Does it take an economic recession to advance social entrepreneurship?

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Abstract

More than 4 billion people in the world live on less than $2 per day, and they are not just in developing countries. In recent years, there is a trend of greater interest of entrepreneurs in social causes. However, people have experienced an economic recession since December 2007 that is expected to last into 2010, the longest since the Great Depression of the 1930s. As a result, the authors propose the question, does it take an economic recession to advance social entrepreneurship? The findings determine that during the recession such factors as low cost of skilled labor, less expensive supplies, tax benefits, new web tools, blogs, social networks make it easier to enter into a social entrepreneurial venture. Now is the best time to be your own boss, and to have the freedom and flexibility to work and to better societal needs.

Keywords: Social entrepreneurship, Economic recession, Innovation
Introduction

Social entrepreneurship is an opportunity by which for-profit organizations establish relationships and ventures with not-for-profit organizations in which the primary focus is civic involvement that leads to social change. Specifically, it is those “individuals who combine the pragmatic and results-oriented methods of a business entrepreneur with the goals of a social reformer” (Hsu, 2005, p. 61). Therefore, social entrepreneurship is an innovative, value creating approach of using entrepreneurial and business skills for the betterment of societal needs and “in the pursuit of high social returns” (New York University, 2009).

Current social concerns and causes are traced to the activists in the 1960s and early 1970s, e.g., advancing an individual’s rights (Green & Chen, 2009). Martin Luther King had “I Have a Dream” (civil liberties). President John Kennedy advanced the Consumers’ Bill of Rights (consumer protection). Women’s liberation (equality), anti-Vietnam War (peace), and many other movements were having significant, lasting influences and impacts on what societal norms should be. These “free spirits” were based on fairness, independent thinking by means other than “the usual rules” that were viewed at the time as anti-establishment. As a result, “the usual rules” pertaining to individual rights have changed but continued interests and movements for societal issues and concerns remain.

Issues and Concerns

During the same activist period, two Chicago scholars were taking very different views on the role that for-profit organizations should hold in respect to social responsibilities. Milton Friedman, the University of Chicago economist, stated, “there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profit” (1970, p. 33). On the other hand, Philip Kotler, the Northwestern University marketing guru, was advocating that businesses have “a pervasive societal (responsibility) that goes beyond the selling of toothpaste, soap, and steel” (Kotler & Levy, 1969, p. 10) and that “social marketing is a promising framework for planning and implementing social change” (Kotler & Zaltman, 1971, p. 3). Over a decade later, Peter Drucker argued that businesses could gain management skills and expertise from not-for-profit organizations. He observed, “in the most critical area – the motivation and productivity of knowledge workers – (nonprofits) are truly pioneers, working out the policies and practices that business will have to learn tomorrow” (Drucker, 1989, p. 88).

Societal needs are many but generally are in the broad areas such as poverty, healthcare, labor practices and the environment. The issues and concerns are being addressed by businesses that go beyond producing and marketing “toothpaste, soap, and steel.” For instance, over 4 billion people in the world live on less than $2 per day, and not just in developing countries (Prahalad, 2005). Prahalad identifies these people as being at the Bottom of the Pyramid (BOP) and states, “if we stop thinking of the poor as victims or as a burden and start recognizing them as resilient and creative entrepreneurs and value-conscious consumers, a whole new world of opportunity will open up” (2005, p. 1). This is a viable market in population and purchasing power. The nine largest developing countries (China, India, Brazil, Mexico, Russia, Indonesia, Turkey, South Africa, Thailand) together have 70% of the developing population and a Gross Domestic Product (GDP) of $12.5 trillion, larger than Japan, Germany, France, the United Kingdom and Italy collectively. The opportunities for entrepreneurs, employees or consumers
require shared efforts between firms, governments and nongovernment organizations (Prahalad, 2005).

In recent years, great participation has occurred and a different approach. Sagawa and Segal observe that a “new paradigm pairs visionary companies that see how the social context in which they operate affect their bottom lines with a new breed of social entrepreneurs who understand how business principles can enable them to fulfill their social missions more effectively” (2000, p. 105). A global trend for businesses has been to form alliances that take advantage of opportunities and expand capabilities. On the other hand, most social organizations have become productive alliance partners but some find it more challenging in forming such alliances, resulting in poor coordination and motivated by threats of funding reduction or increasing needs/demands. Much remains in terms of advancing social causes, including social entrepreneurship, and “history and our society have erected barriers that keep the business and social sectors from communicating informally and interacting professionally” (Sagawa & Segal, 2000, p. 120). As much as the issues and concerns, there must be continued efforts and incentives to collaborate and partner for the advancement of society (Smith, 2003).

Sisodia, Wolfe and Sheth believe that the “endearing behavior by a company toward its stakeholders is one of the most decisive competitive differences ever wielded in capitalistic enterprise” (2007, p. 43). While some global businesses have not been “firms of endearment” with past practices, they have adapted to embrace social responsibility. For example, Wal-Mart and Nike with previously unacceptable labor practices and other lacking social responsibilities have come to the forefront on such issues. In recent years, both have been proactive in environmental sustainable practices. Wal-Mart, the largest retailer in the world, has implemented stringent “green” requirements. Moreover, Nike has addressed and provided public audits of its suppliers’ labor practices. They, also, have designed products that avoid using excessive plastics. However, Nike’s initial offering of an environmental friendly product was a failure because consumers felt that it did not have a high-tech image previously associated with their branding strategy (Jana, 2009). Therefore, challenges, or issues for many firms who take on greater efforts of being socially responsible, is to design and offer products that meet the consumer expectations while not compromising the commitment to social responsibilities.

The current global economic condition is an issue and concern for businesses and societal organizations. Businesses and consumers have experienced an economic recession since December 2007 (Reddy, 2009) that is expected to last into 2010 (Welsh & Welsh, 2009), the longest since the Great Depression of the 1930s. As a result of unemployed, lower income and/or higher personal debt (Colvin, 2008), consumers have reduced spending and changed shopping behavior. Retailers have reduced prices, used discounts for new or in-season products, even during peak retailing periods (O’Connell & Dodes, 2009), while others lowered the number of new store openings, e.g., Lowe’s, closed upscale divisions, e.g., Home Depot’s Expo Design Centers, or even gone out of business, e.g., Circuit City (Lloyd, 2008). As a result, businesses, people and households, and societal needs have changed significantly since December 2007 – to one that rests on survival.

We believe, with support of a literature review, that this economic survival period offers an opportunity now and in the future for social entrepreneurs to expand their already important role in society and the economy. Hence, this paper will address the question, does it take an economic recession to advance social entrepreneurship? This study includes an examination of the academe initiatives, international responses, corporate reactions and the opportunity for the growth opportunities for social entrepreneurship.
Academe Initiatives

Universities, philanthropic foundations and corporations have been at the forefront with support and leadership for social entrepreneurship. Higher education has been a key player with curriculum and centers. In 2003, the Center for Responsible Business was launched at the University of California Berkley (Haas School of Business, 2006). As well, Stanford University has established a Center for Social Innovation as a part of its graduate school of business (Stanford University Center for Social Innovation, 2006). The social philanthropic efforts of Warren Buffet and Bill Gates have provided a high degree of attention to promote social advocacy and to gain exposure with social entrepreneurship (Adler, 2006; Buffet, 2006). Furthermore, corporate commitments fund programs that focus on the implementation of socially responsible programs. FedEx, as an example, is a supporter of St. Jude’s Children’s Hospital (Federal Express, 2006), March of Dimes, Heart to Heart organization, United Way, and the National Civil Rights Museum that have been recognized nationally (Federal Express, 2004).

As in many initiatives that have not yet gained societal acceptance, higher education serves as first act facilitators with facilities, e.g., centers and bureaus, and other support, e.g., leadership and faculty expertise. These may be funded with state and federal government grants as well as possible foundation and individual philanthropic support. Corporations have become more supportive of these efforts resulting to a commitment to the cause or to be a differentiator “player” in the marketplace, e.g., Ben and Jerry’s Ice Cream (Prahalad, 2005), that leads to “firms of endearment” (Sisodia, Wolfe and Sheth, 2007). For universities, these opportunities provide the public exposure of leading efforts to address and advance social needs at little risk, e.g., outside funding, and the chance to highlight faculty expertise and for additional funding to retain these scholars in a highly competitive market with additional money in the form of salary (grants) or support for their further research agendas.

Of equal importance for these university-lead efforts through centers and bureaus is the student interest in providing them the opportunities to participate, learn and prepare for a successful career. In recent years, we have found students with increased interest in innovation, societal needs and entrepreneurship in our classrooms. Apparently, this is not unique to our universities. The Haas School of Business at the University of California Berkley was an early leader in social innovation that has been extremely successful in serving this need (Haas School of Business, 2006) but has also benefitted the educational experience of students. Today, students are finding the traditional career opportunities at graduation, e.g., jobs with consulting, financial, high-technology firms, are not available to them due to the global economic conditions. At Stanford University during the 2009 Spring semester, 112 teams, the most ever, developed and presented social entrepreneurship business plans for the Social E-Challenge competition. These could have been proposals but some were already in operations. They ranged “from extending drip irrigation to poor farmers in India to manufacturing and distributing paper asthma masks for Mexicans” (Baker, 2009, ¶ 5).

Social entrepreneurs are “people (who) want to find something that feeds their soul, ..... (and) that trend has hit a fever pitch” (Baker, 2009, ¶ 6). One such social entrepreneur is Bob Goodson, co-founder of YouNoodle, and he has found, “when it comes to things that saves the world, we’re seeing an increase in funding” (Baker, 2009, ¶ 7). Therefore, student social entrepreneurs are finding “their sole” (social causes), able to pursue this interest, and supported by their university (education) and with “an increased funding” (foundations and corporations).
For example, Josh Nesbit, a recent Stanford graduate, would have likely spent his last year in college interviewing for a job at a firm on Wall Street or in Silicon Valley. However, for lack of such opportunity due to the economy Josh spent his final year researching 20 countries and talking to Ministries of Health about his global health network startup, Frontline SMS: Medic. Using low cost technology, e.g., Skype and the Internet, he has researched the need and opportunities for his venture, raised money and recruited volunteers. Nesbit’s initial project has been implemented in the rural areas of Malawi and Cameroon where health conditions are poor, e.g., HIV, and healthcare professionals have an inability to communicate with and care for patients. The firm collects cell phones and laptop computers, installs open source software, and works with physicians and trains health providers in the field for patient health conditions updates and increases their ability to report emergencies. This year the operating funding is from winning $45,000 from a competition and a $5,000 William J. Clinton Foundation grant. Josh Nesbit is just one example of a young social entrepreneur that is motivated and able to enter the global market with low cost and effective results (Baker, 2009).

International Responses

Certainly not all global initiatives, e.g., Josh Nesbit, are from United States social entrepreneurs. Recently 22 Chinese government officials and private sector leaders attended a social responsibility conference in Oregon, and visited corporations, e.g., Starbucks and Nike. In China, support in terms of approval and funding is from the Chinese Communist Party which results in more restrictive funding requirements than the methods identified during their U.S. visit. Social needs in China include youth unemployment, improving financial literacy, poverty and disaster relief, e.g., from earthquakes (Bernton, 2009). With these leaders’ interest and a greater interest from local businesses in social projects, China appears to be responding to their country’s social needs.

Not only in China but there are other Asian countries, e.g., Singapore, Hong Kong, Thailand, Taiwan, India, that have interests in social responsibilities. However, “despite the rise in interest and number of social enterprises starting up, in no Asian jurisdiction do social entrepreneurs (or investors in social enterprises) find clear policy frameworks or financial incentives” (Frost, 2009, ¶ 2). Before social entrepreneurship can prosper in Asia, there must be more government transparency to grant tax exemption as incentives to invest in these efforts. Currently, there are no clear lines as to what businesses are and what charities are. As a result, interests in social enterprises are prevalent but government priority for support is not (Frost, 2009).

On the other hand, Costa Rica has been a global leader for social responsibility, particularly ecological initiatives. In response to an economic crisis, their mantra states their position in that “social businesses’ responsibility is not an expense, it’s a strategic investment” (Jara, 2009, p. 13). Costa Rican tourism is a large sector in its economy, which has experienced a 12% decline in the last year. Costa Rica’s National Tourism Chamber President Gonzalo Vargas states, “our objective is to make evident that during these moments of (economic) crisis, corporate (social) responsibility and sustainable tourism is to afloat, to create competitiveness and success, to face today’s economic challenge” (Jana, 2009, p. 13). While Asian countries are lagging in their commitment to social enterprises and responsibilities, others, e.g., Costa Rica, remain to lead such global efforts.
Corporate Reactions

In the current competitive markets and recessionary economy, innovation, value creation, trust and accountability become of even greater importance. Xerox CEO Anne Mulcahy knows from her prior turn-around experience that companies must take a long-term approach, e.g., invest in research and development. She believes, “one of the biggest mistakes that can be made right now is to slash investments in innovation. I don’t just mean product research and development. It can also be innovating in new markets, launching new businesses, and even disruptive innovation in work processes” (Mulcahy, 2009, p. 69). Moreover, Indra Nooyi, CEO of PepsiCo, succinctly states,

To the consumer, the idea of value is about a lot more than price. It is about a sustainable relationship, the knowledge that this is a transaction that can be trusted. Behind this lies an idea of the company that is as old as capitalism itself. A company is not just an engine for shareholder value. It has to define its mission and serve that mission over a long period. (2009, p. 67)

Peet’s Coffee & Tea and IBM are just two such examples of what Mulcahy and Nooyi mean. Peet’s Coffee, an Emeryville, California-based firm, in partnership with Gates Foundation is developing a successful coffee industry in sub-Saharan Africa – Rwanda (Hamm, 2009). The Bill & Melinda Gates Foundation is funding the Norwalk, Connecticut nonprofit TechnoServe whose goal is “to double the income of poor coffee farmers in Kenya, Rwanda, Tanzania and Uganda by linking their products with coffee lovers in the developed world” (Hamm, 2009, p. 60). While the country’s infrastructure has been challenged, and with some corporate employment layoffs, the company remains committed to the project’s success in providing high quality coffee.

In addition, IBM has been successfully transformed from hardware to services and software provider. Currently, close to $2 billion per year of a $6 billion research and development budget is for long-term research (O’Brien, 2009). In a “Smarter planet” advertising campaign, IBM shows the “ambitious efforts to tackle some of the most vexing dilemmas of our era. What the ads don’t say is that IBM is making a killing doing it” (O’Brien, 2009, p. 86). These dilemmas are making “dumb networks” (problems) smarter (solutions). Furthermore, many of these “dumb network” problems are related to societal needs. One problem solving initiative is the reduction of traffic congestion and pollution in Stockholm, Sweden.

A second solution is the digitization of the electricity grids. IBM is collaborating with Houston-based CenterPoint Energy in developing weather-modeling software to inform the utility company of the exact location of a power outage and re-routing power supply in 10 seconds to that area for the safety and convenience of its customers. The partnership is also developing smart phone technology with a GPS transmitter and a home link to an electric meter that will signal (inform) the home system that the resident will be arriving in 20 minutes at which time the heating or air conditioner will adjust accordingly. This will allow CenterPoint to save an estimated $600 million for each power plant constructed and the environment of additional pollution as well as the customer will lower electric usage and monthly cost (O’Brien, 2009).

Yet another solution is in food distribution. In 2006, Norway experienced an E.coli outbreak. To prevent such a crisis in the future, IBM has partnered with the Norwegian government, a meat producer and consultancy to develop a traceable supply chain for meats.
The project, which uses radio frequency identification (RFID) chips and readers, is near successful completion to save time, lives, and money in any future crisis (O’Brien, 2009).

IBM CEO Sam Palmisano states, “Now is the ideal time to invest, oh, hundreds of millions into marketing. People are willing to do things differently because we have a severe economic situation” (O’Brien, 2009, p. 91). Furthermore, IBM has positioned itself with “a model for monetizing scientific research in a way that benefits humanity” (O’Brien, 2009, p. 91). The authors believe that since “elephants can dance” (Gerstner, 2003), the other large to small firms can, or will be just as innovative in becoming social entrepreneurs. The markets and society are open-minded and ready to accept and support such programs.

**Economic Recession as an Opportunity**

The purpose of this study is to examine and to determine the relationship between an economic recession and the opportunity for social entrepreneurship. The issues and concerns were established, the important role of higher education was discussed, global responses by some current participants were presented and finally the United States-based corporate reactions were investigated. In this section, the study concludes with identifying current examples that this, in fact, does support an opportunity to successfully initiate social ventures.

Globally, while the recession does affect social entrepreneurs, they have certain advantages that other businesses might not. In India, the CEO of a social communication agency, Meenakshi Bhalla, finds that social ventures and other non-government organizations have not experienced problems with continued funding. She feels that much of this is attributed to how these entrepreneurs do business – small and efficient. Ms. Bhalla has observed,

> Corporations didn’t see the downturn coming as rapidly as it did, and hence did not anticipate the after effects. Social enterprises, on the other hand, are pretty much use to working on judicious spending and budgets, and have always worked more efficiently and effectively within constraints, such as dependency on external funding, lack of good professional resources and natural stressful conditions. (Segran, 2009, ¶ 8).

Other opportunities have been identified, e.g., better at managing costs, being creative and innovative, attractive to those firms looking for low cost, innovative partners, increasing interest of volunteerism, and availability of low cost skilled and professional labor (Segran, 2009). Jop Blom, a Dutch social entrepreneur, might have identified this opportunity the best by stating that “it is time for change in society and confirms (my) company’s mission for global tolerance and cooperation. This crisis has also helped put things in perspective” (Segran, 2009, ¶ 16).

In the United States, the same guarded opportunistic mindset appears. As Jack Welch, the former CEO of General Electric, has stated, “control your own destiny or someone else will” (Anderson, 2009, ¶ 7). Much of this control is a mindset. For example, an entrepreneur leaves the job of working for someone else and creates his/her own income sources that he/she can control. In today’s job market, this interdependency may not have been by their choice but that in and of itself is the opportunity, rather than seeking and waiting for the next job. Kauffman Foundation CEO and President Carl Schramm finds that “history has repeatedly demonstrated that new companies and entrepreneurship are the very way to bolster a flagging economy”
U.S. President Barack Obama supports such efforts in that “our recovery in the present and our prosperity in the future depends upon the success of America’s small business and entrepreneurs” (Anderson, 2009, ¶14). The argument for this being the time and situation is right for social entrepreneurship and cite reasons as (1) low cost of skilled labor, (2) less expensive supplies, (3) tax benefits, (4) new web tools, e.g., design templates, (5) blogs, (6) social networks that makes an easier entry into business and those more personal reasons of (7) being your own boss, (8) having freedom, and (9) flexibility to work (Anderson, 2009).

Much has changed since the 1960s, a period when individual rights, “free spirits” and a challenge to “the usual rules” prevailed. These concerns have evolved and matured to a more caring society and recently more volunteerism. In reflection, even Milton Friedman’s position has been justified as in a different context. Sisodia, Wolfe and Sheth speculate,

When he asserted in 1970 that the only social responsibility of business is to legally make a profit, Milton Friedman lacked the evidence that we have today. Perhaps there were too few companies with a strong sense of social responsibility to encourage serious examination of the relationship that might exist between social concerns and corporate bottom lines. Or perhaps a more enlightened view of corporate purpose and operation had to await the collective maturity of society today ….” (2007, p. 270)

This study leads to a need for a better understanding of social entrepreneurship. A future research opportunity might be to monitor these startups in studies to determine the correlations and relationships that can predict successful social ventures beyond just the economy. As examples, a number of questions may be asked such as (1) is there a statistical trend (as compared to examples in this study) of youth (college age and recent college graduates) becoming social entrepreneurs?; (2) what influence does external funding (philanthropic foundations and corporations) have on such increases?; (3) what influence do universities with social innovation type centers have on increased social startups?; (4) what are the factors that sustain social entrepreneurship ventures?.

Just as “elephants can dance,” so can the sole, individual social entrepreneur. A better society rests with their innovation and long-term commitments. Moreover, it is critical to provide 4 billion people in the world living on less than $2 per day the means for their and their families’ basic needs.

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