resemble what might be found in typical rehabilitation programs—English and GED classes, parenting programs, and substance abuse treatment—the program also includes a class that teaches offenders to experience empathy for those who have been harmed by violence. Victims of crimes work with former offenders, community members, business organizations, and other stakeholders to develop the curriculum used for these classes, and to participate as trainers. When offenders are released from prison, many participate in an “internship” program and receive employment training while performing restorative acts in the community. Those who are successful eventually return to the prison as facilitators of RSVP sessions. Additionally, some of the victims of the RSVP participants also become advocates and work with RSVP.

The results that RSVP’s innovative programming has generated thus far indicate that the organization is on its way to developing a rehabilitation method for violent offenders that has the potential to transform current practices in U.S. prisons and change beliefs about what is possible when working with prisoners. An independent, quantitative evaluation of RSVP found that the average annual incidence rate for fights and other forms of in-prison violence for their program participants is essentially zero, compared with 28 in a traditional “lock-up” prison setting—even though the participants sleep in

81 Sunny Schwartz, (program administrator, RSVP), interview with the author, April 17, 2007.

open dorms. Further, offenders who participated in the program for at least eight weeks had a 46 percent lower rate of re-arrest for violent crime than those who served their time in a traditional jail. This difference increased to 83 percent for those who completed at least 16 weeks of the program.⁸²

The organization is currently looking for ways to take its methods to other parts of the country. To date, jurisdictions in Austin, Texas, and Westchester County, New York—in addition to several local high schools—have approached RSVP for advice on replicating the program; organizations from New Zealand, Poland, and Mexico have begun to replicate the RSVP model as well.

Financial Sustainability

For no-market approaches like that of RSVP, achieving financial sustainability requires full subsidies in order to start and maintain the initiative. One option in no-market conditions is to work within the government, where public funding is available. RSVP, whose staff is made up entirely of public employees, provides an example of this. Based on its results, the program was able to secure predictable funding in the form of a line item in the City of San Francisco's budget.

Triangle Resident Options for Substance Abusers Inc. (TROSA): A Limited-Market Approach to Long-term Substance-Abuse Treatment

Market Failure

A major gap exists in the United States between the needs of low-income people suffering from substance abuse and the treatment programs available to them. While addiction is a problem that people can suffer from for years or even decades, few public programs offer more than 30 days of treatment. Since this population has little ability to pay even for short-term treatment, markets have left the need for long-term care for substance abusers unaddressed.

The North Carolina-based nonprofit TROSA takes a limited-market approach to addressing this problem. The organization has developed a

⁸² Gilligan and Lee, "The Resolve to Stop the Violence Project: Reducing Violence through a Jail-Based Initiative."

model that makes it possible for its beneficiaries to help cover a portion of the costs of the services they receive.

Transformative Innovation

TROSA provides a two-year residential treatment program, which includes counseling, education, and what Founder Keith Artin calls vocational therapy: “everything from someone learning a very specific trade—like getting a truck license—to basic on-the-job work ethics.”⁸³ While the programming alone is a highly innovative approach to substance abuse treatment, equally innovative is TROSA’s model for delivering this program to its residents at no financial cost. Residents “pay” for the services they receive by working in either the operations of the program itself—helping with food preparation, transportation, and administration—or in one of the organization’s many businesses, including TROSA Moving, TROSA Lawn Care, and TROSA Furniture and Frame Shop.

Financial Sustainability

As with many limited-market opportunities, the challenge is making this program financially sustainable, as the vast majority of those in need of long-term treatment for substance abuse have little ability to pay for such services. TROSA’s model addressed this challenge by using revenues earned from their business ventures to cover more than two-thirds of TROSA’s operating needs. The organization fills the remaining gap with support from other predictable funding sources.

Outside the Classroom: Identifying a Low-Profit Market for Drug and Alcohol Awareness on College Campuses

Market Failure

Each year, 1,700 college students in the United States die from alcohol-related causes. Colleges and universities have long focused on hosting guest speakers and alcohol-free social events to address the problem, but the market has failed to produce a more effective solution.

The for-profit organization Outside the Classroom set out to fill this need through a low-profit-market approach. The organization knew that a profitable market existed for its Web-based curriculum, yet several factors limited

83 Artin, (founder, TROSA), interview with the author, May 9, 2007.

that market. An Internet-based curriculum designed to be administered to the entire student population was not a product that colleges and universities were accustomed to paying for. Additionally, all of the potential purchasers, public and private colleges and universities, operate as nonprofit organizations. While the potential for profitable sales did exist, it did not promise quick or substantial returns for early investors.

Transformative Innovation

Recognizing that drinking and drugs are commonly represented as a standard part of the U.S. college experience in American music, movies, and advertisements, Outside the Classroom Founder Brandon Busted set out to change that perception. The organization's innovation is a curriculum designed to educate entire campus populations, in order to influence not only individuals' choices but campus culture as a whole.

In six years since its first sale of its Web-based curriculum, Outside the Classroom has begun to change the way some colleges and universities think about alcohol and drug abuse prevention. During the 2006–2007 academic year, approximately 25 percent of first-year college students across the nation completed the Outside the Classroom's web training. Early results have been promising: an independent study examining the efficacy of Outside the Classroom's programming found that students who had used its online prevention program, AlcoholEdu, experienced 50 percent fewer negative consequences related to alcohol—blackouts, hangovers, missed classes, physical fighting, unprotected sex, damaging property, and driving drunk—than those who did not.

Financial Sustainability

Like most social-entrepreneurial initiatives with a low-profit-market approach, Outside the Classroom faced its biggest challenge in its start-up phase. During that period, the organization was initially turned down by dozens of grant makers and relied on patient angel investors to cover the significant up-front costs for creating a curriculum and developing a market for it. As angel investor Ed Roberts, professor of management of technology at MIT's Sloan School of Management, recalls, "When I invested in Outside the Classroom, I was doing it primarily as a socially good act, with little faith that I would ever see a return on my investment. The idea was highly speculative as to whether or not it would work and have any real impact. But I

wanted to join my friend Howard Anderson in assisting this cause in which he strongly believed. I now see that often times allowing underdeveloped but potentially socially meaningful markets to grow can produce good returns, both in regard to the original social purpose as well as from an investor's financial perspective."⁸⁴ The financial backing of investors who understood that their support had the potential of creating social benefit in addition to generating profits ultimately provided Outside the Classroom with time to do both. Today, Outside the Classroom has captured 25 percent of the college and university market, and some six years after initially lending their support, investors are now seeing their first returns.

Summary: What is social entrepreneurship?

Each of these cases shows how social entrepreneurship takes up an opportunity to provide a solution to a social problem that has great potential societal benefit, but little hope of generating the profits required by traditional for-profit companies. Social entrepreneurs—adopting no-market, limited-market, and low-profit-market approaches—address these problems while striving for what can be considered a different kind of profit: the generation of new and transformative solutions to the nation's most pressing social problems. The next section will show how social-entrepreneurial initiatives are helping government benefit Americans by leveraging public and private resources and testing and developing solutions.

How Does Social Entrepreneurship Help Government to Benefit Americans?

The previous section described social entrepreneurship and its emergence because of trends increasingly causing the traditional roles of the private, public, and nonprofit sectors to blur. This section provides examples of social entrepreneurs who, as new contributors in the realm of social problem solving, have come to serve as resources for government as it addresses social problems to improve the lives of Americans. As Citizens Schools Co-founder and CEO Eric Schwarz explains, "The best social entrepreneurs have great results. Government is looking at ways to get results at low costs. Social

84 Ed Roberts, (professor, Massachusetts Institute of Technology), interview with the author, June 12, 2007.

entrepreneurs can help them achieve this. They can test new ideas and innovations, and partner with government to bring successful ones to scale.”⁸⁵

Government leaders continually face pressures to allocate limited tax revenues to address pressing societal needs, and many have achieved a great degree of success. While social entrepreneurs will never take the place of government, conversations with social entrepreneurs and experts in the field suggest that social entrepreneurship is uniquely positioned to help government officials better address societal needs. Specifically, the social entrepreneurs interviewed help government improve the lives of their constituents in two primary ways: (1) leveraging public and private resources and (2) testing and developing solutions.

Five case studies illustrate how a variety of social-entrepreneurial initiatives have brought about these benefits.

Leveraging Public and Private Resources

Because of their focus on financial sustainability, social entrepreneurs identify and utilize new and existing resources, both financial and nonfinancial, to help them address social problems. Often this means that social entrepreneurs are able to implement solutions to social problems on a wider scale that have previously been too costly. At times, social entrepreneurs also end up shifting costs from public budgets to private resources, thus freeing up government tax revenue to address other needs.

KaBOOM!

Market Failure

Swings, slides, and seesaws are the setting for many a childhood memory. Creation of those playgrounds and outdoor play spaces for children has traditionally fallen under the domain of local parks and recreation departments of municipal governments. For many communities, however, building quality playgrounds competes with a variety of other pressing needs for limited public funds—often leaving children in poorer communities without access to great places to play. Unfortunately, the same places that lack public resources for playgrounds also typically lack private ones, as the parents who live there cannot pay for their own playground equipment.

⁸⁵ Eric Schwarz, (CEO, Citizen Schools), interview with the author, April 26, 2007.

Transformative, Financially Sustainable Innovation

KaBOOM!'s innovation was to leverage private resources by identifying an alternative revenue stream that would provide the organization with the funds to build quality playgrounds in underserved communities—thus adopting a no-market approach that channels new resources for playgrounds into these communities where the beneficiaries have no ability to pay. By working with major companies, including Home Depot, Sprint, and PepsiCo, KaBOOM! has been able to offer two products—corporate team-building and social marketing—that capture resources for playground building via donations, service fees, and employee volunteer time. According to Founder Darrell Hammond, “It’s beyond sponsorship. It’s beyond partnership. We’ve really embedded ourselves into corporations and become a part of their long-term strategy—not just their community affairs and do-good strategy, but their business strategy as well, which means that, from a fee side, they’re willing to pay for it.”⁸⁶ Corporate volunteers gain team-building experience as they work with neighborhood residents and one another to fund, design, and build new playgrounds. KaBOOM! also works with companies to develop social-marketing campaigns centered on KaBOOM! projects. The result is a financial model that is almost 100 percent supported by fees.

As KaBOOM! has expanded in size and reach, the organization has been able to achieve even greater efficiency in its financial model, as a result of the cost efficiencies and benefits gained from operating at a much larger scale than municipal parks and recreation departments ever could. By linking a social problem without a market to a stable source of resources, KaBOOM! has built 1,196 new playgrounds in 11 years.

Societal Benefits

KaBOOM! has helped government to benefit Americans by developing and leveraging a new source of private resources that supplements public budgets, and at times even shifts costs from public budgets to private resources. This approach has helped to build playgrounds in communities that otherwise never would have been able to build them, or that can now spend the funding that would have been spent on the playground on other priorities.

⁸⁶ Darrell Hammond, (founder, KaBOOM!), interview with the author, April 17, 2007.

ITNAmerica

Market Failure

Too often, older Americans must choose between their safety and their mobility—between continuing to drive as their abilities decline or remaining homebound and dependent on others after giving up their cars. Prior attempts to address this problem have failed to fully meet the needs of their target senior consumers. Senior transportation programs, often government funded, have typically relied on attempts to convince older people to ride buses or subways; on organizing volunteers to pick up vanloads of seniors for group trips; or offering rides to a handful of specific destinations, such as medical appointments. Finding these options insufficient, many seniors continue to drive when they are no longer fit to operate a vehicle, or become increasingly housebound as they restrict their own driving and become dependent on favors from family and friends. As ITNAmerica Founder Katherine Freund explains, “Depending on the private automobile for transportation is inadequate for years before people actually stop driving. And then people who do stop driving outlive that decision by about ten years. It’s a very big problem because of the aging of the population. There are more older people. There are more older people living longer. There are more older people outliving the ability to drive longer. You can see if you multiply those things together you come up with a pretty big social problem.”⁸⁷

Transformative, Financially Sustainable Innovation

ITNAmerica created a new option for seniors: providing rides in private cars available 365 days a year, 24 hours a day, with “door-through-door” service using a combination of paid and volunteer drivers. Taking a limited-market approach, ITNAmerica charges a nominal one-time membership fee of \$35 and about 50 percent of the cost of a taxi for each ride. Payments must be made for every ride, but no money changes hands in the vehicle. Seniors fund their personal transportation accounts in advance and receive a monthly statement in the mail.

As the organization has embarked on an ambitious five-year growth strategy, ITNAmerica has been quite efficient in leveraging private

⁸⁷ Katherine Freund, (founder, ITNAmerica), interview with the author, March 3, 2007.

resources. According to Freund, “We have a very flexible approach to resources. We say money is one kind of resource, but there are other kinds of assets that have economic value. And if we can find a way to capture different kinds of economic value, then we can use those resources also to pay for rides.”⁸⁸ Volunteer drivers, for example, make up about 40 to 60 percent of the driving team. This helps the organization keep costs manageable, and also offers a way for seniors to subsidize the cost of their own rides. Many of the volunteers who are over the age of 60 contribute their own volunteer driving time through ITNAmerica’s Transportation Social Security program, building up credits in their personal transportation accounts for their own future use of the services while they are still safe and healthy to transport others. Family members may also supply volunteer time and make in-kind contributions of their driving credits to their relatives who are using the service. Seniors may trade their personal vehicles when they are no longer able to use them and apply the liquidated equity to fund their personal transportation accounts. The donated vehicles are often used to deliver rides.

In addition, ITNAmerica’s software, ITNRides, plans and tracks membership accounts, rides, and distances, maximizing the efficiency of routes. Freund characterizes this system as one of the organization’s most important innovations: “One way to describe it is that we married a very grassroots model to a very high-tech support system. So we used technology to create efficiency, and we took the unusual step of building it ourselves, instead of purchasing off-the-shelf technology, so that it would be affordable to small organizations and communities.”⁸⁹

Societal Benefits

ITNAmerica has developed a highly efficient model that ultimately funds itself—by capturing nominal fees from customers and leveraging private resources through volunteer time and community philanthropic support. When the organization starts up an affiliate program in a new city, it limits the amount of public funding it accepts to 50 percent or less of the capital necessary. Moreover, no public funds may be used for day-to-day operations, because ongoing use of public funds crowds out the development of

88 Ibid.

89 Ibid.

the private community support so essential for long-term sustainability. Freund explains, “Most of the resources for transportation are private. If you don’t have a model that is built to access them, then you’ll fall into the pattern of being one of many providers in a turf war over the public dollars.”⁹⁰ She notes that while many social problems require ongoing public support, senior transport—which targets a population willing and able to pay modest fees—is not one of them. Once ITNAmerica affiliates reach their full capacity, the public funding that helped to get them started can be directed to other needs. As a result, ITNAmerica leverages minimal initial support from government to meet the transportation needs of older Americans across the country.

Testing and Developing Solutions

Despite the best efforts of government, nonprofits, and individual citizens, solutions for social problems can be hard to find. As Gregory Dees notes, “With all of our scientific knowledge and rational planning, we still do not know in advance what will work effectively. Thus, progress in the social sphere depends on a process of innovation and experimentation...an active, messy, highly decentralized learning process.”⁹¹ Given the challenges—and frequent failures—of attempts to innovate, social entrepreneurs supply a second valuable benefit to government. According to Jeffrey Robinson, assistant professor of management and entrepreneurship at New York University’s Stern School of Business, “Experimentation is the value of social entrepreneurship to government. How do you break a logjam? Social entrepreneurs are often successful in figuring it out.”⁹²

The remaining three cases in this section provide examples of how social entrepreneurs have helped government benefit Americans by developing solutions, testing new theories, or designing new approaches to addressing social problems.

90 Ibid.

91 Dees, “Taking Social Entrepreneurship Seriously,” 26.

92 Jeffrey Robinson, (professor, New York University), interview with the author, April 12, 2007.

City Year

Market Failure

The idea of voluntary national service—what City Year Co-Founder Michael Brown defines as “calling on America’s youth to give a year or more in service to the community and country to tackle pressing domestic needs and problems”⁹³—has a long history in the United States. More than 100 years ago, philosopher William James called national service the “moral equivalent to war,” suggesting that national service could be seen as an alternative to military service, serving one’s country through volunteerism. More recently, during the civil rights era, many advocated social integration through service. Political leaders and commentators ranging from Senator Ted Kennedy of Massachusetts on the left to William Buckley on the right were champions of the idea.⁹⁴ Despite considerable interest, however, national service never took off. Brown characterizes the issue as one of “passion and dissonance,” and theorized that national service—like the television and home computer—was an “experiential product” that the country needed a chance to see before they would know how much they wanted it. But national service was not the kind of service for which its beneficiaries could pay. Those serving would be volunteers, unlikely to be willing to pay for a volunteer opportunity even if they had the means. Those they would serve would also have limited if any means to pay.

Transformative, Financially Sustainable Social Innovation

Setting out to create an “experiential product” that would show Americans what national service could accomplish, City Year’s founders started by considering the service programs that were already in existence. The small, state-based service corps tended to be focused on physical labor and often open only to low-income or high-risk youth needing professional skills. Brown and Co-Founder Alan Khazei were determined to make City Year different. They extended the time of service to a full year. They recruited “corps members” from a wide range of backgrounds, bringing together young people of different classes, races, and educational experiences. While a small portion of the work is physical, City Year’s volunteers primarily focused on education and youth

93 Brown, *National Service or Bust*, 4.

94 In 1989, Kennedy sponsored S1439, “A Bill to Enhance National and Community Service, and for Other Purposes.” For Buckley’s position on national service, see Buckley, *Gratitude: Reflections on What We Owe to Our Country*.

development, serving as mentors for children in partnership with public schools and organizing and running after-school programs and curricula on social issues including domestic violence prevention, AIDS awareness, and diversity.

In its early development, all City Year activities ran on private funding: corporations sponsored “teams” of volunteers. The decision to begin without government funds was largely a strategic one. In Brown’s words, “If national service were to ignite civic energy, then citizens, private organizations, and companies needed to be engaged in its development and implementation... Rather than the creation of a new, single, ‘silo-ed’ government program, national service, we and others believed, should release civic energy and therefore be rooted in citizen, nonprofit, and private sector initiative.”⁹⁵

Societal Benefits

As City Year’s privately funded model for national service gained strength, it captured the attention of the architects of two government initiatives dedicated to promoting national service: the Corporation for National and Community Service and AmeriCorps. According to Brown, “President Clinton would later say that his visit to City Year [during his 1992 presidential campaign] helped to inspire his creation of AmeriCorps by providing him with a concrete example to which he could point to show others that his vision for national service could work.” City Year became one of 800 nonprofits to receive federal funding for AmeriCorps’s service programs. City Year’s model helped to supply government with the information it needed to create a program that now provides diverse groups of young Americans access to a wide variety of national service opportunities. These young Americans, in turn, provide services to communities in need across the country.

New Leaders for New Schools (New Leaders)

Market Failure

In school districts located in low-income communities across the United States, many students are performing below national standards—leaving them with fewer skills and lowered prospects for long-term economic success. New Leaders founder Jon Schnur observed that in the school settings that served as exceptions to this rule, strong leadership by a committed principal was a common factor. “We’ve never seen a great classroom without an effective teacher,

⁹⁵ Brown, *National Service or Bust*, 14.

and we've never seen a school driving results for all kids without a great principal. Even where you've got good teachers, they don't stay and they don't work together in the right way and ultimately collaborate in the right way without a great principal."⁹⁶ Yet there was little focus on the recruitment, selection, or training for these essential school leaders, who "used to be largely expected by the system to be the manager of the bureaucracy and the status quo, and an operational manager keeping things running smoothly."

Transformative, Financially Sustainable Social Innovation

New Leaders was founded to test the hypothesis that putting resources towards selecting, training, and supporting principals who are committed to meeting high standards—even for children in the toughest neighborhoods with access to the fewest resources—will have a positive impact on students and ultimately the entire school's performance. Through a highly competitive process, New Leaders identifies educators whose values and skills suggest they can "lead and build schools' cultures to drive high expectation for all kids," and trains them to lead high-performing schools. Applications to the program are numerous: only approximately 6 percent of applicants are selected each year. Those chosen spend an intensive year as "residents" in an urban school, and then receive placement assistance and ongoing support as they take the reins as principals in schools of their own. Through partnerships in several large city school districts, New Leaders' no-market approach is supported in part by public funds, in the form of the salaries their residents and principals receive from the school district where they work. These public funds are supplemented by the support of several long-term philanthropic donors, who cover the costs of screening, selecting, training, mentoring, and providing ongoing support to their principals.

Six years of experience now show that their initial hypothesis—that a committed, supported, high-quality principal could transform student performance—has proven true. New Leaders presently operates in nine cities across the nation: New York City, the District of Columbia, Chicago, Memphis, Oakland, Baltimore, New Orleans, Prince George's County (MD), and Aspire Public Schools (CA). New Leaders-trained principals lead as many as 25 percent of the students in those districts. Approximately 95 percent of people who train with New Leaders take on school leadership roles—80 percent as princi-

⁹⁶ Jon Schnur, (founder, New Leaders), interview with the author, March 30, 2007.

pals—compared with fewer than half of principal trainees becoming principals in other, more traditional programs. Their schools show an improvement in student test scores. Across the 2004–2005 and 2005–2006 academic years, 100 percent of schools led by New Leaders principals for at least two consecutive years achieved notable increases in student achievement, with 83 percent achieving double-digit gains. Average student achievement gains ranged from 14 to 22 percentage points by city over the two-year period.⁹⁷ The organization is currently striving “to recruit and place enough people to provide 25 percent of the new urban principals needed in the U.S. by 2012.”⁹⁸

Societal Benefits

New Leaders provides an example of how social-entrepreneurial experimentation, when successful, can produce new practices that, once they’ve been tested and honed, government can take up to benefit Americans. New Leaders was able to take on the initial costs and risk of testing out its theory that principals trained to be great leaders can build high-performing schools. Now, city governments across the country are looking to New Leaders as a model. Some have brought New Leaders to their cities, while others have started their own principal-leadership programs, based on the New Leaders approach, in order to provide their students with the highest quality education possible.

Benetech

Market Failure

Twenty years ago, if a blind person wanted to read printed text not available in Braille, depending on the help of someone else was just about the only choice. The best available technology for a blind person to read printed text, a machine the size of a clothes dryer with a five-figure price tag, was an unrealistic and unaffordable option for accomplishing daily tasks like browsing a newspaper or looking over a piece of mail. The technology for creating an affordable, portable machine existed. However, the potential customer base, blind individuals and their employers, was too small to promise a traditional

⁹⁷ This represents New Leaders for New Schools’ data for performance in math and English language arts in schools led by a New Leaders principal for at least two consecutive years as of 2005–2006, and for which school-level achievement data were publicly available for both school years.

⁹⁸ Schnur interview, March 30, 2007.

return on investment. As a result, technology investors were unwilling to take the risk to develop such a product.

Transformative, Financially Sustainable Social Innovation

Benetech was founded as a low-profit-market approach to ensuring the development of technology that promises to have a high social value despite low potential for generating a typical return on investment. As Founder Jim Fructerman explains, “The last 18 years have been great years for the computer industry. Computers have gotten faster, better, cheaper, smaller, lighter, brighter. What we’ve done is essentially ridden the back of that industry to say: ‘How can we take advantage of these high-performance, low-cost platforms and turn them into effective tools for people with disabilities?’”⁹⁹ The company’s first product, the Arkenstone Reading Machine, makes use of the optical character recognition (OCR) technology found in scanners, and can be used with a personal computer to scan and read text aloud.

At a cost of less than \$2,000, the Arkenstone Reading Machine quickly found a larger customer base than originally predicted. In addition to blind individuals and their employers, people with learning disabilities and government agencies that serve the disabled, including the U.S. Department of Veterans Affairs, began purchasing the product. This unexpected, expanded customer base helped to generate millions of dollars in revenue annually, and ultimately led to the sale of the reading machine and the Arkenstone brand to a for-profit distributor of disabilities products. The machine is now in its fourth release and remains an industry-leading product.

The Arkenstone Reading Machine provides an example of how a low-profit-market approach can eventually develop a market that could be served by a traditional for-profit approach. In Benetech’s case, selling the reading machine to a for-profit distributor once there was a sufficient market has enabled the organization to fund the development of other socially valuable technology solutions, without being constrained to those projects with high potential for significant profitability.

Societal Benefits

Benetech was able to test and ultimately develop a self-sustaining solution to a problem caused by a market failure that government was unable to

⁹⁹ Jim Fructerman, (founder, Benetech), interview with the author, March 15, 2007.

address. Its inexpensive reading machine, tested in the early stages by accepting below-average returns, ultimately ended up creating a new and profitable market, in addition to serving the thousands of Americans who previously were unable to read printed text on their own. Among Benetech's customers was the U.S. Department of Veterans Affairs, which was able to better meet the needs of disabled Americans.

Summary: How social entrepreneurship benefits Americans

By identifying new methods of leveraging public and private resources to address social problems, in addition to testing and developing promising solutions, social entrepreneurship complements government's role in addressing market failures to benefit Americans. As Share Our Strength Founder Billy Shore points out: "It is not what social entrepreneurs do instead of government but rather that they create a pipeline for government. Social entrepreneurs do things that government cannot do. They take more risks. They are closer to the people that they are designed to serve."¹⁰⁰ The section that follows will show how government has already been supportive of individual social entrepreneurship initiatives.

How is Government Currently Supporting Social-entrepreneurial Initiatives?

The previous two sections described what social entrepreneurship is and how social entrepreneurs help government benefit Americans—as they leverage public and private resources, and test and develop solutions. This section explores a variety of ways in which all levels of government have supported social-entrepreneurial initiatives. Interviews for this report revealed that, while government currently lacks a comprehensive and strategic approach for collaborating with social entrepreneurs, isolated incidents do exist of local, state, and federal employees working with social entrepreneurs on a number of initiatives addressing a variety of social problems. The cases presented in this section are organized according to the five primary methods, uncovered during the interviews, that government has employed to support social entrepreneurship:

- Encouraging social innovation;

¹⁰⁰ Billy Shore, (founder, Share Our Strength), interview with the author, May 30, 2007.

- Creating an enabling environment for social entrepreneurial initiatives;
- Rewarding initiatives for their performance;
- Scaling initiatives' success; and
- Producing knowledge that enhances social entrepreneurs' efforts.

Encouraging Social Innovation

For any entrepreneur, the start-up period of an organization is critical. In the private sector, one-third of new employer establishments do not survive the first two years, and more than half fail in the first four years.¹⁰¹ For social entrepreneurs, launching a new initiative can be just as challenging. To help social entrepreneurs endure the trials of the start-up phase, several foundations, most prominently Echoing Green and Ashoka, provide support specifically for early organizational development. In addition, various academic programs sponsor competitions and awards to encourage social innovation and the founding of new initiatives. According to Surdna Foundation Director Edward Skloot, government, too, has an important role to play in what he calls “acting as a seedbed for innovation.”¹⁰² Skoll Foundation’s Lance Henderson echoes this sentiment: “There is no doubt that if government could take a more proactive role in thinking what its role would be in encouraging social innovation, it could be a significant contribution.”¹⁰³ In the cases discussed below, government encouraged social innovation by providing seed funds to support social-entrepreneurial initiatives in their start-up phases.

ITNAmerica takes pride in the fact that its daily operations are intentionally self-funding—and therefore independent of government dollars except as part of the start-up phase of a new affiliate. Yet ITNAmerica would not be where it is today without the federal seed funds it received to help get its model up and running. The Transit IDEA program, administered by the Transportation Research Board of the National Academies of Science and funded by the Federal Transit Administration, provided two milestone grants that Founder Katherine Freund characterizes as the organization’s “first big piece of venture funds.”¹⁰⁴ The first grant, a feasibility study, enabled Freund

101 U.S. Small Business Administration, Office of Advocacy, “Frequently Asked Questions,” <http://www.sba.gov/advo/stats/sbfaq.pdf>.

102 Ed Skloot, (Surdna Foundation), interview with the author, April 13, 2007.

103 Lance Henderson, (Skoll Foundation), interview with the author, June 7, 2007.

104 Freund interview, March 3, 2007.

to explore senior citizens' consumer behaviors related to fee-based automobile transportation services. The second study explored innovative payment plans and information system technology. When a third grant from the Federal Transit Administration spanned an administration change and was cut short, Freund mobilized a network of ITN supporters to contact their congressional delegates. Soon, the Federal Transit Administration agreed to directly fund ITN's model development.

In another example, RSVP received what was, in essence, government seed funding delivered through noncapital resources. When Program Administrator Sunny Schwartz set out to create a new approach to rehabilitating violent offenders, her boss, Sheriff Michael Hennessey, authorized her to devote a considerable portion of her time, and that of her staff, to creating the program. Until the staff succeeded in securing a foundation grant to help with program start-up, the initiative ran only on the existing salaries of public employees and the good will of community volunteers to test the idea.

Creating an Enabling Environment

In interviews, the researchers found that government has created an enabling environment for social entrepreneurs in a variety of ways—most prominently by removing barriers, lending credibility, and supporting collaboration. The examples discussed below show how government has succeeded in supporting social entrepreneurs through these practices.

At times, existing practices and systems present barriers to addressing a social problem with an innovative and entrepreneurial approach. “Social entrepreneurs are constantly pushing up against artificial barriers,” says David Eisner, CEO of the Corporation for National and Community Service. “Teacher certification, social-service certification, volunteer-manager certification all end up preventing social entrepreneurship and limiting scale and innovation as it relates to solving the problem.”¹⁰⁵ In these cases, as Ashoka Vice President Susan Davis has noted, government can play a crucial role in removing barriers to “offer an enabling environment to entrepreneurs.” She says government is well positioned to identify and address “all barriers, particularly those created by government, that block or discourage people’s entrepreneurship.”¹⁰⁶

105 Eisner interview, April 30, 2007.

106 Davis, *Social Entrepreneurship*, 12.

In some cases, existing laws can constitute barriers to implementing new ideas. ITNAmerica, for example, found that policy changes were essential to removing barriers to creating a viable transportation alternative for seniors. When the organization encountered problems accepting car donations—because of a Maine state law meant to protect consumers from unregulated used car dealers that limited the number of donated or traded cars they could accept—ITNAmerica went to work on a bill that would make an exception for organizations serving the elderly. As a result of ITNAmerica’s efforts, Maine’s Act to Promote Access to Transportation for Seniors, sponsored by State Senator Michael Brennan, passed in 2005.¹⁰⁷ It provides an exemption from automobile dealership laws for any public or nonprofit organization that uses automobile donations to provide transportation to seniors, or that takes personal automobiles in trade from seniors in exchange for transportation services.

For several successful social entrepreneurs, government officials have helped them create an enabling environment simply by drawing attention and ultimately lending credibility to their causes. For example, First Lady Mikey L. Hoeven of North Dakota has made substance abuse one of her key issue areas, and a letter from her office to all of the public high schools in her state has generated a new market opportunity for Outside the Classroom. For ITNAmerica and KaBOOM!, support from public officials—and particularly their attendance at events—has been helpful in generating media attention for their organizations. In addition, four of the social entrepreneurs interviewed—Jim Fructerman of Benetech, Katherine Freund of ITNAmerica, Michael Brown of City Year, and Jon Schnur of New Leaders—have had opportunities to testify at federal congressional hearings regarding their social issue areas. Such opportunities both recognize them as leaders in their fields and allow them to influence the environments in which they operate.

For New Leaders for New Schools, local governments have created an enabling environment by helping to convene internal leaders and community stakeholders to support the initiative when it enters a new city. Both to ensure public, private, and community support and because the New Leaders financial model requires ongoing private sector funding, interested municipalities must convene external community leaders for fundraising and other types of community support. In its third year of operation, the New Leaders model has gained such credibility that it has begun hosting city competitions

107 For details, see Maine State Legislature, *An Act to Promote Access to Transportation for Seniors*.

between municipalities in order to choose its next expansion site. The winning sites are those most able to demonstrate that they can create an enabling environment, marshalling city leaders, government resources, and engaged citizen groups who can demonstrate the interest and energy to develop New Leaders in their cities. New Leaders has now selected six of the nine cities in which it operates through this city competition process.

Rewarding Performance

Another powerful way government has supported the work of social entrepreneurs is by rewarding their performance through government financial support. As Howard Husock, director of the Manhattan Institute's Social Entrepreneurship Initiative, points out, "Social entrepreneurs want access to reliable sources of financing that recognize performance."¹⁰⁸ Four of the organizations in the interview pool have received government support in the form of performance-based rewards, through funding and purchasing. These rewards, in turn, have further enabled these organizations to leverage public and private resources and develop solutions.

When social entrepreneurs' innovations begin to catch on, government can recognize their positive results and reward their performance by institutionalizing funding. For example, following RSVP's success in reducing recidivism among criminal offenders, San Francisco city managers established RSVP as a line item in the budget to ensure continued funding for the initiative even after private grant funding ran out. As discussed in the previous section, City Year also benefits from institutionalized funding, as one of 800 nonprofits to receive federal funding from the Americorps program that it also helped to inspire.

When social entrepreneurs produce and sell socially beneficial goods or services, another way government rewards performance is through purchasing their products. One of the single largest customers for the Arkenstone Reading Machine is the U.S. Department of Veterans Affairs (VA), which purchases the technology and distributes it to patients at VA hospitals. Similarly, Outside the Classroom's Web-based curriculum is sold to public universities across the nation. While CEO Brandon Busted admits that private universities, which typically have greater discretion in their spending, were among the first to purchase the new technology, their positive results

108 Howard Husock, (director, Manhattan Institute Social Entrepreneurship Initiative), interview with the author, May 9, 2007

in reducing substance abuse and dropout rates have been rewarded with an expanding base of public university customers.

Scaling Success

Often, the best reward for successful performance in social entrepreneurship is having the chance to scale success. Expanding the reach of a proven solution in a situation of market failure is often critical if the solution is to be truly transformative. While for-profit companies can use an initial public offering (IPO) to secure the funds for the huge initial investment that scaling requires, there is no equivalent available to social entrepreneurs—who, even if they have developed a low-profit model, rarely operate within traditional profit margins to scale, let alone go public. As a result, in interviews, government often came up as the equivalent of an IPO that could help social entrepreneurs scale their approaches. As Jeff Bradach of the nonprofit consulting firm, the Bridgespan Group, explains, “While private funders will sometimes provide seed money to stimulate the development of local programs, they rarely supply the capital to build a network of sites. The one exception to this rule is the federal government, which sometimes supports the proliferation of successful programs.”¹⁰⁹ For the social entrepreneurs discussed in the cases below, government at the federal, state, and local levels has played an important role in scaling their initiatives.

At the city level, government municipalities around the country have begun to hear about the quality of New Leaders’ principals and the ease of working with New Leaders staff. Many now approach New Leaders with a desire to replicate the model. The demand has been so great that each time New Leaders has the capacity to expand they host a competitive “bidding” process. New Leaders now operates in nine cities.

In the case of ITN*America*, which started in Portland, Maine, scale has taken place in several ways. First, state legislatures and governors’ offices have stepped forward with replication funds in Connecticut, New York, Utah, and Illinois, and state legislatures in Rhode Island¹¹⁰ and Hawaii¹¹¹ have passed resolutions to plan for ITN replication or to support fed-

109 Bradach, “Going to Scale,” 25.

110 Rhode Island State Legislature, *Requesting the Department of Elderly Affairs and the Advisory Commission on Aging to Study all Aspects of the Independent Transportation Network*.

111 Hawaii State Legislature, *Transportation for Senior Citizens and Visually Impaired Persons*.

eral efforts for expansion. Second, the federal government has supported spreading information about the model. In 2000, Executive Director Katherine Freund was selected as a National Transit Institute Fellow, a program paid for by the federal government and administered by Rutgers University in New Jersey. She traveled to 13 states to share what she had learned in starting *ITNAmerica*. Because of the federal support, many senior transportation programs have used *ITNAmerica* learnings to improve their own services.

There may be a third way in which the *ITNAmerica* model will be scaled, which could be seen as the equivalent of an IPO. In 2006, Senator Susan M. Collins from Maine introduced the Older Americans Sustainable Mobility Act of 2006 based on the *ITNAmerica* model. As Collins stated in her Senate testimony, the legislation would “create a five-year demonstration project, overseen by the Administration on Aging, to establish a national, nonprofit senior transportation network to help provide some transportation alternatives to our aging population.” This last example of scale shows how scaling at the federal level can end up having major benefits not only for the social entrepreneur whose innovation is replicated, but also for the government that can take up new solutions once they have been tested and honed by social entrepreneurs. In Collins’ words: “The goal of this network is to build upon creative, successful models that are already showing how the transportation needs of older Americans can be met in a manner that is economically sustainable. This last point is important, Mr. President. Senior transportation is a complex and expensive logistical problem. We cannot expect to address this problem by creating a brand-new, expansive, federal government program that requires the commitment of vast sums year after year in order to succeed.”¹¹²

City Year provides another example of how federal and city governments have supported scale. City Year received a critical federal grant in 1995, when the organization operated in just one city. The money allowed expansion into five additional cities over five years. In addition, City Year, as part of a larger coalition of advocates for national service, worked with elected federal policymakers to establish the Corporation for National and Community Service. One of the Corporation for National and Community Service’s three core programs, AmeriCorps, is based on the City Year model and may be the best

112 Collins, “Introduction of the S. 2311: ‘Older Americans Sustainable Mobility Act of 2006.’”

example of an IPO equivalent that succeeded in supporting a social entrepreneur in scaling their approach.

Producing Knowledge

Innovation most often requires making use of reliable information that can help to answer such questions as: What is the target social problem? How many people are affected? Are current or past activities effective in making changes? For this reason, successful social entrepreneurship is often closely associated with what Gregory Dees calls “market-like feedback mechanisms.”¹¹³ Government often plays a critical role as a resource and partner for producing knowledge that helps identify the problems, document the solutions, and compare various interventions against standards for success. Government specifically provides research data, establishes critical standards, and produces or funds evaluations that provide critical information for those working toward solving social problems.

For example, *ITNAmerica*, Benetech, and KaBOOM! all have relied on government data and research to understand the nature of the social problems they are working to address. For *ITNAmerica*, federally funded transportation studies revealed the safety concerns for older drivers that have become an essential part of justifying the need for *ITNAmerica*'s service. Census data were also useful in predicting the growing size of the senior citizen population, and allowed for program planning. Benetech also relied on Census data to understand the prevalence of visual impairment in estimating the size of its customer base. For KaBOOM!, government tracking of playgrounds actually began after their initiative was well established. They regard the fact that the federal government now records the number of playgrounds as a sign of their program's influence. They use the government reports to gauge their own “market share” of playground development and the successful start-up of similar KaBOOM!-like organizations around the country.

Government data are important not only for problem identification but also for setting standards and gauging success. New Leaders uses government data as a central measure of program success. Student achievement is measured across the country using standardized, federally mandated tests. Federal standards allow New Leaders to compare the performance of students in schools led by their principals to students in non-New Leaders schools and

113 Dees, “The Meaning of ‘Social Entrepreneurship,’” 6.

in other similar districts. The federal data also allow New Leaders to gauge their own progress over time, assessing whether their initiative is taking deeper hold and whether they are influencing district-wide student performance gains. Because of government's role in producing clear, comparable standards, New Leaders and others working in the education field have detailed metrics that outline their path to success—metrics that are critical for their own evaluation, comparison to peers, and ultimately for knowing the social impact of their efforts.

Finally, for RSVP, government played a key role in producing knowledge directly about the program. Submitting their program to an independent, randomized evaluation study, RSVP has strong evidence of program effectiveness and was partially funded with public dollars.

Summary: How Government Supports Social-entrepreneurial Initiatives

Table 6.2 provides an overview of all eight case studies and government's five methods of involvement. Notably, while each of the case studies was supported by government in at least one of the five ways, none of the social entrepreneurs benefited from government in all five ways.

Conclusion

This chapter was developed to introduce government leaders to the field of social entrepreneurship. It also represents one of the first explorations of the relationship between social entrepreneurship and government. The eight case studies discussed here each showed a social-entrepreneurial initiative responding to some type of market failure—ranging from restoring prisoners to their communities to preventing drug and alcohol abuse on university campuses. Each of the organizations highlighted has developed transformative innovations—from technology to support the blind, to training and mentorship of high-school principals. They have built financially sustainable models, gaining efficiency by relying on volunteers, marrying their social problems to complementary private sector funding sources, convincing satisfied consumers to pay for services, and developing new markets to sell their products at profitable price points. All of their models have benefited both government and society as a result.

Table 6.2 Government Involvement with Social-Entrepreneurial Initiatives

Method of government support

Social entrepreneur	Encouraging social innovation	Creating an enabling environment	Rewarding performance	Scaling success	Producing knowledge
ITNAmerica	Seed funding. Three federal grants and a federal congressional designation of funds used to develop model.	Breaking barriers. State policy changes, facilitated car donations, support volunteers' car insurance. Credibility. Elected officials participate, lending recognition and media coverage, founder appointed by the president to the Advisory Committee for the White House Conference on Aging.		Replication. States and cities sign on as replication sites; federal legislation introduced to scale the ITN model nationally. Spread information. Federally sponsored fellowship provided founder with platform to visit 13 cities to encourage adoption of elements of the program.	Research/data. Government data help show safety of older drivers and predict size of elderly population.
City Year	Credibility. Elected officials frequently visit and champion initiative, founder testified to U.S. Congress.		Funding. Established initiative receives consistent federal grants to support model.	Replication. Federal grant allowed expansion to new cities. Federal government embraced national service model and established Corporation for National and Community Service and Americorps.	Research/data. Government reports on volunteerism statistics, cost savings of volunteers.
Benetech	Credibility. Founder testified to U.S. Congress.		Purchasing. Federal agencies purchase the reading machine.		Research/data. Government data assist in understanding customer base.
KaBOOM!	Credibility. Elected officials participate, lending recognition and media coverage.		Purchasing. Some city parks departments use in lieu of their own processes and purchasing.		Research/data. Government recently began collecting national statistics on playgrounds.

Table 6.2 Government Involvement with Social-Entrepreneurial Initiatives —continued

Method of government support

Social entrepreneur	Encouraging social innovation	Creating an enabling environment	Rewarding performance	Scaling success	Producing knowledge
New Leaders for New Schools		Convening. Cities unite internal staff and community leaders to support local New Leaders initiatives.		Replication. Once model was established, cities began to compete to be New Leaders sites.	Standards. Gauge success using federal measures of student performance. Evaluation. Sponsored study of program effectiveness.
Resolve to Stop the Violence Program	Seed funding. Initiative created by government staff and public resources.		Funding. Established initiative added to city budget, institutionalizing the approach.		
Outside the Classroom		Credibility. Endorsement by First Lady of North Dakota helped reach new customer base.	Purchasing. Public institutions of higher learning purchase the curriculum.		
TROSA	Seed funding. Low-interest loans and financing for residential facilities.		Purchasing. State contracts for services to prisoners.		

The previous sections of this chapter have also highlighted numerous ways in which government is already supporting social entrepreneurship in the United States. In fact, in many cases, the support of government leaders has been essential to social entrepreneurs' success. Yet, while each of the social entrepreneurs interviewed could point to at least one example of individualized government collaboration, all expressed an interest in a coordinated governmental approach to supporting and ultimately increasing the impact of social-entrepreneurial initiatives.

Interviews with social entrepreneurs and other experts in the field repeatedly suggested that there is good reason for government to begin thinking this way. First, social entrepreneurs have demonstrated remarkable success in advancing promising solutions to social problems that governments, too, seek to address. As College Summit Founder J. B. Schramm puts it, "Social entrepreneurship offers government an opportunity to leverage its dollars much farther than ever before. Social entrepreneurs are on the ground. We're seeing and addressing problems two steps ahead of everyone else, and we can share what we know on Capitol Hill."¹¹⁴ Second, as the current generation of social entrepreneurs seeks to further maximize their impact, they are finding over and over again that local, state, and federal governments hold the key to unlocking their full potential. As Skoll Foundation's Lance Henderson states, "A lot of people are talking about how public policy—through ideas like new organizational forms, new tax incentives, and other government policies—can be an important lever for change."¹¹⁵

Three brand new initiatives that cropped up during the writing of this chapter, summarized in Table 6.3, have provided evidence that not only social entrepreneurs are looking for ways for government to join forces with social-entrepreneurial initiatives. Government, too, has begun to seek opportunities to join forces strategically with social entrepreneurs:

Louisiana's Office of Social Entrepreneurship

Following the devastation of Hurricanes Katrina and Rita, Louisiana Lieutenant Governor Mitch Landrieu and his office have been determined to find inspired solutions to the myriad problems facing the state. The unprecedented needs associated with rebuilding have amplified already

114 J. B. Schramm, (founder, College Summit), interview with authors, June 4, 2007.

115 Henderson interview, June 7, 2007.

Table 6.3 Recent Government Support of Social Entrepreneurship

2007 Social entrepreneurship and government initiatives	Overview
Louisiana's Office of Social Entrepreneurship	The first-ever governmental Office of Social Entrepreneurship in the United States aims to shift the orientation of social services in the states to a results-driven approach, and designates the city of New Orleans as a Social Entrepreneurship Empowerment Zone.
North Carolina Low-profit Limited Liability Partnership Company (L3C)	This legislation would create a new organizational identity—a low-profit limited liability partnership company (L3C). L3Cs would operate as private enterprises, but with charitable or educational purposes, no significant purpose of income or appreciation of property, and no express political or legislative advocacy mission. The primary purpose would be to allow socially motivated profit-making partnerships to gain access to philanthropic funds through a little-used but already established vehicle called program-related investments (PRIs).
Girl Scouts of the USA Challenge and Change	Funded by the U.S. Department of Agriculture, this program is currently being piloted with teen girls in 22 communities across the country. It focuses on teaching social entrepreneurship to girls in rural areas, beginning with a five-day retreat where they learn leadership, problem solving, and entrepreneurial skills.

intense demands on the state's social service system. Simultaneously, the unprecedented flow of emergency funds and philanthropic support to the region has created new opportunities—but with strong demands to see meaningful results.¹¹⁶

Early in 2007, Landrieu founded the first ever Office of Social Entrepreneurship, which aims to shift the orientation of the social-services sector of the state to a results-driven approach, and designates the city of New Orleans as a “Social Entrepreneurship Empowerment Zone,” with the intention of making it “the most hospitable place in the country for those who are testing and launching the best, most effective new program models for social change.”¹¹⁷

North Carolina's Low-Profit, Limited Liability Partnership Company (L3C)

Also in early 2007, in North Carolina, State Senator Jim Jacumin introduced legislation that would create a new organizational identity: a low-profit, limited liability partnership company (L3C). Developed by the Mary Elizabeth & Gordon B. Mannweiler Foundation CEO Robert Lang—with help from

116 Landrieu, keynote address, New York University Stern School of Business Berkeley Center for Entrepreneurial Studies Fourth Annual Conference of Social Entrepreneurs, April 13, 2007.

117 Ibid.

Marcus Owens, a partner in Caplin & Drysdale and former head of the Exempt Organization Division of the IRS—L3C is an organizational type that recognizes the unique blending of the three sectors. L3Cs operate as private enterprises, yet must have charitable or educational purposes, no significant purpose of income or appreciation of property, and no express political or legislative advocacy mission.¹¹⁸ The primary purpose of the L3C is to allow profit-making partnerships to nonetheless gain access to philanthropic funds, through a little-used but already established vehicle called Program Related Investments or PRIs.¹¹⁹ Establishing the L3C would also give low-profit-market social entrepreneurship in North Carolina the added recognition and credibility of a new, distinctive organizational form.¹²⁰

Girl Scouts of the USA's Challenge and Change: Challenge Yourself, Change the World

In 2006 the U.S. Department of Agriculture provided funding to the Girl Scouts of the USA to develop a new national program to strengthen rural communities through teen leadership. The program was developed through a unique collaboration between the Learning Innovation and Technology Consortium and Girl Scouts of the USA. The program “Challenge and Change: Challenge Yourself, Change the World” teaches teenage girls how to become social entrepreneurs, and it has been implemented in more than 20 states. It begins with a five-day retreat where girls learn leadership, problem-solving, and entrepreneurial skills through a comprehensive multimedia curriculum. They learn to apply the strategies of successful social entrepreneurs by watching and analyzing social entrepreneurs in action, including those profiled in *The New Heroes*, a PBS documentary series about social entrepreneurs from around the world. To bring the topic closer to home, girls

118 To be designated an L3C, an organization must satisfy the following requirements: (1) the entity significantly furthers the accomplishment of one or more charitable or educational purposes within the meaning of section 170(c)(2)(B) of the Internal Revenue Code of 1986, as amended, and would not have been formed but for the entity's relationship to the accomplishment of charitable or educational purposes; (2) No significant purpose of the entity is the production of income or the appreciation of property; provided, however, that the fact that an entity produces significant income or capital appreciation shall not, in the absence of other factors, be conclusive evidence of a significant purpose involving the production of income or the appreciation of property; and (3) No purpose of the entity is to accomplish one or more political or legislative purposes within the meaning of section 170(c)(2)(D) of the Code, as amended.

119 Lang, “Charitable Returns.”

120 The “branded” L3C would also provide a basis for the issuance of commercial paper that could be sold to a wide variety of investors, as foundations (under PRI rules) would absorb the highest level of risk, making the remaining investment tranches attractive to additional investors at attractive rates of return.

also take field trips to meet social entrepreneurs in their own local communities. Challenge and Change teaches girls skills that will help them to identify community problems, recognize and build on local assets, design sustainable solutions, and implement their own action plans.

As social entrepreneurship begins to capture the attention of policy makers, the research here also suggests a number of levers that could guide government in further efforts to strategically support social entrepreneurship, in addition to the examples provided by the initiatives described above. These include certification programs like the U.S. Small Business Administration's initiative focused on promoting business within Historically Underutilized Business Zones, or HUBZones.¹²¹ As City Year Co-Founder Alan Khazei has pointed out, this type of program could serve as a model for encouraging social entrepreneurs to scale their approaches in historically difficult areas: "Government could help to bring high-performing social entrepreneurs to needy areas by establishing a special matching fund: social entrepreneurs who choose to operate in targeted areas would be eligible for additional funding, for example, matching two to one the funds raised privately."¹²² Another potential lever is the reallocation of public financing, as exemplified by the use of public funding to encourage the development of charter schools that exercise increased autonomy in their programming, in exchange for increased accountability in terms of academic results and fiscal practices. According to Chris Gabrieli, 2006 Massachusetts gubernatorial candidate and chairman of the education think tank, Mass2020, "Charter school policy opened the door for literally hundreds of social entrepreneurs to try their hands at making a difference on the achievement gap. It has created thousands of schools, ranging from extraordinary successes through mediocrity down to abject failures, with experimentation and learning all along the spectrum."¹²³

Finally, government could look to recent growth-fund approaches that have developed proven methodologies for scaling the success of social entrepreneurs that government could learn from and participate in. In the last decade, two such approaches to fund for-profit and nonprofit social entrepreneurs have emerged. The first, sometimes referred to as venture or

121 U.S. Small Business Administration, "HUBZone," <https://eweb1.sba.gov/hubzone/internet/general/whoware.cfm#3>.

122 Alan Khazei, (co-founder, City Year), interview with the author, May 29, 2007.

123 Chris Gabrieli, (chairman, Mass2020), interview with author, June 11, 2007.

engaged philanthropy, combines grant making and management assistance for nonprofit social entrepreneurs, while the second, sometimes called social venture capital, makes debt and equity investments to for-profit organizations acting on what this chapter calls low-profit-market opportunities.¹²⁴ Both approaches borrow heavily from the private sector's venture-capital practices, where initial investment decisions are typically measured against the organization's past history and a business plan that describes the next three to five years of growth, with clear indicators to measure success.

The early examples of government support for social entrepreneurship—along with the additional levers available to policymakers—suggest that government support of social entrepreneurship has the potential to be as diverse and innovative as the field itself. At the same time, the nonprofit sector is beginning to find new and innovative ways to collaborate with government in supporting social entrepreneurship. The Aspen Institute, most recently with the help of the Social Enterprise Alliance, has convened several meetings aimed at exploring new organizational forms that policymakers could create. Harvard University's Initiative on Social Enterprise has also held a meeting on this topic. Another recent initiative from within the nonprofit sector is New Profit, Inc.'s Action Tank, launched in 2006 to develop, pilot, and promote new nonpartisan approaches to public problem solving that tap the principles and results of social entrepreneurship to create broad-scale social change. The Action Tank seeks to play a leadership role in closing the gap between policymakers and social entrepreneurs at the local, state, and federal levels.

These new initiatives constitute the first wave of what is likely to be a flood of new experiments in governmental support of social entrepreneurship—as that support on the local, state, and federal levels transitions from one of occasional, one-time support to a strategic, long-term strategy for leveraging the successes of social entrepreneurs into enduring solutions for the nation's most pressing social problems. Government leaders and social entrepreneurs have an opportunity to generate enormous social benefit, if

124 Some of the venture-philanthropy groups best known for this new approach that government could learn from and work with include Atlantic Philanthropies, Edna McConnell Clark Foundation, New Profit Inc., Robin Hood. Foundation, Roberts Enterprise Development Fund, the Skoll Foundation, Venture Philanthropy Partners, and the Wallace Foundation. Some of the best known social venture capital groups include Acumen Fund, Good Capital, Investors Circle, and the New Schools Venture Fund; the last one actually provides both grants and investment to nonprofits and for-profits in the education sector. More recently, super-growth funds have emerged attempting to raise tens of millions of dollars for social entrepreneurs much like investment banks for private companies, including Sea Change Capital, started by former Goldman Sachs executives, and Growth Philanthropy Capital.

they can find ways to work in true strategic partnership. Americans may already be witnessing the beginnings of what City Year Co-Founder Alan Khazei calls “a new role for government in the 21st century. Increasingly, government will be working in partnership with the other two sectors, and, in particular, leveraging social entrepreneurs.”¹²⁵

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¹²⁵ Khazei interview, May 29, 2007.

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