

À Nantes

29 & 30 Septembre 2008

Colloque

Economie sociale et solidaire : « Nouvelles pratiques et Dynamiques territoriales »

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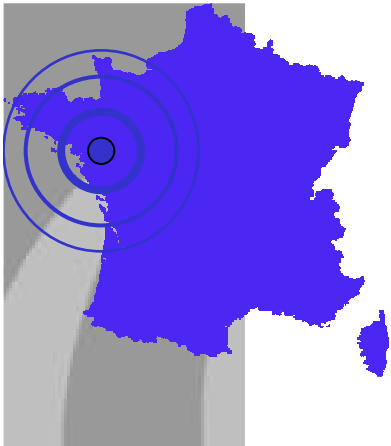
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Social Entrepreneurship and the Financing of Third Sector Organizations

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Paper co-authored with Mary Clark Grinsfelder

Key questions

- What is social entrepreneurship?
- How does it differ from business entrepreneurship?
- What are the distinct skills and capacities needed for successful social entrepreneurship?
- How do these skills vary within the realm of “social enterprise”; i.e., different funding environments and field of service?
- What are the implications for educating social entrepreneurs?

Line of argument

- Third sector organizations vary widely in their means of financing
- Social enterprise ventures are (therefore) also likely to vary widely in their financing
- Different sources of financing require different mixes of entrepreneurial knowledge and skills
- Entrepreneurial capacities include market, political and managerial skills of various kinds

Presentation plan

- Definitions of social entrepreneurship
- Review of third sector financing
- Discussion of skills required for different financial environments
- Case studies of social enterprise ventures and their financing
- Preliminary observations on the financing of social enterprises and the entrepreneurial skills required
- Implications for educating social entrepreneurs

What is social entrepreneurship?

- A strand of generic entrepreneurship emphasizing innovations and “new combinations”
- Emphasis on earned income and market-based activity?
- Just a variant of business entrepreneurship or a phenomenon of its own?
 - Skills common to all entrepreneurs
 - Skills distinct to social entrepreneurs

Three overlapping entrepreneurial arenas for social entrepreneurs

- Markets
- Government
- Philanthropy

Sources of Revenue of Third Sector Organizations in Selected Countries

Source: Salamon, Sokoloski and Associates (2004)

Country	%Fees	%Government	%Philanthropy
<i>Mexico</i>	85%	5%	3%
<i>Sweden</i>	62%	29%	9%
<i>U.S.A.</i>	57%	31%	13%
<i>Japan</i>	52%	45%	3%
<i>France</i>	35%	58%	8%
<i>U.K.</i>	45%	47%	9%
<i>South Africa</i>	32%	44%	24%
34 Country Avg	53%	34%	12%

Sources of Revenue for U.S. Nonprofit Organizations by Field of Service

Source: Wing, Pollak and Blackwood (2008)

	Fees	Private Gifts	Gov't grants	Invest. Income	Other
<i>ALL</i>	70.3%	12.3%	9%	5.4%	2.9%
Arts	31.3%	40.8%	12.5%	7.7%	7.7%
Education	55.9%	14.9%	11.9%	14.1%	3.1%
Environment	25.1%	48%	14.1%	5.8%	6.9%
Health	87.5%	4%	3.4%	2.9%	2.2%
Human Serv.	53.1%	16.4%	22.7%	2.9%	4.9%
International	7.6%	67.3%	21.9%	2.2%	1%

Concentration of Nonprofit Revenues by Field of Service

Source: Chang and Tuckman (1994)

Subsector	Mean	Standard Deviation	Coeff. of Variation
Arts/Culture	0.50	0.22	0.44
Education	0.67	0.22	0.33
Health	0.71	0.22	0.31
Human Services	0.65	0.23	0.32
TOTAL	0.66	0.24	0.36

Alternative Entrepreneurial Skill Sets for Mobilizing Venture Resources

	Market Skills	Political Skills	Management Skills
Earned Income	Business planning Marketing/pricing <i>Securing venture capital</i>	<i>Relationships with partners, suppliers, investors; customer relations; industry networking</i>	<i>Financial planning & management; workforce motivation and productivity</i>
Government Funding	<i>Assessing political opportunities; framing proposals; grants & contracts; partnerships</i>	<i>Relationships with gov't officials; advocacy; maintaining public image and reputation.</i>	<i>Gov't regulation and reporting; evaluation and performance assessment</i>
Giving and Volunteering	<i>Prospect research; grant writing; donor solicitation; cause marketing; visioning</i>	<i>Cultivating donors and volunteers; public trust; cultivating corporations & foundations</i>	<i>Volunteer management; strategic planning; fund accounting; performance reporting</i>

Case Studies: a caveat

- Cases selected from existing recent collections and studies, mostly in the U.S.
- Observations here are only suggestive; systematic large scale surveys and comparisons of social and business ventures are needed to fully differentiate between social and business entrepreneurship and the distinctive knowledge and skills needed for each

Entrepreneurial Skills for Selected Social Enterprise Ventures

Case	Market skills	Political skills	Management skills	Principal funding
<i>NFTE</i>	3	1	2	Philanthropy
<i>Newman's Own</i>	1	3	2	Earned income
<i>Ka-BOOM!</i>	2	1	3	Philanthropy
<i>STRIVE</i>	2	1	3	Philanthropy
<i>TROSA</i>	1	3	2	Earned Income
<i>ReServe</i>	3	1	2	Philanthropy
<i>ITNAmerica</i>	2	1	3	Philanthropy
<i>College Summit</i>	2	1	3	Philanthropy
<i>La.Art Works</i>	3	1	2	Government
<i>Benetech</i>	1	3	2	Earned Income
<i>MDRI</i>	2	1	3	Philanthropy
<i>MSR</i>	2	1	3	Government
<i>IBJ</i>	2	1	3	Philanthropy
<i>GSA Network</i>	2	1	3	Philanthropy

Observations from case studies

- To a degree, entrepreneurship is generic across contexts, involving determination, basic business sense, focus on innovation, etc.
- But social entrepreneurship *is* distinct from business entrepreneurship in its required sets of skills and economic supports
- Social entrepreneurs must negotiate multiple different funding sources and environments, and require a correspondingly broad set of skills
- *Political* (negotiating; relationship building) skills appear to dominate in social ventures. These are not simply businesses
- *Philanthropy* appears to be the most important source of initial and sustaining funding for new social ventures. Earned income is not the magic bullet
- All new ventures have high failure rates; philanthropy seems to be helping new social ventures through their early stages and well into their maturity

Implications

- While the business ethic inspires social entrepreneurship, commerce per se is not the sustaining element of the new social entrepreneurship. The emphasis on earned income needs to be decoupled from social enterprise if the full benefits of social entrepreneurship are to be realized
- Social entrepreneurs require a wide range of knowledge and skills relating to markets, government and philanthropy as well as organizational management
- Neither entrepreneurship education in business schools nor nonprofit management education in schools of public administration and other venues offer the full spectrum of required knowledge and training
- Educational programming for social entrepreneurship in these venues could be broadened or combined to good effect

Finally, the immortal words of Jean-Baptiste Say continue to apply to the new social entrepreneurs

“It is usually the entrepreneur who must find the funds needed for his project...[and] be able to obtain the capital that he himself does not possess..

...These conditions exclude many people from the competition

...this kind of work requires knowledge and judgment...Those who..undertake this kind of work without sufficient ability make products whose value does not pay for the cost of production...”

From *An Economist in Troubled Times: Writings*, translated by R.R. Palmer, p.72, Princeton University Press, 1997