§1 Introduction

According to Daft and Marcic, “social entrepreneurship” seeks to launch and build companies that are entirely focused on combining good business with good citizen and the leaders of these companies, the “social entrepreneurs”, are primarily interested in improving society rather than maximizing profits while nonetheless demanding high performance standards and accountability for results.\(^1\) Examples of “for profit” social entrepreneurship run the gambit of commercial activities from partnering with traditional banks to offer microloans to small businesses in developing countries to launching manufacturing facilities in poor areas to provide jobs and produce products that can be distributed at no costs to community members to improve their lives. While many of these businesses are not started with the intent to generate significant profits, a number of them have achieved impressive profits margins and market shares. In addition, Tilley and Young observed that “the concept of social entrepreneur is very broadly interpreted to mean any organization that is operating in a not-for-profit capacity ... [including] ... community based organizations tackling education, poverty, health, welfare and well-being issues as well as organizations attempting to address environmental concerns relating to renewable energy, waste minimization, pollution abatement and water quality (to name a few)”.\(^2\)

Austin et al defined social entrepreneurship as an “innovative, social value creating business activity that can occur within or across the non-profit, business, or government sectors”\(^3\) and van Eijck observed that the “organizational form is usually based on the most attractive form to gain resources for the social mission”.\(^4\) Dees described social entrepreneurs as companies who play the role of change agents in the social sector by adopting a mission to create and sustain value (not just private value); recognizing and relentlessly pursuing new opportunities to serve that mission; engaging in a process of continuous innovation, adaptation, and learning; acting boldly without being limited by resources currently in hand, and exhibiting a heightened sense of accountability to the constituencies served and for the outcomes created.\(^5\)

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\(^3\) J. Austin, H. Stevenson and J. Wei-Skillern, “Social and Commercial Entrepreneurship: Same, different, or both?”, Entrepreneurship Theory and Practice, 30(1) (2006), 1, 2.


When writing about social entrepreneurship, some researchers have largely ignored the economic outcomes associated with the entrepreneurial activities while other researchers do acknowledge that economic performance is relevant but cannot be more important than the social goals and objectives. When social entrepreneurship was first recognized it was typically associated with non-profit organizations; however, as time has gone by the conceptualization has broadened and even non-profits have participated in commercial activities to access financial resources for the social activities that would have otherwise been difficult to obtain. Social entrepreneurship can also create competitive advantages similar to those sought by traditional entrepreneurs (e.g., developing and offering innovation solutions to environmental degradation or a social justice problem) that allow social entrepreneurs to enjoy economic returns without impairing or interfering with their social objectives. As such, it is no longer taboo to profit from satisfying humanitarian and ecological needs so long as the profits are reinvested in activities that further the social objectives (e.g., distribute and add value to employment, investments in machines, infrastructure, sponsoring and labor participation). These elements appear in the definition of sustainable, not social, entrepreneurship offered by Crais and Vereeck: “the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce”.

Social entrepreneurship was first investigated in the 1990s and emerged naturally with the popularization of ecopreneurship, no surprise given that it was impossible for ecopreneurs to achieve their goal of “changing the world” and improving the overall quality of life without also acting in a socially responsible fashion. In fact, several of the definitions of ecopreneurship explicitly incorporate a social dimension. However, as opposed to the ecological and environmental issues and problems that ecopreneurs were focus on, social entrepreneurship gathered speed on the heels of four trends: global wealth disparity; the growth of the corporate social responsibility movement; market, institutional and state failures; technological advances and shared responsibility.

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6 P. Dacin, M. Dacin and M. Matear, “Social Entrepreneurship: Why we don't need a new theory and how we move forward from here”, Academy of Management Perspectives, 24(2) (2010), 36.
Lumpkin et al. suggested that both “traditional” and social entrepreneurs have a lot in common and that many entrepreneurial processes used by the two groups remained the same or are affected only slightly. However, while a traditional entrepreneur measures his or her performance primarily through profits and return on investment, social entrepreneurs generally measure success by creating social capital, social change and addressing social needs. These distinctions are important because they influence the opportunities that social entrepreneurs pursue and their behaviors while operating their businesses (i.e., as opposed to traditional entrepreneurs who are comfortable with and must engage in high risk/high reward behaviors, social entrepreneurs, who are not focused on quick economic profits, are more risk averse but no less committed to their goals of social improvement). As is the case with ecopreneurs, social entrepreneurs are not totally indifferent to profits, or at least “breaking even”, since capital is necessary in order for their businesses to survive over the often lengthy journeys to the desired social impact. This is no small challenge for social entrepreneurs since they often are involved in activities that address a social-market failure caused by a lack of interest of traditional entrepreneurs due to the belief that there is no viable commercial market that will generate an acceptable level of revenues to justify the investment of capital.

§2 Definitions and conceptualizations of social entrepreneurship

Bell and Stellingwerf provided a variety of different definitions and conceptualizations of social entrepreneurship:

- Profit making is not the primary goal of a social entrepreneur and generated profits from market activities should be used for the benefit of a specific disadvantaged group.
- Profit is less important, and the social aspect should be balanced at least equally to profit, a challenge that has been conceptualized as the “double bottom line” that balances both social (people) and economic (profit) returns on investment.
- Social entrepreneurs “play the role of change agents in the social sector, by adopting a mission to create and sustain social value (not just private value), recognizing and relentlessly pursuing new opportunities to serve that mission, engaging in a process of continuous innovation, adaptation, and learning, acting boldly without being limited.

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15 See J. Austin, H. Stevenson and J. Wei-Skillern, “Social and commercial entrepreneurship: Same, different, or both?”, Entrepreneurship: Theory and Practice, 30(1) (2006), 1, 2 (stating that the existence of social-purpose organizations emerge when there is a social-market failure, i.e., commercial market forces do not meet a social need).
17 C. Leadbeater, The rise of the social entrepreneur (London: Demos, 1997).

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by resources currently in hand, and exhibiting heightened accountability to the constituencies served and for the outcomes created.”\(^{19}\)

- Social entrepreneurship “emphasizes innovation and impact, not income, in dealing with social problems” and social entrepreneurs are focused on introducing a novel, innovative technology or approach aimed at creating social impact.\(^{20}\)

- Social Entrepreneurship is “the innovative use and combination of resources to pursue opportunities to catalyze social change and/or address social needs”.\(^{21}\)

- “Social Entrepreneurship encompasses the activities and processes undertaken to discover, define, and exploit opportunities in order to enhance social wealth by creating new ventures or managing existing organizations in an innovative manner.”\(^{22}\)

Like traditional entrepreneurs, social entrepreneurs need to identify and exploit opportunities, create and manage their organizations in innovative ways and, as emphasized by Bell and Stellingwerf, “acquire substantial resources including, human, social and financial capital to not only accomplish their mission, but also to ensure such resources are sustaining the organization’s longevity”.\(^{23}\) This is often quite challenging to social entrepreneurs who often are surprised to find competition that is intense as what is commonplace in the commercial sector. For example, social entrepreneurs must be able to differentiate themselves from other worthy causes and forge and maintain relationships with a number of stakeholder groups including donors, professional employees, volunteers and the intended beneficiaries of the entrepreneurial initiatives.\(^{24}\)

Bell and Stellingwerf observed that the obvious similarity between ecopreneurship and social entrepreneurship is that they both incorporate a “double bottom line” within the company's mission: balancing economic returns with other considerations (i.e., environmental or social impact).\(^{25}\) This observation is consistent with the views of Schaltegger and Wagner, who wrote: “Even though the historic trajectories of these types (Eco- & Social Entrepreneurship) differ, it seems that the underlying motivations for the activities are very similar and this seems to make likely a convergence of these currently rather independent literatures”.\(^{26}\) As discussed below, the anticipated convergence is often defined and described as “sustainable entrepreneurship” or


“sustainability entrepreneurship” and is based on the conceptualization the deployment of entrepreneurial tools and practices to solve either an environmental or societal problem (i.e., recognize market imperfections and/or unmet needs in the realms of ecology or society and address them through the introduction of innovative products, services and processes) while maintaining a focus on creating economic value—in other words, businesses that use the “triple bottom line” as their guide.27

§3 Differentiating between commercial and social entrepreneurship

Entrepreneurship plays an important role in both traditional commercial enterprises and in emerging initiatives to address social issues using business tools and practices. However, there are clearly significant differences between commercial and social entrepreneurship that can be seen in the argument that social entrepreneurship is based on an underlying drive to create social value, rather than personal and shareholder wealth, and that the activities of the social entrepreneur could be characterized as innovative (i.e., the creation of something new rather than simply the replication of existing enterprises or practices). Researchers have attempted to put a finer point on differentiating between commercial and social entrepreneurs by looking at how they approach market failure and identify opportunities, how they perceive and define their “mission”, differences in the challenges that each type of entrepreneur must confront with respect to human and financial resources mobilization, how performance of the enterprise is measured and reported, differences in the critical contextual factors that must be considered as the entrepreneurship process develops and plays out, differences in the needs and expectations of stakeholders that engage in transactional interactions with the enterprises and when and how they partner with other organizations to address and overcome internal resource limitations.

Austin et al. surveyed various definitions of social entrepreneurship and observed that they ranged from broad to narrow.28 Among the broader definitions are those see social entrepreneurship as an “innovative activity with a social objective in either the for-profit sector, such as in social-purpose commercial ventures29 or in corporate social entrepreneurship30; or in the nonprofit sector, or across sectors, such as hybrid structural

forms which mix for-profit and nonprofit approaches\textsuperscript{31}. A much narrower definition focuses on “applying business expertise and market-based skills in the nonprofit sector such as when nonprofit organizations develop innovative approaches to earn income”.\textsuperscript{32} Austin et al. noted that the common factor across all the definitions of social entrepreneurship appears to an underlying drive “to create social value, rather than personal and shareholder wealth”\textsuperscript{33}, and that the activities of the social entrepreneur could be characterized as innovative (i.e., the creation of something new rather than simply the replication of existing enterprises or practices). For themselves, Austin et al. defined social entrepreneurship as “innovative, social value creating activity that can occur within or across the nonprofit, business, or government sectors”\textsuperscript{34}

As noted above, Austin et al., as well as others, acknowledge that social entrepreneurship can be practiced in multiple sectors using different organizational forms and the decision as to form depends, among other things, on the objective of the activity and the optimal strategy for mobilizing the required resources. Austin et al. focused their interest on the nonprofit and business sectors and on differentiating between “commercial entrepreneurs” and “social entrepreneurs” through the examination of four fundamental theoretical propositions:

- **Market failure**: Market failure creates different opportunities for commercial and social entrepreneurs. For example, commercial entrepreneurship may not be a viable option when commercial market forces do not meet a social need (e.g., public goods or situations where the customers needing a product or service are not able to pay). In these situations, social entrepreneurs may see an opportunity where commercial entrepreneurs only see problems in achieving their economic objectives.

- **Mission.** Differences in mission are a fundamental distinguishing factor: “the fundamental purpose of social entrepreneurship is creating social value for the public good, whereas commercial entrepreneurship aims at creating profitable operations resulting in private gain”. This is not to say that social entrepreneurs do not seek, or cannot obtain, profits, nor does it mean that products and services created by commercial entrepreneurs do not have some social value. The key point is that differences in mission will likely manifest itself in multiple areas of enterprise management and personnel motivation.

- **Resource mobilization.** Commercial and social entrepreneurs face different challenges with respect to financial and human resource mobilization that causes them to take fundamentally different approaches to managing their financial and human resources. For example, social entrepreneurs are largely restricted in their ability to tap into the


\textsuperscript{34} J. Austin, H. Stevenson and J. Wei-Skillern, “Social and Commercial Entrepreneurship: Same, different, or both?”, Entrepreneurship Theory and Practice, 30(1) (2006), 1.
same capital markets as commercial entrepreneurs due to the non-distributive restriction on surpluses generated by nonprofit organizations and the social purposes that are deeply embedded in social enterprises. Social entrepreneurs may also find that their inability to compensate staff as competitively as in commercial markets makes it more difficult to recruit the talent needed in order for the venture to be successful and they must often rely on nonpecuniary compensation that is valued by people interested in working on social causes.

- **Performance measurement.** Difficulties in measuring a social entrepreneur’s performance with respect to social impact are a distinguishing factor from commercial entrepreneurship and create complications for social entrepreneurs with respect to accountability and relations with stakeholders. Commercial entrepreneurs, and the stakeholders of such entrepreneurs interested in measuring their performance, have been able to rely on relatively tangible and quantifiable measures of performance such as financial indicators, market share, customer satisfaction, and quality. However, there is far from any consensus on measuring social change due to non-quantifiability, multi-causality, temporal dimensions, and perceptive differences of the social impact created. Moreover, social entrepreneurs have a higher number and wider range of stakeholder relationships, thus increasing the time and effort that must be invested in managing those relationships.\(^35\)

Austin et al. cautioned that the propositions were presently primarily to facilitate comparisons and that in reality one can find many social purpose enterprises that are quite similar to their commercial counterparts, particularly when the social purpose enterprise is engaged in operational activities that include development and sale of products and services that both meet a social need and generate revenues needed in order for the enterprise to remain viable and sustainable and attract financial and human resources. In turn, many commercial enterprises have recognized that there are opportunities for enhancing their economic value by incorporate social purpose into their products, services and business practices, even if they have not wholly embraced “triple-bottom-line” accounting and reporting.

In order to test their propositions, Austin et al. compared commercial and social entrepreneurship using the “PCDO” analytical framework proposed by Sahlman based on four interrelated elements that are crucial for the management of entrepreneurial activity\(^36\):


• **People:** This element is defined as those who activity participate in the venture or who bring resources to the venture and includes both those within the organization and those outside the organization who must be involved in order for the venture to be successful.

• **Context:** This element includes relevant factors that are generally outside of the control of the entrepreneur but which be expected to have an impact on his or her activities (e.g., the general economy, taxes and other regulations and the socio-political institutions in the areas in which the entrepreneur intends to operate).

• **Deal:** The term “deal” to refer to the substance of the bargaining among participants in the venture that defines who among the participants in a venture gives what, who among the participants in the venture gets what, and how and when those deliveries and receipts will take place.

• **Opportunity:** Austin et al. defined the term “opportunity” as “any activity requiring the investment of scarce resources in hopes of a future return”. The entrepreneur must have a vision of a future that is better for him or her and must also be able to develop and implement a credible path to change the current situation to that desired future state.

§4 --People and financial resources

Austin et al. observed that, in many ways, the human and financial capital inputs essential to the entrepreneurial venture are quite comparable between social and commercial entrepreneurship. The “people” element of the PCDO model includes those actively participate in the venture or who bring resources to the venture and includes both those within the organization and those outside the organization who must be involved in order for the venture to be successful. This element includes not only the personal characteristics of the entrepreneur such as his or her skills, attitudes, contacts, goals and values, but also the cumulative skills, attitudes, knowledge, contacts, goals and values of all participants that provide the mix of resources that contribute to the success of the venture. According to Austin et al., “both commercial and social entrepreneurs must consider the managers, employees, funders, and other organizations critical to their success, and how to capture this human talent for their ventures”.

For social ventures there will be a need for board members, managers and staff who believe in the mission and who have the unique skills and talents to help the entrepreneur bring the mission alive. To attract these human resources, social entrepreneurs must have a strong reputation that engenders trust among those who might be willing to work with them, a factor that is all the more important given that the social entrepreneur is asking...
contributor to invest their time in a cause rather than a commercial business that can be assessed using objective performance measures.

While social entrepreneurs have needs with respect to human resources that are similar to those of commercial entrepreneurs, social entrepreneurs are often unable to offer market rates to potential key hires and are generally not able to offer other incentives such as stock options unless they have elected to organize and operate their ventures using a for-profit organizational form. Because of these limitations, social entrepreneurs must develop different tools for motivating potential participants in the venture. Social entrepreneurs also rely heavily on volunteers to serve in key positions, such as serving on the board of directors, and to carry out important activities such as fundraising, and working with volunteers creates special management issues that need to be understood and addressed by social entrepreneurs. Issues relating to limited financial resources extend outside the organization also and many social entrepreneurs depend on the willingness of professional service providers such as lawyers and accountants to provide their service for free or at heavily reduced rates.

Austin et al. noted that while commercial entrepreneurs, once they have achieved a minimum level of economic success, will generally have access to capital from a range of investors and financial institutions offering a wide array of financing instruments and terms, social entrepreneurs have fewer channels for accessing unrestricted sources of capital and must also rely heavily on a range of funding sources such as individual contributions, foundation grants, member dues, user fees, and government payments. Other unique issues that social entrepreneurs must confront is the need to be continuously engaged in some sort of fundraising activity given that revenues from operations rarely cover all of the costs associated with carrying out the organization mission and the lack of flexibility to shift the organization’s products or services quickly, as commercial entrepreneurs often do, to take advantage of new funding opportunities since such a transition will typically face opposition from participants who have become emotionally and psychologically invested in focusing on the current need or problem using the existing products and services.

Austin et al. concluded that while commercial and social entrepreneurs have similar needs with respect to human and financial resources, “social entrepreneurs are often faced with more constraints: limited access to the best talent; fewer financial institutions, instruments, and resources; and scarce unrestricted funding and inherent strategic rigidities, which hinder their ability to mobilize and deploy resources to achieve the organization’s ambitious goals”. While social entrepreneurship can be pursued using for-profit organizational forms, such a path creates challenges for social entrepreneurs with respect to maintaining a focus on the social mission while meeting the expectations of investors for economic returns. Austin et al. advised that the constraints on their

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actions made it imperative for social entrepreneurs “to develop a large network of strong supporters, and an ability to communicate the impact of the venture’s work to leverage resources outside organizational boundaries that can enable them to achieve their goals”. 42

Austin et al. also highlighted a specific managerial challenge for social entrepreneurs, namely the need to be able to manage “a wider diversity of relationships with funders, managers, and staff from a range of backgrounds, volunteers, board members, and other partners, with fewer management levers, as financial incentives are less readily available, and management authority over supporters, volunteer staff, and trustees is rather limited”. 43 In addition, social entrepreneurs must become adept at working collaboratively with other social entrepreneurs, for-profit businesses and governmental units to gain access to critical resources that the social entrepreneur cannot build and maintain on his or her own. For example, social entrepreneurs will need to be able to work with outside for-profit vendors to develop information systems for communicating with members, volunteers and funders, and will need to have skills required to forge and maintain successful strategic alliances with corporate and governmental partners. 44

Finally, Austin et al. suggested that it was important for social entrepreneurs to proactively participate in professional and sector-wide knowledge sharing networks in order to broaden their own skills and remained connected to ideas and talent available through other sector participants.

Austin et al. argued that social entrepreneurs needed to develop and remain intensely focused on their specific social value principal derived from scanning the context for opportunities and the availability of the human and financial resources necessary to achieve the greatest social impact. 45 They cautioned social entrepreneurs about the dangers of becoming too obsessed on organizational aspects of their mission. Austin et al. noted that it social entrepreneurs will naturally assume that the bigger the organization becomes, and the more resources it has at its disposal, the more effective it will be at creating social impact; however, many social entrepreneurs veer off track when furthering the organization becomes an end in and of itself. Similar problems arise when social entrepreneurs are tempted to expand their mission beyond available resources. Austin et al. pointed out that societal demand for social-value creation is enormous and social entrepreneurs will have more opportunities than they can possible handle. As such, they need to pay careful attention to the scope of the opportunity that they can pursue effectively given the constraints on human and financial resources applicable to them. Austin et al. also admonished social entrepreneurs to be open to working with complementary organizations outside of their own venture’s organizational boundaries to create social value and engage in networking activities with stakeholders in the relevant context to identify methods for collaborating with others in order to leverage resources that are outside of the social entrepreneur’s own organizational boundaries.

42 Id.
43 Id.
45 Id.
§5 --Context

The external context for entrepreneurship includes factors that are relevant to the conduct and outcome of the entrepreneurial activities but which are generally outside of the control of the entrepreneur. Examples include the general economy, taxes and other regulations and the socio-political institutions in the areas in which the entrepreneur intends to operate. Specific contextual factors identified by Austin et al. included economic environment, tax policies, employment levels, technological advances, and social movements such as those involving labor, religion and politics. All of these factors are important to both commercial and social entrepreneurs and all of them need to understand that context frames the opportunities and risks for every new venture and that they need to determine which factors must be consciously addressed from a strategic perspective and which are best left to play out as they will since the entrepreneur has limited time and ability to attend to everything that might have an impact on the venture.

A substantial amount of research has been conducted on the relationship between context and entrepreneurship generally and context and social entrepreneurship specifically. For example, Meek et al. and Kerlin have argued that the incidence of environmental and social entrepreneurship in a given region or country is influenced by the broader institutional context (i.e., social norms and government incentives) and dominant socio-economic factors. Schick et al. contend that the most crucial factors relating to the success of ecopreneurial start-ups are the entrepreneur and the local culture. In their model for sustainability entrepreneurship, O’Neill et al. argued that various contextual factors materially influence the sustainability entrepreneurship process including regulatory, socio-cultural, place, macroeconomic, political, demographics, tax and environment.

Austin et al. explained the particular influence of various contextual factors on social entrepreneurs. For example, the philanthropic market that provides capital to social entrepreneurs is highly affected by economic activity: the philanthropic activities of for-profit organizations depend on the commercial success of their products and services, many non-profit endowment funds are invested in stock markets and the peaks and valleys of those market impact the amounts that funds are comfortable donating to social entrepreneurs and charitable contributions by individuals depend on their feelings about their level of discretionary income. As for laws and regulations, Austin et al. stressed

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49 Adapted from J. Austin, H. Stevenson and J. Wei-Skillern, “Social and Commercial Entrepreneurship: Same, different, or both?”, Entrepreneurship Theory and Practice, 30(1) (2006), 1.

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that social entrepreneurship will be impacted by laws regulating the tax-exempt status or operations of non-profits, tax policies that influence the amount of giving to the sector in which the social entrepreneur is operating, and specific political and social policies that affect the needs or resources available for certain types of issues most commonly addressed by social entrepreneurs (i.e., education, environment, health, and housing). In addition, social entrepreneurs must be able to compete with other organizations in their own “industry” contexts for scarce resources needed in order to their ventures to be viable (e.g., philanthropic dollars, government grants and contracts, managerial talent, volunteers, community mindshare, political attention and clients or customers).

Austin et al. argued that while the critical contextual factors are analogous in many ways, the impact of the context on a social entrepreneur differs from that of a commercial entrepreneur because of the way the interaction of a social venture's mission and performance measurement systems influences entrepreneurial behavior. One difference cited by Austin et al. was the social entrepreneurs can, in many instances, achieve some degree of success with respect to their primary goal of social impact even in circumstances where the context would otherwise be inhospitable for commercial entrepreneurs. For example, an economic downturn will generally make it difficult for commercial entrepreneurs to accumulate resources and identify viable economic markets; however, tough economic times intensify social needs and create opportunities for social entrepreneurs to take steps to meet those needs. Social entrepreneurs can also make an impact with relatively small constituencies initially and then build on those successes to change the overall context by raising awareness and attention to a social issue and messaging about how they have been able to develop solutions that can be scaled with greater participation from others willing to join the movement. Another factor mentioned by Austin et al. was that while the social marketplace does not reward entrepreneurs for superior performance as readily as commercial entrepreneurs are recognized in their marketplace, the marketplace for social entrepreneurship is more patient and is slow to punish inferior performance, perhaps because supporters of social entrepreneurs are most focused on their social mission and not as interested in emphasizing the same level of accountability and performance that is rigorously measured for commercial ventures.50

Austin et al. cautioned, however, that while the impact of contextual factors on social entrepreneurship is often ambiguous, perhaps causing social entrepreneurs to pay less attention to their operating context, they nonetheless should be doing appropriate monitoring of their context for opportunities and threats in order to develop an adaptive strategy that takes into account various contingencies.51 One obvious illustration of how monitoring can be important to a social entrepreneur is when it provide information about changes in direction and focus of philanthropic capital markets that can be used to identify useful new programs, fundraising strategies and potential alliances.

§6 --“Deal”

Austin et al. used the term “deal” to refer to the substance of the bargain that define who among the participants in a venture gives what, who among the participants in the venture gets what, and how and when those deliveries and receipts will take place.\(^{52}\) The deal emerges from a bargaining process that normally addresses topics such as economic benefits, social recognition, autonomy and decisions rights, satisfaction of deep personal needs, social interactions, fulfillment of generative and legacy desires, and delivery on altruistic goals.\(^{53}\) Both commercial and social entrepreneurs need to engage in negotiations to create mutually beneficial contractual relationships (i.e., “deals”) with investors to gain access to financial resources and with potential participants with the skills and talent required in order for the venture to achieve its goals, whether economic or social. However, according to Austin et al. the terms of these deals are fundamentally different for commercial and social entrepreneurs due to the way in which resources must be mobilized and because of the ambiguities associated with performance measurement. Austin et al. explained specific differences with respect to so-called “value transactions” in the following areas\(^{54}\):

- Given the relative dearth of financial awards and incentives available to social entrepreneurs, they must rely more heavily on creative strategies that emphasize non-financial incentives in order to recruit, retain, and motivate staff, volunteers, members, and funders.
- While commercial entrepreneurs are used to dealing with consumers with bargaining power, including the ability to switch their buying activities to competitors of the entrepreneur, social entrepreneurs are generally working with consumer with little or no economic capability and few alternatives for obtaining and consuming the products and services available from the social entrepreneur. While this certainly impacts the nature of the “deal” with consumers for social entrepreneurs, it does not mean that they operate without a market since they often must bargain with third-party payers and other sources of subsidy working on behalf of the ultimate consumers.
- While commercial entrepreneurs have a wider range of financial deals to consider and generally can strike bargains with investors and other sources of financing that provide them with more flexibility and time to put the funds to good use, social entrepreneurs work with investors that provide capital that covers only a small portion of the needs of the venture and which will typically be exhausted with a short period of time.\(^{55}\) As a result, according to Austin et al., “social entrepreneurs are thus required to spend a significant portion of their time, on an ongoing basis, cobbling

\(^{52}\) Adapted from J. Austin, H. Stevenson and J. Wei-Skillern, “Social and Commercial Entrepreneurship: Same, different, or both?”, Entrepreneurship Theory and Practice, 30(1) (2006), 1.


\(^{54}\) Adapted from J. Austin, H. Stevenson and J. Wei-Skillern, “Social and Commercial Entrepreneurship: Same, different, or both?”, Entrepreneurship Theory and Practice, 30(1) (2006), 1.

together numerous grants, many of which come with spending restrictions and varied expectations of accountability, just to meet day-to-day operating costs”.

- Striking a bargain with investors is complicated by the absence of an objective measure of performance similar to the economic returns and valuation metrics used in structuring deals for commercial ventures. Since the goal of social entrepreneurship is to have social impact, and the quantification or precise measurement of social impact is complicated, Austin et al. counseled social entrepreneurs to focus on, and be able to explain, their mission, theory of change and the process by which their social innovations will eventually have a social impact and generate superior social returns.

Austin et al. commented that social entrepreneurs face different challenge from their counterparts in the commercial sector when negotiating the terms of the deal with social investors and other looking to participate in the mission of the social entrepreneur. Philanthropic funders and volunteers are less interested in the economic returns and incentives offered by commercial entrepreneurs and instead bring a different set of personal motivations and requirements that must be acknowledged and satisfied by social entrepreneurs. For example, a donor may want a position on the board of directors, impose restriction on the use of the funds provided by the donor and/or require that the social entrepreneur provide reports on the use of the funds and the progress of the organization toward achieving the projected social impact. The goals and requirements of various donors may sometimes be conflicting, add obligations to an already full agenda for the social entrepreneur and limit the social entrepreneur’s flexibility in allocating resources to reach organizational goals. All this led Austin et al. to observe that “negotiating deals between the social entrepreneur and various resource providers that create alignment between goals and incentives is considerably more complex and challenging in social than in commercial entrepreneurship”.

§7 --Opportunity

An entrepreneur sees an opportunity as a desired future state that is different from the present and which he or she believes is possible to achieve. In order to exploit an opportunity in either the commercial or social sector, there must be an investment of scarce resources in hopes of a future return. In general, both commercial and social entrepreneurs are concerned about customers, suppliers, entry barriers, substitutes, rivalry, and the economics of the venture; however, Austin et al. emphasized that a key difference between them is that commercial entrepreneurship focuses on economic returns while social entrepreneurship focuses on social returns. Austin et al. observed that “change” is generally difficult and it is challenging for both commercial and social entrepreneurs to bring followers together to agree on a common definition of opportunity and change that can be shared and used as motivation for joint action by the multiple constituencies that must work together in order to create change. For example, change

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57 Adapted from J. Austin, H. Stevenson and J. Wei-Skillern, “Social and Commercial Entrepreneurship: Same, different, or both?”, Entrepreneurship Theory and Practice, 30(1) (2006), 1.
usually impacts power relationships, economic interests, personal networks, and even the self-image of participants.

In addition, the opportunities pursued by the two types of entrepreneurs vary due to fundamental difference in missions and response to market failure. According to Austin et al., commercial entrepreneurship tends to focus on breakthroughs and new needs, whereas social entrepreneurship often focuses on serving basic, long-standing needs more effectively through innovative approaches, often when there has been some type of market failure that has caused commercial entrepreneurs to abandon attempts to service the need. Austin et al. explained that commercial entrepreneurs are only interested in opportunities that involve a large, or growing total market size and the industry must be structurally attractive; however, social entrepreneurs are less concerned about market size so long as there is a recognized social need, demand or market failure.

Austin et al. observed that while commercial entrepreneurs often find it challenging to identify and capture opportunities that are unexploited, profitable and high-growth, social entrepreneurs usually have little problem finding unmet social needs or demands, particularly since they can either finance their activities through revenues generated from operations or, if necessary, turn to donors to provide capital in the event that the activity is not financial sustainable on its own (e.g., if the ultimate consumers are not able to cover enough of the costs of the goods or services for the social entrepreneur to “break even”). While have so many opportunities would seem to be an advantage for a social entrepreneur, Austin et al. cautioned that the breadth and intensity of the needs among the consumers often propels social entrepreneurs into unexpected and rapid growth caused by pressures from funders, demand for their products or services, and the social entrepreneurs’ own conviction that growth is necessary in order for the organization to achieve the desired social impact.58

While growth due to acceptance in the marketplace fulfills the personal needs of social entrepreneurs and builds upon their values, such situations may lead to a crisis for the social entrepreneur if expansion comes before he or she has had a change to make plans on how to manage the pace of growth. Austin et al. advised that social entrepreneurs need to realize that they have great latitude in the paths that they can choose to pursue their chosen opportunities and that there may be times when growth is not the best approach to take in order to achieve the goals of the organization or have greatest social impact. Lack of financial resources is obviously one reason for not pursuing rapid growth; however, social entrepreneurs must also make a candid assessment of their organizational capacities with respect to human resources and the impact that growth might have on the quality of products and services the organization offers.

If growth is the preferred approach, the social entrepreneur must plan for a long-term growth strategy and avoid actions that needlessly squander the limited resources of the organization. Social entrepreneurs also need to recognize that while they might be intrigued by scaling the organization directly, the more prudent approach is often partnering with other organizations to work together to disseminate social innovation. While commercial entrepreneurs do partner with others in alliances to tap into needed resources, they are often reluctant to do so out of concern for losing control over their innovations and/or diluting their profits and market share. These concerns are not relevant to social entrepreneurs who should be primarily interested in bringing their innovations to the largest consumer group possible. For example, a social entrepreneur may consciously limit the scope of products and services that his or her organization offers directly while partnering with other organizations that offer complimentary products and services and working with those partners to make it easy for the ultimate consumers to have all of their needs addressed seamlessly and efficiently.

§8  Social enterprises

Berge discussed the concept of a “social enterprise” including the following description: “A social enterprise’s primary objective is to ameliorate social problems through a financially sustainable business model, where surpluses (if any) are principally reinvested for that purpose”. According to Fury, the elements of a “social enterprise” include a primary social purpose, a financially sustainable business model, and a mechanism for ensuring accountability and transparency. Berge further explained that social enterprises balance “mission” and “market” and their goals include the creation of not only economic value but also social and/or environmental value. Social enterprises are looking to perpetuate resources rather than accumulating excess profits and any profits that are derived from the activities of the enterprise are to be reinvested in the business as operational expenses or used for mission activities and/or retained for business growth and development.

### Qualities of Sustainable Enterprises

Wirtenberg et al. analyzed the sustainability initiatives at nine large, public, multinational companies that had been recognized as being among the world leaders in “sustainability”, a process which included assessing how those companies handled environmental, governance, social responsibility, stakeholder management and work environment issues. Their research allowed them to identify seven distinguishing qualities that they believed were associated with achieving “triple-bottom-line corporate sustainability” and


which were also amenable to managerial intervention. These qualities included deeply ingrained values relating to sustainability, strategic positioning, senior management support, systems alignment (i.e., structures and processes around sustainability), metrics, holistic integration across functions, and stakeholder engagement. They then organized these qualities into a three level “pyramid” that they used as a representation of an organization’s sustainability journey.

The bottom level of the pyramid, referred to as the “foundation”, included three fundamental drivers of a successful journey to sustainable management. The first driver was corporate values consistent with sustainability which were deeply ingrained in the organizational “DNA”, typically embedded by the founders. The second driver was visible support for sustainability from top management, which often took the form of members of the executive team asserting their personal and positional influence about the importance of sustainability and their personal involvement in setting the priorities as well as making important strategic decisions that affected the sustainability of the company. Top management support was important to creating an organizational culture in which extensive inquiry and self-examination was encouraged and welcome at all levels of the organizational hierarchy. Top management should evoke a long-term perspective for the company and seek to take steps that ensure the success and strength of the company for future generations. The third driver at the foundational level was placing sustainability as central to the company’s business strategy, which an executive from one of the companies explained as: “For us sustainability is business. This is business stuff, it’s not something that sits outside.” The companies recognized that that performance was inextricably linked to caring for communities, environment and society and developed business strategies that simultaneously took into account all stakeholders, as well as the short- and long-term view.

The second level of the pyramid, referred to as “traction”, focused on executing top management decisions regarding sustainability values and strategy and included the development of sustainability metrics (“we manage what we measure”) and alignment of formal and informal organization systems around sustainability. Metrics should be included in the business plans that are created during the planning stage for sustainability initiatives so that they are embedded from the very beginning, not imposed at some later date, and can be referenced when aligning the company’s structures and systems to its sustainability goals. The measurement of key performance indicators relating to sustainability should be accompanied by disclosure and reporting to the company’s stakeholders. Reporting obligations add rigor to the assessment and allows companies to transparently demonstrate the values and initiatives driving its sustainability program. Reporting also makes companies more accountable.

The third and top level of the pyramid, referred to as “integration”, called for broad stakeholder engagement and holistic integration, which was explained as an elusive state in which all “the many facets and functional domains of sustainability were conceptualized and coordinated in an integrative fashion”. Wirtenberg et al. noted that even the companies they had studied, all of which had demonstrated exemplary progress with respect to implementing sustainability strategies, “seemed to be struggling with reaching this cross-boundary, multi-stakeholder, integrative pinnacle”. They explained that holistic integration occurs when companies are able to bring multi-faceted activities under a clearly understood, unified umbrella of sustainability, which means aligning a variety of key enterprise functions around sustainability such as supply chain management, marketing and sales, accounting and finance, public relations, environment, and health and safety. An executive at one of the companies suggested that holistic integration extended beyond internal activities to include connectivity with the broader industrial ecosystem in which a firm resides.

Sources: The discussion in this section is adapted from J. Wirtenberg, J. Harmon, W. Russell and K. Fairfield, “HR’s role in building a sustainable enterprise: insights from some of the world’s best companies”, Human Resource Planning, 30(1) (2007), 10. The companies included Alcoa, Bank of America, BASF, The Coca Cola Company, Eastman Kodak, Intel, Novartis AG, Royal Philips and Unilever. For discussion of the roles of HR leaders and the contributions of the HR functions, see “Human Resources: A Library of Resources for Sustainable Entrepreneurs” prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org). Wittenberg et al. recommended several books on sustainability and the triple bottom line including A. Savitz and K. Weber, The Triple Bottom Line (San
§9 Measuring social impact

Several dimensions should be considered when measuring the social impact of entrepreneurial activities: the type of impact on persons and organizations, which can include outputs or outcomes (e.g., incomes, treatment of works, community and environment); the scale of impact, which takes into account the number of people or organizations affected; and the depth of impact, which includes the amount or intensity of positive change in well-being subjectively experienced by the affected people or organizations. These dimensions can be combined to create an overall measure of social impact that incorporates the sum of the positive changes to well-being for all types of impact experienced by all affected people and organizations.62

LDC (http://www.ldc.co.uk), a private equity firm based in UK and part of the Lloyds Banking Group, suggested a technical framework for assessing the social value of the activities of a business that included three components:

- **Business-Level Benefits:** Business-level benefits include the social value that a business creates through its own employment, investment and procurement activities. Direct benefits include scaling and growth of the company’s business and turnover. Indirect benefits include the impact that the company’s business has on other businesses through its supply chains. Finally, induced benefits include the impacts of the company’s workforce spending on other local firms’ goods and services (i.e., multiplier effects).
- **Wider Economic Benefits:** Wider economic benefits include the social value that a business creates through its job and business impacts on the rest of the national/regional/local economy. These include sector-specific, shared business benefits arising from spatial proximity (i.e., “cluster” growth) and shared business benefits for all sectors arising from higher critical mass of demand for infrastructure.
- **Community Benefits:** Community benefits include the shared social value that businesses contribute to by participating in partnerships working with local communities to develop solutions to their challenges and needs. Specific community projects include education, learning and skills development; employment and training; health and healthy lifestyle; personal and social well-being; arts, culture and recreation; and climate change and environmental conservation.

§10 Sustainability entrepreneurship

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Abrahamsson proposed the following definition of “sustainopreneurship”: “To use creative business organizing to solve problems related to the sustainability agenda, to create social and environmental sustainability as a strategic objective and purpose, at the same time respecting the boundaries set in order to maintain the life support systems in the process”. The definition builds on the goals of ecopreneurship and social entrepreneurship by explicitly suggesting and integrating the use of for-profit organizational practices (i.e., “creative business organizing”) into activities focused on identifying and solving sustainability-related problems. Bergh described sustainability entrepreneurship as the cross-fertilization of entrepreneurship and sustainable development to create a process in which sustainable entrepreneurs act as promoters and organizers of a multi-stakeholder and multi-innovation process that fosters the implementation of sustainable development. According to Shepherd and Patzelt, sustainability entrepreneurship is “the preservation of nature, life support, and community in the pursuit of perceived opportunities to bring into existence future products, processes, and services for gain, where gain is broadly construed to include economic and non-economic gains to individuals, the economy, and society.” O’Neill et al. defined sustainability entrepreneurship as “a process of venture creation that links the activities of entrepreneurs to the emergence of value-creating enterprises that contribute to the sustainable development of the social-ecological system.”

Rey described a “sustainability entrepreneur” as “an entrepreneur with the mind-frame to solve an exact, particular sustainability problem”. It is assumed that sustainability entrepreneurs are interested in generating profits from their activities. However, while they are exploring opportunities involving sustainable products, this does not guarantee that they will do so by practicing sustainable methods throughout the organization or that they will integrate the social and environmental impact of their business practices alongside economic results when assessing the performance of their companies. For example, Rey illustrated the difference between sustainability entrepreneurship and his conceptualization of sustainable entrepreneurship by discussing a hypothetical company that was developing a solar-powered smartphone for profit. While the commercial goal of that company is to develop and commercialize a sustainable product, absent a

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universal commitment to sustainability throughout its business practices it is conceivable that the company might ignore abusive labor practices in its supply chain in order to reduce costs and maximize profits from sales of its sustainable product. Similarly, the company might waste limited resources when selecting the materials for its product and/or use materials that will cause ecological harm when discarded at the end of the product’s lifecycle. Rey summed up the distinction as follows: “one can say that sustainable entrepreneurship sees the focus on the internal processes and everything surrounding the outputs of a business, while sustainability entrepreneurship focuses on opportunity fulfillment in the market”.68

68 Id. at 14.
About the Author

This chapter was written by Alan S. Gutterman, whose prolific output of practical guidance and tools for legal and financial professionals, managers, entrepreneurs and investors has made him one of the best-selling individual authors in the global legal publishing marketplace. His cornerstone work, Business Transactions Solution, is an online-only product available and featured on Thomson Reuters’ Westlaw, the world’s largest legal content platform, which includes almost 200 book-length modules covering the entire lifecycle of a business. Alan has also authored or edited over 80 books on sustainable entrepreneurship, leadership and management, business law and transactions, international law and business and technology management for a number of publishers including Thomson Reuters, Practical Law, Kluwer, Aspatore, Oxford, Quorum, ABA Press, Aspen, Sweet & Maxwell, Euromoney, Business Expert Press, Harvard Business Publishing, CCH and BNA. Alan has extensive experience as a partner and senior counsel with internationally recognized law firms counseling small and large business enterprises in the areas of general corporate and securities matters, venture capital, mergers and acquisitions, international law and transactions, strategic business alliances, technology transfers and intellectual property, and has also held senior management positions with several technology-based businesses including service as the chief legal officer of a leading international distributor of IT products headquartered in Silicon Valley and as the chief operating officer of an emerging broadband media company. He has been an adjunct faculty member at several colleges and universities, including Berkeley Law, Golden Gate University, Hastings College of Law, Santa Clara University and the University of San Francisco, teaching classes on corporate finance, venture capital, corporate governance, Japanese business law and law and economic development. He has also launched and oversees projects relating to sustainable entrepreneurship and ageism. He received his A.B., M.B.A., and J.D. from the University of California at Berkeley, a D.B.A. from Golden Gate University, and a Ph. D. from the University of Cambridge. For more information about Alan and his activities, please contact him directly at alangutterman@gmail.com, follow him on LinkedIn (https://www.linkedin.com/in/alangutterman/) and visit his website at alangutterman.com.

About the Project

The Sustainable Entrepreneurship Project (www.seproject.org) was launched by Alan Gutterman to teach and support individuals and companies, both startups and mature firms, seeking to create and build sustainable businesses based on purpose, innovation, shared value and respect for people and planet. The Project is a California nonprofit public benefit corporation with tax exempt status under section 501(c)(3) of the Internal Revenue Code dedicated to furthering and promoting sustainable entrepreneurship through education and awareness and supporting entrepreneurs in their efforts to launch and scale innovative sustainable enterprises that will have a material positive environmental or social impact on society as a whole.

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