

Selling a Dream by Ann Monroe

The small yogurt factory on a dirt road in Bangladesh doesn't look like much. But it's one of the first fruits of what is the hottest new trend in one of the 21st century's hottest concepts – social entrepreneurship.

The factory is the brainchild of micro-lending pioneer Mohammed Yunus, and is structured as a joint venture between Yunus's Grameen Bank and French food giant Danone. The profits from the project won't go to Danone (though the company will get back its capital); they'll be reinvested. But the plant will provide income for about 1,600 people who live nearby: its 15-20 employees, the Grameen-financed farmers who sell it milk, and the Grameen-financed vendors who will sell the yogurt door to door. When the plant opened last November, Yunus told an Indian newspaper that if it prospers, "we'll have such plants all over the country in about 10 years."

What makes this tiny factory such a Big Deal? Because if social entrepreneurs, already an effective force in battling the world's ills, can find a way to tap into the financial resources of large companies like Danone, it could exponentially increase that effectiveness.

These days, it seems as though wherever you turn, somebody's talking about social entrepreneurs. Universities are racing to add the subject to their curricula, social entrepreneur of the year contests are multiplying, and – in perhaps the ultimate proof that the concept has moved into the mainstream – social entrepreneur consulting firms are springing up like weeds.

But what is a social entrepreneur exactly? First of all, someone who – like any entrepreneur – changes the way things are done. Folks who, as J. Gregory Dees, who teaches social entrepreneurship and non-profit management at Duke University's Fuqua School of Business, puts it, "reform or revolutionize the process of production." The difference between a business entrepreneur and a social entrepreneur is that the processes the social entrepreneur is revolutionizing are the ones that underlie the most intractable social issues: poverty, homelessness, environmental degradation, and many more. And the difference between a social entrepreneur and a traditional non-profit is that the social entrepreneur uses business tactics and strategies – and frequently an actual business – to achieve his goals.

Those businesses are often profitable. (Last year Grameen Bank made \$20 million in profit on \$135 million in revenue.) But very few, Dees says, are making their founders rich. Instead, they plow any profits back into the business so that it can expand to solve problems on an even wider scale. Yunus – who founded Grameen to make tiny loans to people too poor to borrow money except at exorbitant interest rates – is perhaps the world's most famous social entrepreneur, but he's far from the only one, as the profiles in this issue make clear.

What's made the field such a hot one? Well, Yunus's Nobel didn't hurt. The advent of the dot.com millionaires has also changed the charitable playing field. They don't want to support the same charities forever, as a previous generation of philanthropists did. Instead, these so-called venture philanthropists want their money to build organizations that can sustain themselves – and grow – without constant infusions

of charity. In addition, businessmen like Ebay founder Jeff Skoll have made it their business to find, train and support social entrepreneurs.

Basically, though, social entrepreneurship is hot because it appeals to two of the most powerful of human instincts – the craving to build something big and exciting, and the desire to leave the world a better place than you found it. More conventional entrepreneurs – including Bill Gates – satisfy the first of those instincts and then use the wealth they’ve gained to fulfill the second. Social entrepreneurs, on the other hand, want to have their cake and eat it too – to build something and change the world all at the same time.

Beyond the current sex appeal of social entrepreneurship, though, lies what may be a fundamental shift in the understanding of business and social issues. Perhaps in reaction to the “greed is good” years of the 70’s and 80’s, an increasing number of thinkers are proposing a new model of the role of business. Sometimes called the triple bottom line or blended value, this way of looking at business argues that social problems have real costs, and thus that there is real value in addressing them – value that is not currently reflected in a corporation’s bottom line, but that should be. Danone CEO Franck Riboud has said the group may eventually take such a step; in the meantime it’s set up a socially responsible mutual fund, open to its shareholders, which will finance the next two yogurt factories and other similar projects.

At the same time, long-time social entrepreneurs like Yunus and Bill Drayton, founder of Ashoka, are arguing that social organizations can’t achieve their maximum potential until they are self-supporting. When a social entrepreneur’s organization is finally earning more than it’s spending, said Yunus in a speech last year, “he has overcome the gravitational force of financial dependence and now is ready for space flight!”

Put these two strands of thought together and it’s no wonder that businesses and social entrepreneurs are increasingly teaming up. Some businesses are even finding profit in doing so. Last year, Citigroup put together a \$180 million bond offering backed by micro-credit loans, thus freeing up additional funds for new loans. Ashoka is working with Mexican irrigation equipment maker Amanco to install irrigation systems for poor Latin American farmers. Organizations run by social entrepreneurs market and sell the systems, bringing them a steady source of income, and the systems sell at a price that also brings Amanco a profit. (Wal-Mart is also helping to market the systems.)

One of the big factors keeping social entrepreneurship in the public eye is the enthusiasm of academic institutions. Business schools at dozens of universities, including Harvard, Columbia, Duke, New York University and Oxford, have set up programs to teach social entrepreneurship. In addition to offering courses, they often provide grants for students to start their own projects as well as contact with successful social entrepreneurs. A number of organizations have also begun trying to reach potential social entrepreneurs even before college. Youth Venture, an organization that works with Ashoka, offers – in addition to support and training – grants of up to \$1000 for young people to start their own ventures. Youth Social Enterprise a project of Malaysia’s Global Knowledge Partnership, offers seed grants up to \$15,000 for the same purpose.

More influential still is a trio of organizations, all set up by businessmen, that support and nurture social entrepreneurs. The best known and oldest of these is Ashoka; Drayton's background includes 10 years at the McKinsey consulting firm. Its fellows get an average of \$12,000 a year for three years, as well as training and backup. The Schwab Foundation, set up by Swiss economist Klaus Schwab and his wife in 1998, provides support, but no money. And the Skoll Foundation, founded in 1999, describes itself - in true Silicon Valley style - as providing mezzanine (venture capitalist-speak for second-stage) funding, in the form of grants or loans, to organizations that have operated successfully for at least three years and want to grow.

All this enthusiasm can mask a blunt fact: many - perhaps most - social enterprises fail. Marrying a social cause with a business enterprise makes both jobs more difficult, says Edward Skloot, recently retired president of the Surdna Foundation, who's followed the social entrepreneur movement for years. "What you're talking about, first off, is a business," he says, "and if it doesn't work on the business side, it may hurt the social side."

Drayton, whose organization runs one of the best-known and most rigorous programs for developing social entrepreneurs, blames many failures on the very factor that draws people into the field - idealism. When asked hard questions, he says, "idealists collapse. But if you're dealing with a real entrepreneur, he may get flustered, but you can see the wheels turning."

The movement has also hurt some traditional non-profits by encouraging the unrealistic expectation that every social program should be able to stand on its own feet. In fact, according to a recent report by the Seedco Policy Center, most of them can't. Seedco speaks from its own experience: In 2001, it started a backup child care program for low-income workers that was meant to support itself. But its limited hours attracted few employers, while most employees preferred to stay home with their sick children. The program was ultimately shut down. That's not surprising, according to Jed Emerson, a senior fellow at with Generation Foundation and Oxford University who's done a lot of work on blended value. "The average social worker is not going to be able to run a business venture."

"Creating social value," says Dees flatly, "doesn't bring in revenue." To be successful, a social entrepreneur needs not just an operating strategy, but a resource strategy too. If you're going to depend on volunteers, for instance, Dees says, you've got to think about where you'll find the volunteers and whether they'll deliver the quality you need.

One crucial way in which social entrepreneurs need to operate like business entrepreneurs, says Drayton, is that they need to deal with the world as they find it and not as they believe it should be. He cites the example of a Brazilian determined to end the trade in wild animals. The police weren't helping, so he started trying to find out why. "It turns out," Drayton says, "that if you're running a police station, the last thing you want is to find a consignment of wild animals that you have to take to the police station. Then what do you do?" The solution - to figure out a way to take the animals off the cops' hands. "Social entrepreneurs have to listen for the slightest squeak that shows where something isn't working," Drayton says.

As the movement attracts more and more attention, some observers question whether its actual accomplishments match the hype. That's hard to gauge, since the movement's loose-knit and overall statistics are hard to come by. Skloot's a bit of a skeptic. "I think the publicity around social entrepreneurship is several yards ahead of reality," he says. "It's not that it has no impact or power, but that we're a long way from seeing it institutionalized."

But Drayton says that's coming. As the methods and thought patterns of social and business entrepreneurs come closer together, the whole boundary between the social and the business realm is going to evaporate, he predicts. "The boundary line is already confused, and it's only going to get more confusing."

Now if only some economist would put a dollar value on ending poverty.....

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