

Scaling social entrepreneurship

[Business](#), [Entrepreneurship](#)



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Many people stimulated my thinking on social entrepreneurship during my years at the non-profit foundation One Laptop per Child (OLAP). Their ideas may not be fully acknowledged in this book. I would like to thank Giuliani Atomic, Marina Cortes, Chuck Kane, Walter Bender, and Miguel Brenner for their friendship, patient explanations and insights that enabled me to hopefully better understand social problems and how social entrepreneurship can be applied to achieve solutions to such problems.

Chuck also arranged for me to teach a course in social entrepreneurship each January in 2011-2015 at the MIT Sloan School of Management. Richard Bernstein of Greenberg Trauma should also be recognized for bringing me the opportunity to work for the first time in my career in the non-profit sector. As explained in the following Introduction, a single comment by Nicholas Negotiate led me to write this book. Another comment from Nicholas may be the basis for my third book. Any errors in this book are solely my responsibility.

Many people encouraged me to write a book about OLAP. I elected not to do such a book but rather to more generally discuss the lessons I learned about how to scale a social entrepreneurship project. For more on the philosophy and history of OLAP I My favorite OLAP picture. West Bank 2010 8 Introduction From September 2009 until April 2013 I served as the CUFF of One Laptop per Child Association. The mission of OLAP is to provide a modern education through a connected laptop to every child in the developing world.

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Nicholas Negroponte, Seymour Papert and several other professors and staff at the MIT Media Lab founded OLAP in 2005. Nicholas was the co-founder of the well-known MIT Media Lab and Seymour, his colleague at the Media Lab, was one of the leading authorities in the area of how to facilitate child learning through computers. When Nicholas founded the MIT Media Lab he adopted two principles that established the culture of the organization: 1. "Demo or die" 2. "Do the impossible" "Demo or die" basically determined the type of research that was desired.

Rather than writing academic papers, students at the Media Lab were required to develop working prototypes, either physical working models or working computer code for computer-based solutions. Papert's views on constructionist and constructivism in learning probably contributed to this approach. Alan Kay, another MIT faculty member of considerable distinction, may have also influenced this tenet. "Do the Impossible" defined the types of problems that were acceptable to work on and was based on the thinking of the legendary MIT professor Marvin Minsk.

Students were encouraged to work on large, difficult problems where the technology for a solution did not already exist. This focus on large problems is consistent with the concept in entrepreneurship to focus on large market opportunities, although at the Media Lab it was understood that the sponsors of the Media Lab would license and commercialize the new technology developed. This orientation toward large, difficult problems guided the philosophy and development of OLAP. Loop's mission is to provide a laptop to 1. Billion children in primary schools throughout the world. To

achieve this end OLAP needed a solution that would scale on several dimensions. In one of our occasional discussions said to Nicholas that OLAP, although it originated as a detonative non-profit, was a great example of social entrepreneurship. Nicholas spooned, " social entrepreneurship does not scale. " As was the case several times, Nicholas made a single statement that prompted me to go off and think about an issue-? sometimes for several years-? which resulted in this book. Note: Nicholas' view of the limitations of social entrepreneurship is based on a belief that to achieve scale in solving social problems an organization had to engage national governments around the world. Such governments were much more likely to " partner" with non-profits that did not have the profit motive of an entrepreneur.] Prior to OLAP I spent 30 years working in the private sector and twenty of hose years I worked outside the U. S. I have worked in over forty countries, mostly in Asia 10 and Latin America, and I lived in Peru and Indonesia.

One advantage of spending so much time overseas is that I was able to first hand observe a country's development over a significant period of time. With the exception of China, every country that I visited beginning in the 1 sass exhibited a significant improvement in the standard of living by the start of the 21 SST century through the capitalist system of free enterprise. The examples I would cite to demonstrate my point would include Mexico, Singapore, Korea,

Taiwan, Peru and Thailand, all of which were very undeveloped countries in the early 1 sass and today are vibrant economies with a significant improvement in the standard of living. While stable governments, democracy

and globalization were all contributing factors in certain countries, see capitalism as the one common factor in the countries I cited and in many other countries. Based on my own experience I have great confidence in capitalist, profit companies as a way to improve peoples lives anywhere in the world and thereby address social needs.

During the financial crisis of 2008 when the world economic system purportedly came close to collapse, the issue of the morality of capitalism re-emerged as a popular topic and encouraged the growth of social entrepreneurship. History often paints capitalism as fundamentally amoral, lacking a moral system. Milton Friedman's now famous dictum that the purpose of a corporation is to maximize shareholder returns did much to popularize the absence of morality in capitalism.

However, to criticize capitalism for a lack of morality based on the egregious behavior of a few individuals is comparable to criticizing the social system of 11 "government" because of the behavior of Hitler or Stalin. It is the people pirating the social system that may be immoral and generally not the system itself. My belief that capitalism can behave morally and make a social contribution is in part based on the nine years spent working in Indonesia. Indonesia is one of the poorest countries in Asia with per capita income of \$600 or about \$2 per day during most of the time I lived there (1990-1999).

With a lot of other people helping, I built a billion dollar retail company in seven years that purchased \$700 million dollars a year in locally manufactured merchandise, created 20, 000 new retail jobs, built out one million square feet of retail space ere year and was one of the largest private

sector tax payers in the country. These activities had a positive social and economic benefit beyond just our employees for thousands of other workers and their families in Indonesia. No socially motivated MONGO, multi-lateral bank or non-profit organization improved the number of lives we benefited operating a for-profit company.

Perhaps only the Indonesian government affected more people than this private retail company. The point here is not to toot my horn but rather to show the positive impact in a poor country of a large, private, for-profit many with no explicit "social" mission. This confidence in the capitalist system instinctively makes me suspect of the need for the adjective "social" to modify entrepreneurship. (This may be similar to the debate in microeconomics over whether "utility" needed the modifier "marginal". "Social" to modify entrepreneurship implies that this form of entrepreneurship is 12 more focused on societal, economic and environmental problems than traditional entrepreneurship. Also implied is the idea that creating social value is better or preferred to merely creating economic value. Setting aside the problem of how one might measure "social" value, would question the premise that we even need a distinction for the social value component in social entrepreneurship, particularly given my experience in Indonesia.

Despite my reluctance to acknowledge "social" as a meaningful distinction in entrepreneurship, I have organized this book on social entrepreneurship to develop the following themes: Why social entrepreneurship emerged as a new "business model", which includes an argument for how to combine capitalism and morality as an integrated approach (Chapter I-The Emergence

of Social Entrepreneurship in the 21st Century) The government's defined role as the sole provider of "public good" has been relaxed, opening the door for the private sector to provide social services (Chapter II- Government and the Public Good) The non-profit movement has influenced the development of social entrepreneurship, resulting in social entrepreneurs erroneously electing non-profits status.

Such an election restricts access to capital markets (in my experience) and deprives them of a key resource to scale their organizations¹³ which we call "society" and the former [state] ought to provide merely a Hayes rotational entrepreneurship have made a significant contribution to addressing social problems worldwide. (Chapter VIII-The Conclusions)¹⁵ Chapter I-The Emergence of Social Entrepreneurship in the 21st Century Many believe that social entrepreneurship emerged as an alternative form of entrepreneurship in the first decade of the 21st century because more and more people were turning away from "big business" in order to "do good" and "save the world". While true for some individuals, I believe that four factors explain the emergence of social entrepreneurship: 1. A Nobel prize for Muhammad Yunus. A renewal of the question of whether capitalism is moral³.

A wide spread recognition that government alone cannot solve social problems⁴. The writings of C. K. Prahalad and Clayton Christensen Muhammad Yunus and C. K. Prahalad deserve much of the credit for the emergence of social entrepreneurship. The fact that Yunus is from Bangladesh and Prahalad is from India is not a coincidence, but rather the

basis for their more profound understanding of the dynamics of developing markets and their populations. Social entrepreneurship gained international acclaim when Muhammad Yunus won the Nobel Prize in 2006 for his micro-lending activities in Bangladesh. Providing loans to foster economic development for very poor people had never been done on a large scale prior to Yunus' Grameen Bank.

Grameen Bank is now one of the largest companies in the world using social entrepreneurship as its business model, with 16 annual revenues in 2011 exceeding \$170 million. Tom's Shoes, to be discussed in Chapter V, may indeed be larger, but I could not find any reliable information on annual revenues. The key factor to explain the success of the Yunus' program was that poor people actually do repay their loans (despite life to the contrary by many). I learned the same lesson in Indonesia in the process of building a credit card program for customers that earned only \$1000 per year. The economic crisis of 2007 re-opened the debate from the process about the morality of capitalism and the reasons for renewed debate were the same.

A period of high economic growth and significant wealth accumulation was followed by a period of major economic collapse. Such wide swings in the economy were perceived as the fault of the capitalists and their immoral behavior, as evidenced by all the average people whose lives were disrupted when the economy crashed. Faced with such stern criticism and claims of immorality, a natural outgrowth was for everyone, including for-profit corporations, to act in ways that were more socially responsible. One derivative idea was social entrepreneurship. Harvard Business School (HBS)

weighed in with several articles in support of capitalism and social responsibility.

After all why do we need a business school if capitalism is doomed to collapse under the weight of its immoral behavior? Michael Porter, the world-renowned strategy professor at the school, described the situation after 2007: 17 The capitalist system is under siege. In recent years business increasingly has been viewed as a major cause of social, environmental, and economic problems. Companies are widely perceived to be prospering at the expense of the broader community. " porter's solution is the concept of "shared value", which he defines as: creating economic value in a way that also creates value for society by addressing its needs and challenges... He concept of shared value... Recognizes that societal needs, not just conventional economic needs, define markets. It also recognizes that social harms or weaknesses frequently rate internal costs for firms-? such as wasted energy or raw materials, costly accidents, and the need for remedial training to compensate for inadequacies in education. " 1 A classic example of shared value is a company that should avoid polluting a river because the pollution kills the company's potential customers down river. If this example does not move you to reconsider the morality of capitalism, other professors at HBS offered perhaps more persuasive arguments.

Rebecca Henderson and Karachi Raman from HBS produced a paper titled "Managers and Market Capitalism". Long overdue, in my opinion, the authors introduce the need for morality in capitalism. The paper argues that businesses have a moral responsibility in addition to Milton Friedman's

economic dictum to maximize shareholder returns. The authors argue that businesses have a moral obligation to serve society by preserving free markets and capitalism and not just satisfy the self-interest of shareholders. Essentially if capitalism and free markets were to end, the shareholders would be harmed by a significant or total loss in the value of their shareholdings.

Therefore, egregious behavior, such as the 2007 financial crisis, undermines the integrity of capitalism and free markets and is therefore immoral.

Although the authors did not extend the argument, I believe that they would agree that more socially responsible behavior by corporations fosters more confidence in capitalism and thereby benefits shareholders. Many argue implicitly or explicitly for the need for more social ventures, including social entrepreneurship, due to the lack of a moral compass in for-profit ventures as a result of the underlying concept of self-interest. I believe that Henderson and Raman present a simple logic that shows for-profit managers a reason for moral behavior-- the reservation of the capitalist system.

While it may not meet the standards of the Ten Commandments or other well-known moral systems, preserving the capitalist system does provide the basis to infuse capitalism with an easily understood morality-- act in ways which foster an appreciation and respect for capitalism by society. All but the most die-hard communist should see value in the argument. If not yet convinced about the role of morality in capitalism, Herbert Simon, the 1978 Nobel Prize winner in economics offers support to introduce morality in capitalism. Simon developed the concept of bounded rationality-- sections

can only be optimal and never maximized. Bounded rationality offers for-profit managers the 19 "flexibility" for considerable moral and socially beneficial behaviors to perpetuate the capitalist system. Optimal decisions are by definition a matter of interpretation and not held to the more rigorous standard of minimization.