

THE RISE OF THE SOCIAL ENTREPRENEUR

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Whatever he may be

UBS, a Swiss private bank that counts many of the world's richest people among its clients, is conducting an interesting experiment in Brazil, Mexico and Argentina. It has formed an alliance with Ashoka, a global organisation that identifies and invests in leading "social entrepreneurs". The alliance is offering a new prize for social entrepreneurship, which UBS's Martin Liechti admits is an excuse to bring together two groups of people who might otherwise never meet. "As the biggest wealth manager in the region, we are at the crossroads between capital and ideas--so why not bring the people with capital together with the people who have ideas?"

The social entrepreneurs that are shortlisted must have been working successfully with Ashoka for at least three years. Winning the prize is not really the point. Simply being selected to be in the room with a bunch of wealthy people gives the social entrepreneurs great credibility with potential donors, and even runners-up have a good chance of coming away with a new financial backer or some other form of help. Hector Castillo Berthier, who runs an innovative project for troubled Mexican teenagers, came third in last year's Mexican prize, but still got a crucial donation and free use of office space.

Ashoka is not alone in bringing social entrepreneurs together with the wealthy and powerful. Social entrepreneurs now rub shoulders with the world's business and political elite at the World Economic Forum in Davos, under the auspices of a sister organisation to WEF, the Schwab Foundation for Social Entrepreneurship. This year, the people selected included Rory Stear, founder of Freeplay, a company dedicated to the spread of cheap, sustainable energy for all; Jim Fruchterman of the Benetech Initiative, a non-profit organisation that makes technology available to disadvantaged communities; and Victoria Hale, founder of OneWorld Health, which works with the Gates Foundation (among others) to make low-cost drugs available in poor countries.

WAITING FOR A PRODUCTIVITY MIRACLE

Ashoka was founded in 1980 by Bill Drayton, a former McKinsey consultant, who expects the rise of social entrepreneurship to generate huge benefits. He says it is now helping to bring about a productivity miracle in what he calls the "citizen half of the world" (education, welfare and so on), a sector that for three centuries has lagged behind the "business half of the world", where productivity has soared and vast amounts of wealth have been created thanks to its competitive, entrepreneurial culture. The emergence of more social entrepreneurs, and their improved access to growth capital as they get better connected to philanthropists, is creating enormous productivity opportunities for the citizen sector, argues Mr Drayton.

The citizen sector is defined somewhat loosely, but is largely made up of government plus the non-profit sector. Both government and non-profits have traditionally been run inefficiently. The productivity miracle detected by Mr

Drayton is due both to a shift from government provision to more efficient private provision (by both for-profit and non-profit organisations) and by an increase in the efficiency of the non-profit sector.

The improvement in non-profit organisations' efficiency may still have some way to go. In 2004, Bill Bradley, a former presidential hopeful for the Democrats, and two McKinsey consultants claimed in an article in the *HARVARD BUSINESS REVIEW* that, in America alone, there was a "\$100 billion opportunity" for the non-profit sector to improve its efficiency through better management. But is social entrepreneurship the best way to achieve that?

There is no easy answer, not least because nobody is sure what exactly the term means. In a book charting the rise of social entrepreneurship, "How to Change the World: Social Entrepreneurs and the Power of New Ideas", David Bornstein notes that most discussion of social entrepreneurship tends to revolve around "how business and management skills can be applied to achieve social ends". He himself sees social entrepreneurs as "transformative forces: people with new ideas to address major problems who are relentless in the pursuit of their visions". The late management guru Peter Drucker, typically quick to spot the trend, defined social entrepreneurs as people who raise the "performance capacity of society".

Mr Schramm of the Kauffman Foundation, which promotes a better understanding of entrepreneurship, says that being an entrepreneur means being a risk-taker, but a high risk of failure may be the last thing that many non-profits need. And, surely, "every entrepreneur is a social entrepreneur," says Mr Schramm. "A successful entrepreneur...creates wealth--and without wealth there is no surplus capital to turn over to charitable activity."

Mr Omidyar, too, is uncomfortable with the label, which he feels implies a disapproval of profits that he does not share. "I think of myself as an entrepreneur, and I have a social view, but I don't call myself a social entrepreneur," he says. But his fellow philanthropist from eBay, Mr Skoll, thinks social entrepreneurship has something going for it. The mission of his eponymous foundation is "to advance systemic change to benefit communities around the world by investing in, connecting and celebrating social entrepreneurs".

Among other things, Mr Skoll has endowed the Skoll Centre for Social Entrepreneurship at Oxford University's Said Business School. This is part of a growing trend for academic institutions, including nowadays most business schools, to take the phenomenon seriously. Harvard Business School started teaching a course on social enterprise 12 years ago.

Mr Schramm worries that some of these courses are more likely to turn students against capitalism. But Mr Whitehead, a former Goldman Sachs boss who is the driving force behind the HBS course, sees it as part of a trend among the elite in many countries who increasingly want to make not just money but "a difference". The money may not be as good as in business, but "a bright young person can

have more of an impact on any non-profit in his first five years than on Goldman Sachs, which is full of bright young people. In their first year they could make ten suggestions that would improve the non-profit operation because they have been trained in practical business ways of thinking."

PEOPLE LIKE YOU AND ME

Certainly the number of business-school graduates going into the non-profit sector has increased. That appeals to the new philanthropists, who want to see people like themselves in charge of the non-profit organisations they support. But these new professionals may achieve as much by using the latest management techniques to improve the performance of existing non-profit organisations than by creating new ones through social entrepreneurship.

Mr Collins, the management guru, says getting the right people is arguably even more important in the non-profit world than it is in business, because it is often harder for non-profits to get rid of employees once they are "on the bus". Business leaders can fire people more easily and can spend money on buying talent. But some social entrepreneurs have found their own ways of securing top talent. Wendy Kopp, who in 1989 founded Teach for America--a non-profit organisation that gets graduates from top universities to spend the first two years of their careers teaching children from low-income families--made it clear from the start that only the best would do. By last year, over 97,000 people had applied to work for her organisation, but only 14,000 had been accepted. Ms Kopp's ability to pick and choose boosted her credibility with her philanthropic backers and enabled her to raise more money.

A growing number of non-profits now have state-of-the-art marketing departments. Indeed, it can sometimes seem that the marketing has become more important than the mission. One technique is to use "charity muggers" on commission to collar people in the street and get them to sign a standing order. For a while this was used in Britain by Oxfam, but the development charity now thinks that raising money this way does not pay. Far better to tap into the public's concern about where its charitable donations are going, as Oxfam has done with its hugely successful Christmas gift catalogue, offering gifts such as sponsoring a goat in an African village for GBP24 or providing safe water for 1,000 people for GBP720. "The public want to be transactional, to have a more direct relationship with where their money is going," says Barbara Stocking, Oxfam's boss. Many non-profit organisations have been wary of working with big donors because their money can come with too many strings attached. But that is starting to change. Oxfam now wants to raise more money from the sort of wealthy philanthropists it has not targeted in the past--if only because in Britain there haven't been many of them, says Ms Stocking. "I'm not sure we have been asking for enough money," she muses.

But the main problem for many non-profit organisations is how to get bigger. "One of the problems is that well-run non-profits don't necessarily grow," says Nigel Morris, the co-founder of Capital One, a credit-card company. True, growth isn't everything. Indeed, Mr Collins worries that non-profits will put scale before genuine effectiveness: "One of the markers of mediocre companies is

that they become obsessed with scale and growth," he says. But donors need to decide if they simply want to buy services from a non-profit, or whether they want to invest in helping the organisation grow. If growth is important to them, they need to become a lot less squeamish about overheads.

THE VIRTUE OF OVERHEADS

"In the business sector, people are very comfortable with the idea of investing in an organisation, and the need to build up its infrastructure. In the social sector, the tendency is to invest only in a programme; there is very little investment in building organisations," says Mr Collins. Yet often, in yielding to public pressure to keep down overheads, "non-profits sacrifice efficiency for virtue," says Carnegie's Mr Gregorian.

There is no merger-and-acquisition market in the non-profit world. And for all sorts of reasons, there are far too many non-profits. Philanthropists could help by encouraging consolidation, says John Studzinski, co-head of HSBC's investment bank and an active philanthropist. "In homelessness work, I'm a great advocate of consolidation. There are about 40 homelessness projects in London; only eight are any good," he says.

There is also a role to be played by philanthropists in encouraging non-profits to develop other sources of finance, to reduce their dependence on the goodwill of donors. Providing fee-generating services is one strategy. Doing work for the government is another. Many non-profits have long generated revenues in this way.

Philanthropists can even encourage non-profits to move towards becoming for-profits, able to stand entirely on their own feet. This is what Mr Omidyar hopes to achieve with his \$100m donation to Tufts University to invest profitably in microfinance. But the idea may face a lot of cultural resistance. "How do you get the citizen sector to change its attitudes so that it allows institutions to have incomes that are at least equal to outgoings?" asks Ashoka's Mr Drayton. He is now trying to promote for-profit partnerships between big companies and community groups in some of the most impoverished parts of the world. "Working with both sides, we map a new value-added chain, ranging from product design to production to distribution to servicing; that delivers a far better service to the ultimate customer faster, better and more economically. Ending centuries of non-communication brings so much value that both business and citizen groups emerge as huge winners as well," he says.

For example, community groups in Mexico's slums now work with Cemex, a huge cement firm, to create a market for its cement among the slum dwellers, greatly reducing the cost of adding extra rooms to their dwellings, providing funds for the non-profit groups and turning a (still small) profit for Cemex. The social entrepreneurs running the community group have the trust of the locals without which the big company would never be able to enter the market, says Mr Drayton. Other similar "hybrid value-added chains" that combine business and social purposes are being developed between groups of forest-dwellers and forestry firms, and small farmers and irrigation companies.

Meanwhile, Ashoka hopes that its relationship with UBS will flourish, and that prizes will soon be awarded across Latin America and Asia. But as well as highlighting the growing role of social entrepreneurs, this experiment also points to another new trend: a more active role for intermediaries in the emerging philanthropic capital market.

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