

# Social Versus Commercial Entrepreneurship

The Phenomenon of Social Entrepreneurship and Its Comparison to Commercial Entrepreneurship

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*Keywords*

*Social Entrepreneurship, Social Enterprise, Commercial Entrepreneurship, Entrepreneurial Process*

In the recent years as well as nowadays, many examples of social and environmental problems caused by the industrial and high-technological progress of the last century can be seen all over the world. Here are just some of them: about 1 billion people have to sustain malnutrition, 2.4 billion people lack the access to water and adequate sanitation systems, and more than a quarter of the world's population earns even less than US\$ 1.25 per day. As governments decrease their aid and commercial enterprises do not engage themselves in improving this situation, the idea of this paper is to better understand the phenomenon of social entrepreneurship and to examine why it seems to be a better candidate to solve current social and environmental problems. For this purpose, social entrepreneurship is compared to commercial entrepreneurship along three phases of a typical entrepreneurial process (planning, operational, appraisal phases), as well as the resulting similarities and dissimilarities between those two types of entrepreneurship are summarized at the end of each phase in this paper. The reasoning for the main question is given in the conclusion.

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## **1. Introduction**

### *1.1 Problem Statement and Purpose of the Paper*

In the last century, the beneficial industrial and high-technological progress led to several social, environmental, and economic challenges and problems all over the world (cf. Skoll 2006: v). In 2005, more than a quarter of the world's population earned less than US\$ 1.25 per day which is equivalent to the international poverty line set by the World Bank (The World Bank 2010). Furthermore, 1 billion people have to sustain malnutrition; 2.4 billion people lack the access to water and adequate sanitation systems; every year 10 million children die from preventable illnesses; the number of HIV/AIDS victims keeps growing each year (cf. Nicholls 2006: 1). All these facts show, that a lot of people are affected by the negative side of the high-technological progress, so that social, environmental, and economic failures including over-population, lack of medication, terrorism, and development of new weapons, have to be overcome in the narrow future. But who and with what methods is supposed to solve those failures and challenges?

The first candidate is government. In the last decades, the endeavor of some governmental programs to capture the social and environmental failures was described as ineffective and insufficient (cf. Skoll 2006: v). Additionally, the direct support of governmental funds in social, environmental, and educational areas diminished through the cutting of the spending agenda of various governments, so that those failures and challenges that are described above were left to be solved mainly by entrepreneurial activities (cf. Zahra et al. 2009: 520). The second candidate are corporations, which can be managed by commercial entrepreneurs or corporate managers. As governments do not seem to solve these failures, corporations could develop, implement, and execute a corporate strategy, which (in the best case) does not cause further problems in the world. But the risk for this candidate is high, that the minimization of social and environmental challenges will be subordinated to the main goal of profit maximization, which is important for corporation to stay competitive in their market. The third candidate is social entrepreneurship, which indications can be seen since the 12th century (as it will be described in the chapter 2.1.1), but the term itself is mostly researched in the last decades. Social entrepreneurship connects entrepreneurial elements of inventing new ideas or using new and more efficient technologies with a social element of solving social and environmental problems in order to improve this world and grow overall welfare. As social entrepreneurship combines entrepreneurial and social elements and more and

more people (e.g. in the United Kingdom it is nearly 7% of the population) participate in such activities (Short et al. 2009: 161), the purpose of this paper is to better understand the phenomenon of social entrepreneurship by comparing it to commercial entrepreneurship along three phases of a typical entrepreneurial process: idea generation, operation (e.g. areas of operations, business models), and improving their models through appraisal and performance measurement methods. This comparison, which is drawn by recognizing similarities and dissimilarities between social and commercial entrepreneurship along the three phases of the entrepreneurial process, represents a basis for answering the main question of the paper, why social entrepreneurship seems to be a better candidate to solve the social and environmental problems and challenges of the high-technological progress of the last century.

## *1.2 Outline of the Paper*

To reach its purpose, this paper has the following four chapters. In chapter 2, the theoretical basis including history of social entrepreneurship will be built (chapter 2.1.1), and the most important definitions of termini such as social entrepreneurship (chapter 2.1.2), social entrepreneur (chapter 2.1.3), social enterprise (chapter 2.1.4), as well as commercial entrepreneurship (chapter 2.2) will be given. In chapter 3, the discussion will begin with the first out of three phases of the social entrepreneurial process, planning phase (chapter 3.2), which includes finding a new equilibrium (chapter 3.2.1), discovering an entrepreneurial opportunity (chapter 3.2.2), and inventing the idea for change (chapter 3.2.3). In the next step, it will turn to the second phase, operational phase (chapter 3.3) with the most important points as areas of operations (chapter 3.3.1), business models (chapter 3.3.2), sources of funds (chapter 3.3.3), and stakeholder versus shareholder approach in social entrepreneurship (3.3.4). At the end of the chapter 3, the third phase, appraisal phase (chapter 3.4) will be discussed within two subchapters: the input/output relation (chapter 3.4.1) and performance measurement (chapter 3.4.2). In each subchapter of chapter 3, after the description of the social entrepreneurial style of the planning, operations and performance measurement in the enterprise, there will be emphasized and contrasted the social versus commercial way of entrepreneurship by describing the similarities and dissimilarities between both types of entrepreneurship. Finally, in chapter 4, there will be presented similar and dissimilar points of both types of entrepreneurships in order to summarize, why social entrepreneurship can solve social and environmental problems

better than commercial entrepreneurship, and whether it is potentially possible, that commercial enterprises could participate to overcome those challenges by operating more sustainable.

## ***2. Defining Social and Commercial Entrepreneurship***

The purpose of the first part of this chapter is to build up the basis for understanding the phenomenon of social entrepreneurship (chapter 2.1). First, there will be given a short overview of the history of social entrepreneurship (chapter 2.1.1). Second, the ‘social’ and ‘entrepreneurial’ elements will be described in chapters 2.1.2.1 and 2.1.2.2 respectively, which create the basis for the definition of social entrepreneurship in chapter 2.1.2.3. Third, after giving the definition of social entrepreneur as a founder and innovator in chapter 2.1.3, the typology and motivation of social entrepreneurs will be sketched in chapters 2.1.3.1 and 2.1.3.2. Fourth, the definition of social enterprise as an organizational entity will be drawn in chapter 2.1.4. In the second part of this chapter (chapter 2.2), the focus lies on commercial entrepreneurship. In the first step, the term commercial entrepreneurship will be defined in chapter 2.2.1. In the second step, commercial entrepreneurs will be distinguished from corporate managers in chapter 2.2.2.

### *2.1 Social Entrepreneurship*

#### *2.1.1 History of Social Entrepreneurship*

In order to understand the phenomenon of social entrepreneurship it is important to begin with the history including some important historical events, which highly influenced the origin and development of social entrepreneurship. From writings of Leadbeater on the history of social entrepreneurship, social innovation started in the 12th and 13th centuries in Britain (1997: 28). During this period more than 500 hospitals were established on the voluntary basis for purposes of social stability (cf. Leadbeater 1997: 28). Later in the 16th and 17th centuries, due to many wars and epidemics, the power of the social charitable and voluntary organizations was not sufficient to bail society out of poverty and to bring it on a stable level. The voluntary sector, and not the state, was involved in supporting the society and trying to solve society’s problems. The philanthropical sector including its charitable arm grew further during the 18th century (cf. *ibid.* 1997: 28). In the

middle of the 19th century the pure philanthropic and charitable approach were partly displaced by more systematic and puritanical approach initiated by the British government on the basis of the introduction of the Poor Law Act in 1834, which was a legislation act for the support of poor people by state (Columbia Electronic Encyclopedia 2010). Because of its unpopularity, the Poor Law Act was reversed 10 years after its launch (cf. Nutt 2010: 335). By the end of the 19th century, charity and philanthropy regained its strong position and positive social influence. The most important reason for this was the increased number of donations of the civil society, as it accounted for the second biggest expense in the average family during this time in Britain (cf. Leadbeater 1997: 28). Later, between the end of 19th and the beginning of 20th centuries, the voluntary sector experienced challenges related to industrialization and urbanization of the society. Additionally, it was obvious, that because of its managerial and financial failures, the philanthropic and charitable organizations could not face and solve social problem anymore by themselves. During the 1930s, due to a wave of unemployment and later challenges of the World War II, the state incurred its role in building up a welfare society (cf. *Ibid.*: 28).

After the World War II until the 1970s, the state was the main provider of welfare in most countries (cf. *Ibid.*: 28). In most western countries the welfare state model of Keynes was applied, which was characterized by social democracy, fixed currency exchange rates, nearly 100% employment with education and health systems supplied by the state (cf. Roper/Cheney 2005: 96). States built up many welfare functions in analogy or as a partner to some existing social entrepreneurs, as can be seen for example in the complex relationship with the National Society for the Prevention of Cruelty to Children (NSPCC) (cf. Buchanan 2010: 7). The NSPCC was established in 1884 with the mission of protecting children from child abuse and was never overtaken or intervened by state. Although the social functions of the state grew together with the ones of philanthropy and charity, in the 1960s activities of the welfare state were discerned as faulty, so that new social purpose organizations were initiated, e.g. foundation of Shelter in 1966 and Child Poverty Action Group in 1965 in order to address the social problems not previously addressed by the state (cf. *Ibid.*: 7).

The Keynesian model did not last more than approximately 20 years. With the problems of oil shortage in the mid 1970s, high inflation (e.g. in the US economy doubledigit range), recession (cf. Boschee 2006: 357), and no fixed exchange rates, the economy model by many states was switched to the neo-liberal free market system in the 1980s (cf. Roper/Cheney 2005: 96). The companies and organizations, previously being controlled by the state, due to the changing to new economic model, were deregulated and got privately owned. The prices were defined by the

supply and demand of the participants in the market. As this was applied to health and education sectors, as well as the engagement of the state in other social sector declined, the new system was perceived to fail to ensure the welfare of the civil society. In the late 1990s the difference between poor and rich people was much more obvious than before (cf. *Ibid.*: 96).

The solution of supporting social sector with funds from the state was not possible anymore at the same level as during the time of the Keynesian model, as the tax income decreased, and previously stateowned assets were privatized, so that sources of income were limited (cf. *Ibid.*: 96). In particular, the US nonprofits experienced a strong shortening of the support of public sector budget by more than 23% during the Reagan administration in the early 1980s (cf. Boschee 2006: 357). The philanthropic aid of the private sector decreased as well, from 7% in 1979 to 4% in 1990. Additionally, during the growth of problems of poverty such as HIV/AIDS, homelessness, and drug addiction, the number of social nonprofits strongly increased, which resulted in high competition to get funds either from public, or from private sector in the nonprofits area (cf. *Ibid.*: 358). On the one hand, many rising social problems, and on the other hand, very diminished and therefore limited welfare provision by the state and philanthropic and charitable giving of private sector initiated the wave of the establishment of the so called 'social entrepreneurship' organizations (cf. Roper/Cheney 2005: 96). In the following chapter, 'social' and 'entrepreneurial' elements are explained, which build the basis for the definition of social entrepreneurship.

### *2.1.2 Elements and Definition of Social Entrepreneurship*

#### *'Social' Element in Social Entrepreneurship*

The first element in the social entrepreneurship is 'social'. Some of the authors associate 'social' with altruistic behavior (cf. Mair/Martí 2006: 38). Others suppose that 'social' objectives cannot be represented in terms of individual objectives, because the former objective is more than just the sum of the latter ones (cf. Cho 2006: 37). According to Spear and Bidet, the 'social' element in social entrepreneurship can be expressed by following five characteristics (2003: 9). First, an initiative is launched by a group of citizens, which means that, although social entrepreneurship can be started as an idea in the mind of one person, launching and operating this activity could be set up by a local group of people (cf. *Ibid.*: 9) with the help of non-commercial resources like volunteers and donations (cf. Defourny 2001: 15). Second, the decision-making power is not based

on capital share, which presumes that stakeholders of social entrepreneurship can participate in the decision-making process without any requirement of minimal financial contribution. Third, the participatory nature of stakeholders requires a democratic approach and stakeholder orientation in the decision-making process, as well as autonomy and independency of social entrepreneurship (cf. *ibid.*: 16). Fourth, the limited profit distribution implies, that the profits made by social entrepreneurial activity are to be reinvested in the social projects for the benefit of further society members (cf. Spear/Bidet 2003: 9), because social entrepreneurship in the first line is not purely financially-driven (cf. Thompson 2002: 415). And finally, an aim to benefit the community is denoted in the focus to serve members of the community (cf. Defourny 2001: 15) and the improvement of the social structure by solving social problems (cf. Mair/Martí 2006: 38).

The 'social' element can be differentiated by its impact on the society. First, the 'social' element can be measured in form of a direct impact, where direct investment like scholarship and aid would bring a direct benefit to society. Second, the impact can be measured indirectly, e.g. social entrepreneurship organizations employ the handicapped workers in order to offer some products or services (cf. Tan et al. 2005: 360f.).

In sum, the 'social' element is represented by social values, which are very important for the philosophy of social entrepreneurship and create the basis for the fundamental dissimilarity to commercial entrepreneurship.

#### *'Entrepreneurial' Element in Social Entrepreneurship*

In order to understand the 'entrepreneurial' element, it is worthwhile to investigate the development of the word 'entrepreneur'. The word 'entrepreneur' comes from the French word 'entreprendre', which means 'to undertake' (cf. Cunningham 1996: 302). In the 16th and 17th centuries, some individuals were called entrepreneurs because of undertaking jobs associated with high risk and danger, like military job, builders of military bridges, harbors, and fortifications (cf. Tan et al. 2005: 355). Later, in the 17th and 18th centuries, in the French economists circle to the concept of 'entrepreneur' was given additional meaning from not just taking on a project or activity (cf. Dees 1998a: 1-2), but also using innovative approaches in situations of high risk and uncertainty (cf. Tan et al. 2005: 355). At the end of the 18th century and beginning of the 19th century, Jean-Baptiste Say, a French economists, defined 'entrepreneur' as a person, who improves the efficiency of the production process and achieves higher income (cf. Bornstein 2004: 2). Later in the 20th

century, another economist Joseph Schumpeter introduced the term 'creative destruction', which is used by an 'entrepreneur' in order to bring progress and innovation into the production process in an economic system. For Peter Drucker (also an economist) an 'entrepreneur' is focused not on problems, but rather on opportunities and on chances to pursue these opportunities (cf. Dees/ Economy 2001: 3).

Entrepreneurship does not necessarily presume the ownership of a company or an organization. Entrepreneurship or entrepreneurial activity can be expressed by five characteristics denoted in case of social entrepreneurship (cf. Defourny 2001: 11-14):

- (i) Introduction of a new product or a new quality of product: The decline of the state provision of welfare systems after the 1970s in Europe forced the third-sector to improve dependency on the state and to move towards more autonomy and innovative organizations by introducing new products for solving social problems;
- (ii) Introduction of a new production method: The entrepreneurial way to improve production methods in social entrepreneurship was to engage different volunteers and partners in order to benefit from resulting knowledge exchange from diverse fields of experience;
- (iii) Opening a new market: Third-sector organizations began to operate in new markets, where the activity were limited either to public sector as in Scandinavian countries, or to informal providers as in Italy, Spain, Portugal, and Greece;
- (iv) Acquisition of new production factors: Unique production factors in the third-sector are volunteers who contribute to achieving social objectives in social entrepreneurial activities. Additionally, volunteers could possess control and decision-making power much like other stakeholders of social enterprises;
- (v) Reorganization of nonprofit sector: Reorganization of a third-sector from characteristically nonprofit organization model towards diverse legal models of social entrepreneurship is very much driven by the legislation of different countries in Europe, e.g. introduction of 'social co-operative' in 1991 by the Italian government, approval of 'company with social purpose' in 1995 in Belgium, implementation of 'social solidarity co-operative' in 1998 in Portugal, as well as 'social co-operative with limited liability' in 1999 in Greece.

Together, the 'entrepreneurial' element in social entrepreneurship results in the application of innovative business approaches, the launching of new products in new markets, the utilizing of new



production patterns in order to pursue social objectives, as well as the creation of social value for society as effectively as possible. The 'entrepreneurial' element is what makes social entrepreneurship different from nonprofit organizations (cf. Nicholls/Cho 2006: 100).

### *Definition of Social Entrepreneurship*

The description of 'social' and 'entrepreneurial' elements creates the first impression and basis for understanding social entrepreneurship. In order to better understand this term, the idea of this subchapter is to sketch some complementary definitions of social entrepreneurship from different authors. Although having two decades of research history, the deepness of the research is still very limited, as for example there is no generally accepted definition of 'social entrepreneurship' (cf. Short et al. 2009: 161).

In the broad definition summarized by Austin and his co-writers, 'social entrepreneurship' is indicated in three areas: either in for-profit enterprises that have implemented social goals, in nonprofit organizations, or in a hybrid version that contains for-profit and nonprofit objectives (cf. Austin et al. 2006: 2). In the same article Austin and co-writers offer a narrow definition, by which nonprofit is mentioned as social entrepreneurship, if it applies business and market-oriented approaches in order to generate additional income (cf. *Ibid.*: 2).

In an alternative definition given by Robinson, social entrepreneurship is described as a process, which involves three phases (cf. 2006: 95). The first phase is the identification of a specific social problem and preparation of a specific solution (cf. *Ibid.*: 95), where the social context of problems will not or cannot be solved by welfare states (cf. Thompson et al. 2000: 328). In the second phase, the potential business model, expected social impact, and sustainability of the venture are evaluated (cf. Robinson 2006: 95). In the third phase, social mission-oriented for-profit or a business-oriented nonprofit organization is founded, which pursues double (or triple) bottom line (cf. *Ibid.*: 95), where the double bottom line includes commercial/financial and philanthropic/social goals (cf. Frumkin 2002: 130) and the triple bottom line additionally includes environmental goals (cf. Buckley 2003: 80). To pursue these goals, it is essential to apply innovative approaches in using and combining resources (cf. Mair/Marti 2006: 37; cf. Peredo/McLean 2006: 56).

Social entrepreneurship is different from charities/philanthropy and from commercial entrepreneurship. The comparison to the latter is described during this paper, but the difference to charity and philanthropy can be summarized in two points: (i) social entrepreneurship does not

provide its customers/beneficiaries with free goods and services; rather these customers will provide some compensation in response (e.g. in form of labor); and (ii) the customers/beneficiaries of social entrepreneurship organizations may partly work for them, which results partly in income of the social enterprise (cf. Thompson et al. 2000: 329).

Social entrepreneurship organizations are typically ‘neither fully public, nor fully private’ (cf. Cho 2006: 38). The figure 1 below visualizes the position of the social entrepreneurship in three of these areas. In different countries social entrepreneurship is driven by different sectors: state, market, or civil society. For example, in Latin America, where social enterprises are organized by cooperative models of and focused on the civil society, whereas in Eastern Europe based on past experiences with corruption of the state system, social entrepreneurship is mostly market and society oriented (cf. Nicholls 2006: 4). In the countries of European Union, especially in UK, as well as in the US, the state plays a predominant role in supporting social entrepreneurship in form of subsidies and grants. In most Asian countries, social entrepreneurship is influenced mainly by state and civil society, because the function of the market is less developed compared to the US or European countries (cf. *Ibid.*: 5).

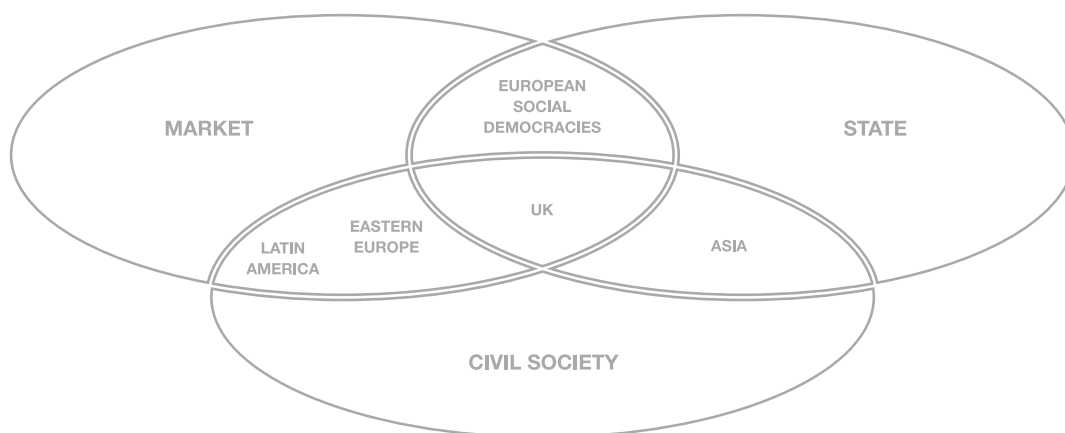


FIGURE 1: POSITIONING OF SOCIAL ENTREPRENEURSHIP (SOURCE: CF. NICHOLLS 2006: 5)

Additionally, the phenomenon of social entrepreneurship is illustrated as a comprehensive picture in figure 2. There can be seen, that social entrepreneurship is initiated by an individual or a legal

person, who can be a corporation, association, club, or society. Social entrepreneurship is typically altruistically motivated and represents a process of creating social innovation and profits. This process involves different groups of society from nonprofit and for-profit sectors in order to solve social problems by using innovative, entrepreneurial business expertise. Some or all generated benefits resulting from this process are directed back to society.

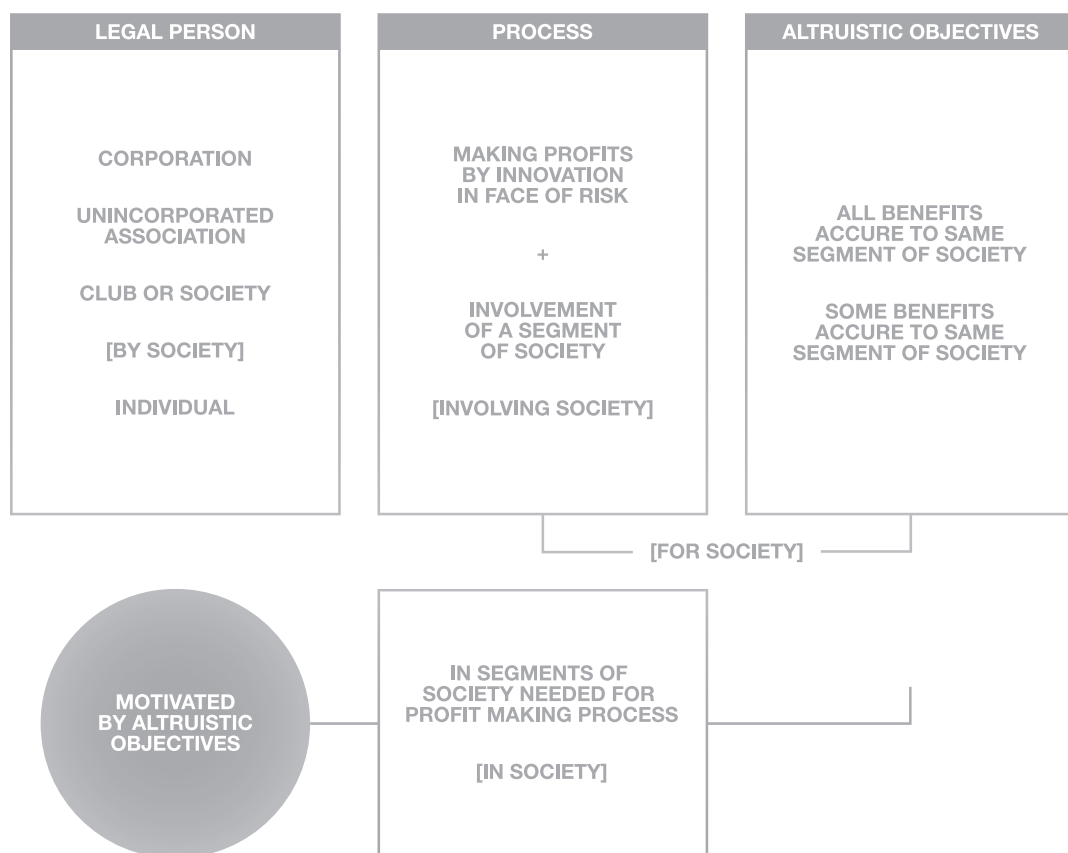


FIGURE 2: DEFINITION OF SOCIAL ENTREPRENEURSHIP (SOURCE: CF. TAN ET AL. 2005: 360)

### *2.1.3 Definition of Social Entrepreneur*

The next definitional objective is social entrepreneur, who is a founder of the social entrepreneurial organization (cf. Mair/Mantí 2006: 37). In this subchapter, the definition of social entrepreneur will be provided, and thereafter, a description of his types and his motivation. According to Thompson, a social entrepreneur is defined as an individual who works and applies business approaches in the community with the main objective of helping other individuals, rather than just to earn money (cf. Thompson 2002: 413).

Social entrepreneurs can be found in different societies, with different educational backgrounds and qualifications, as well as of different age (cf. *Ibid.*: 414). The tendency is that social entrepreneurs come mostly from bigger cities; are more often faced with unresolved social needs; and fulfill requirements to gain access to funds and to society members in need (cf. Van Ryzin et al. 2009: 138). Nevertheless, social entrepreneurs can be characterized by the following six qualities. First, by observing complex social problems, the social entrepreneur builds an objective to solve this problem through transformation of the status quo and creation of social value (cf. Waddock/Post 1991: 394). Second, as a person with credibility (cf. *Ibid.*: 394), the social entrepreneur tries to achieve his objective by permanently adapting to the situation and learning from the community to achieve desired results (cf. Dees 1998a: 4). Third, social entrepreneurs operate in an innovative manner through implementation of new methods in production of goods and services in order to meet social needs through the efficient utilization of limited resources in order to resolve social problems (cf. Leadbeater 1997: 77). Social entrepreneurs have to have the ability to aggregate the necessary, but limited resources such as human, financial, and other resources in order to reach their objectives (cf. Thompson et al. 2000: 329). Fourth, social entrepreneurs are very opportunity-oriented, as they ask the question, how or by exercising what opportunity the social problem can be solved (cf. Dees/Economy 2001: 4). Fifth, the social entrepreneur works towards achieving his vision expressed in the creation of social value for the community, rather than individual financial value (cf. Waddock/Post 1991: 394). Sixth, social entrepreneurs are highly committed to the vision of creating social value for the community (cf. Light 2008: 198). As indicated in 2006, at least one of five social entrepreneurial organizations was led by its original founder, and three out of five original founders were still very involved in the operations of the social entrepreneurial companies they founded (cf. *Ibid.*: 198).

A social entrepreneur is an agent (cf. Dees/Economy 2001: 4), who focuses on the creation of social capital, not purely financial capital, as an end output and outcome of the social entrepreneurial organization (cf. Thompson 2002: 426). Social capital can be divided into two categories: (i) tangible social capital, which is represented in material/substantial form like houses and services, and (ii) intangible social capital, which is the immaterial version expressed in things like identity, credibility, and respect for solving social problems (cf. *Ibid.*: 415). Social capital can be created out of the financial capital and vice versa (cf. Stryjan 2006: 216). Possible converting transactions from and to social capital in the social entrepreneurial projects are represented in the following figure (cf. *Ibid.*: 219).

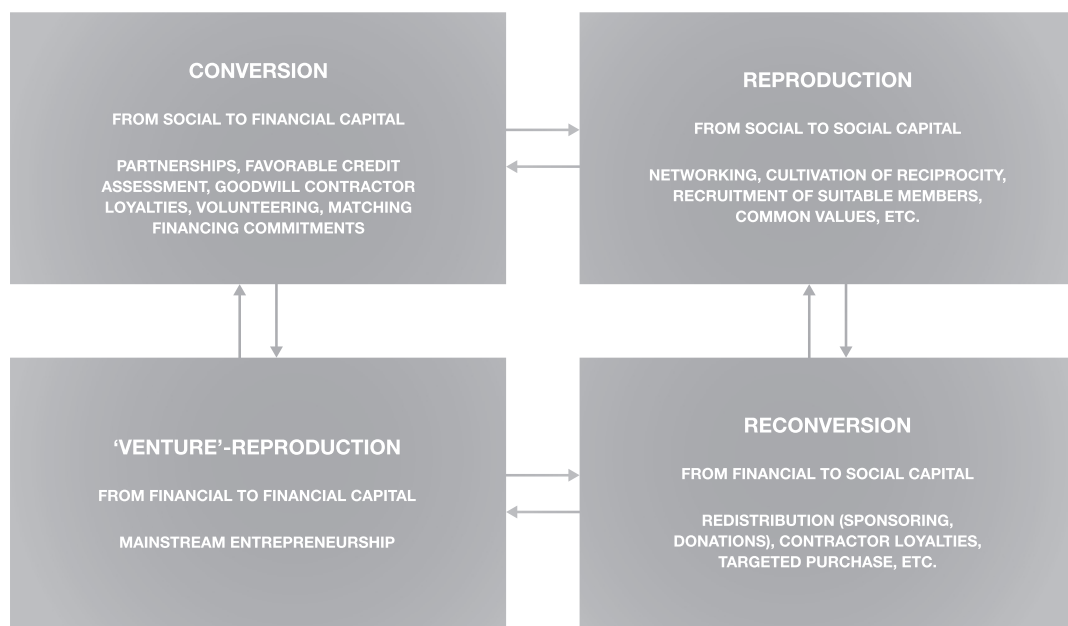


FIGURE 3: MODES OF CONVERSION AND REPRODUCTION OF SOCIAL CAPITAL  
(SOURCE: CF. STRYJAN 2006: 219)

The top-left box shows transactions from social to financial capital, referred to as conversion, which can generate financial output by using voluntary labor (cf. *Ibid.*: 216). The top-right box

represents the transaction from social to social capital, referred to as reproduction. In order to reproduce social capital, maintenance and support of networks in social entrepreneurial circles are required. Social entrepreneurs can expand such networks by partnerships under the condition of reciprocity and common values. It can be very fruitful for both partners in terms of learning from each other, as well as, launching new projects to create social capital together or by themselves (cf. *ibid.*: 217). The bottom-right box shows the flow from financial to social capital, referred to as reconversion, e.g. donated money in exchange for feeling good for helping someone, or sponsorship of an organization in return for intangible social capital (cf. *ibid.*: 217-218). The bottom-left box describes the reproduction of financial from financial capital, referred to as “venture”-reproduction. This kind of transaction is an everyday operation in commercial enterprises, as well as partly in social enterprises. Financial capital is invested to create a product or service, which will later be exchanged for financial capital with other market participants (cf. *ibid.*: 218).

In all of these transactions, the social entrepreneur is an agent who acquires the necessary resources, builds further partnerships with for-profit and nonprofit organizations, and motivates employees and volunteers to work together in order to generate social capital (cf. Zahra et al. 2009: 523).

### *Typology of Social Entrepreneur*

Social entrepreneurs can be distinguished in three types: Social Bricoleur, Social Constructionist, and Social Engineer (cf. Zahra et al. 2009: 519). The Social Bricoleur is primarily a local entrepreneur in a small to mid size social driven organization. From his background, this kind of entrepreneur looks for opportunities to fulfill the needs of local disadvantaged groups. Because the Social Bricoleur has skills and knowledge about the local region, he may more easily discover market failures and social problems on the atomistic/local level, and inspire stakeholders of social entrepreneurial organizations to solve these problems. By doing this, the Social Bricoleur addresses social problems which would never be solved by a larger social entrepreneurial organization. The limitations of the Social Bricoleur could be dependency on the availability of resources, which could limit addressing social problems on a larger scale.

The second kind of social entrepreneur is the Social Constructionist, who makes use of opportunities and addresses problems of social groups typically at a higher scale; which were not addressed by any other public or governmental organizations. Typically, the Social Constructionist

operates on the level from small/local to national/international, so that he can take advantage of knowledge from many different local communities in order to find the best approach to solve the problems at the national level. Social Constructionists focus on broader social problems than the Social Bricoleur; however, both are determined to create social capital. The Social Constructionist has to handle the sometimes difficult task of acquiring resources in order to pursue his goals.

The third type is the Social Engineer. This social entrepreneur is the most innovative. The Social Engineer perceives unresolved social problems and unsatisfied social needs on a more global level (from a bird's eye perspective), and conceptualizes an innovative approach to resolving those problems and satisfying those needs. As the dimension of such innovative changes could be national, transnational, and global, the Social Engineer can be challenged by finding enough political supporters to make the revolutionary change of social structure happen (cf. *Ibid.*: 519-526).

#### *Motivation of Social Entrepreneur*

In this subchapter, there will be a discussion as to why entrepreneurs take (on average) higher risks than typical employees. It is important to note what motivates a social entrepreneur and why they attempt to create social value. It is frequently mentioned in the literature that social entrepreneurs are different from commercial entrepreneurs in the sense that they are not purely motivated by financial profits (cf. Nicholls/Cho 2006: 101-102). This difference is derived from the characteristically commercial entrepreneurial focus on creating private/shareholder value (cf. Austin/Stevenson 2006: 2); while social entrepreneurs try to pursue very altruistic interests (cf. Mair/Martí 2006: 38). Because of this altruistic trait, social entrepreneurs value the creation of social capital and social commitment, higher than pure interests in financial return (cf. Roper/Cheney 2005: 100).

The motivation of social entrepreneurs is expressed in many motives, rather than one general motive. The origin of social motivations could vary depending on the background of the social entrepreneur or his frustration with the current status of social problems (cf. Martin/Osberg 2007: 33). Motivations can grow by identifying the opportunity to solve social difficulties and by realizing an entrepreneurial idea in reaching social equilibrium (cf. *Ibid.*: 34). Similar to the commercial entrepreneur, the social entrepreneur could be motivated by the idea of self fulfillment through launching his entrepreneurial idea; by reaching independence, freedom, and using his creativity to introduce to the world his way of entrepreneurship (cf. Sharir/Lerner 2006: 16). Dissimilarly, the social entrepreneur's motivation is to create social wealth as well as to solve individual and com-

munity's social problems (cf. Zahra et al. 2009: 521). Social entrepreneurs are typically inspired to operate in socially responsible ways (cf. Mair/Noboa 2006: 124) and possess a deep sense of social justice (cf. Roper/Cheney 2005: 100). They typically do not expect to gain any financial reward, as in most cases, the tangible outcome of his activity would not countervail the invested resources (cf. Martin/Osberg 2007: 34). Such drive and motivation to improve the status quo of social problems by introducing new entrepreneurial methods (cf. Nicholls/Cho 2006: 102) by commercial entrepreneurs are very rare and represented by a very low percentage (cf. Mair/Noboa 2006: 123).

Besides some aspects of the aforementioned motivation, it is important to mention that motivation can vary from one entrepreneur to another. The first type of Social Bricoleur usually has very generous intentions to provide the local community with social wealth; hence, his ego and ambitions are very moderate and he does not possess unequivocal utilitarian ways of achieving his target. The Social Constructionist, as a second type of social entrepreneur, is motivated to create social capital and to establish a new social equilibrium, where the new equilibrium can necessitate egoistical actions expressed in manipulation and possibly coercion by the social entrepreneur. The Social Engineer seems to be the most motivated in 'doing good' for the society with absolute commitment. The possible threat of such supermotivation could be the prioritizing of personal ego over the idea of social enterprise (cf. Zahra et al. 2009: 528f).

#### *2.1.4 Definition of Social Enterprise*

A social enterprise is a legal organizational entity (cf. Haugh 2006: 183), which represents the 'tangible outcome' of entrepreneurial activity with social goals/ social mission (cf. Mair/Mantí 2006: 37). Social mission of creating social value, rather than profit, seems to be primary and central for social enterprises (cf. Dees 1998a: 3). Social mission is a virtue dimension of entrepreneurial behavior in social enterprises, which is expressed in the manner of how social entrepreneurs recognize, approach, and solve social problems. The virtue dimension could be one or a mix of general virtues such as compassion, integrity, and honesty; or specific to social enterprise context virtue such as belief in the kindheartedness of people to help solving social problems (cf. Mort et al. 2002: 83). For social enterprises, social mission cannot be replaced by a profit mission, where the latter is valued either on the same level or more often as a second priority, because it is viewed as a mean to get to an end (creation of social value) (cf. Dees 1998a: 3). Social enterprises can be differentiated based on the



degree of implementation of the social mission. There are three types of enterprises pictured in the figure below: mission centric, mission related, and unrelated to mission enterprises.



FIGURE 4: SOCIAL ENTERPRISE TYPE BY MISSION ORIENTATION (SOURCE: CF. ALTER 2006: 209)

An enterprise is mission centric, if the social mission is central and primary to all other motives (cf. Alter 2006: 209). Enterprises are called mission related, if they mainly concerned about both, creation of social value and creation of revenues to cover the costs of the entire enterprise (cf. *ibid.*: 210). If the social mission is replaced by profit maximization as the first priority, then the enterprise is unrelated to mission which is very similar to a commercial enterprise (cf. *ibid.*: 211). The concept of mission according to Alter (2006) (described above) with mission centric, mission related, and unrelated to mission enterprises can be seen as analogy to the concept of mission according to Dees (cf. 1998b), who distinguishes social enterprises as mission driven, mission and market driven and market driven. Dees shows in his spectrum of social enterprises, how enterprises may vary in its motives, methods and goals between two extreme cases: from purely philanthropic organizations to purely commercial enterprises. The comparison between three possible varieties of enterprises is highlighted on the basis of characteristics of four key stakeholders in the following figure (cf. *ibid.*: 60).

The social enterprise is located in the middle, as a hybrid form between purely philanthropic and purely commercial. It has mixed motives, both mission and market driven, and orients itself on social and financial values. As seen in the figure below, the four key stakeholders are beneficiaries, capital, workforce, and suppliers. Beneficiaries experience the combination of purely philanthropic and purely commercial organizations due to the fact that a social enterprise can balance its product and services either on the subsidized rate base to each beneficiary, or as a mix of full payers and other group of individuals, who pay nothing. The second key stakeholder is capital. A social enterprise

cannot afford to finance itself through market-rate loans as do commercial enterprise. As such, it will use a mix of capital; collection of donations and grants, acquisition of financial funds at market conditions or possible self generated income. By using commercial means of acquiring resources, a social enterprise decreases its dependency on governmental subsidies and individual charities and therefore gains additional time to focus on its primary purpose of creating social value. Thirdly, a social enterprise usually applies a hybrid version of volunteer workers together with fulltime paid employees as its workforce. Fourth, similar to capital dependency of philanthropic organizations, there exists dependency on supplier donations. Social enterprise can use this advantage compared to negotiate with the suppliers in order to get special discounts or use the mix-strategy of obtaining in-kind and full-price donations.



FIGURE 5: THE SOCIAL ENTERPRISE SPECTRUM (SOURCE: CF. DEES 1998B: 60)

In summary, a social enterprise combines its commercial interest with a nonprofit philanthropic limitation of resources in order to accomplish a social equilibrium (cf. Dart 2004: 412). According to Dart, social enterprises develop solutions in order to extinguish social problems, which are difficult

to address by nonprofit organizations (cf. *ibid.*: 413). There are not just three possible versions of enterprises: commercial, philanthropic, and social enterprise in between. Rather, there could be many variations of social enterprises, which utilize efficient commercial methods together with fundamental social mission thinking of philanthropic organizations. The degree of involvement of commercial and philanthropic components, by looking for ‘productive balance’ (cf. Bloom 2006: 281), can vary from country to country; from one social enterprise to another.

## *2.2 Commercial Entrepreneurship*

### *2.2.1 Definition of Commercial Entrepreneurship*

Commercial entrepreneurship is defined as an entrepreneurial process where entrepreneurial opportunities are identified and operated. An individual who perceives and pursues such opportunities by setting up an entrepreneurial organization is referred to as an entrepreneur (cf. Bygrave 1993: 257). Both elements, availability of remunerative opportunity together with the existence of entrepreneur, are required to define a process of value creation as an entrepreneurial process (cf. Shane/Venkataraman 2000: 218).

An entrepreneurial opportunity is prospective, which is considered to be ‘desired and feasible’. The term of entrepreneurial opportunity is not absolute, which means that it can vary among time (when it will be discovered) and entrepreneurs (who and with what imaginations and desires will discover opportunities) (cf. Stevenson/Jarillo 1990: 23). In addition to imagination and desires, the success of exploration of opportunity depends on the personal background and skills of the entrepreneur and his flexibility and courage to improve the economy (cf. Stevenson/Gumpert 1985: 85). As described in chapter 2.1.2.2, commercial entrepreneurs would either introduce a new method/new product, use new production factors, or enter a new market in order to realize the opportunity. The entrepreneurial degree depends on the level of innovation in the entrepreneurial approach. There are four forms of entrepreneurship: (i) entrepreneurial imitation, (ii) entrepreneurial reproduction, (iii) entrepreneurial valorization, and (iv) entrepreneurial venture (cf. Bruyant/Julien 2001: 173-174). Figure 5, with four entrepreneurial types mapped inside, will be explained.

In the middle of the figure, there is a circle, which represents the bidirectional relationship from an individual (I = entrepreneur) to new value creation (NVC) and vice versa. The first step is the initiation of the entrepreneurial project by an entrepreneur, which leads to the creation of new

value in the environment. Because creation of new economical value is associated with limitations, entrepreneurial activity gets shaped by those limitations, so that the entrepreneur learns how he can improve his operation and create further value. This bidirectional relationship is held for all four diverse forms of entrepreneurship (cf. Bruyant/Julien 2000: 169).

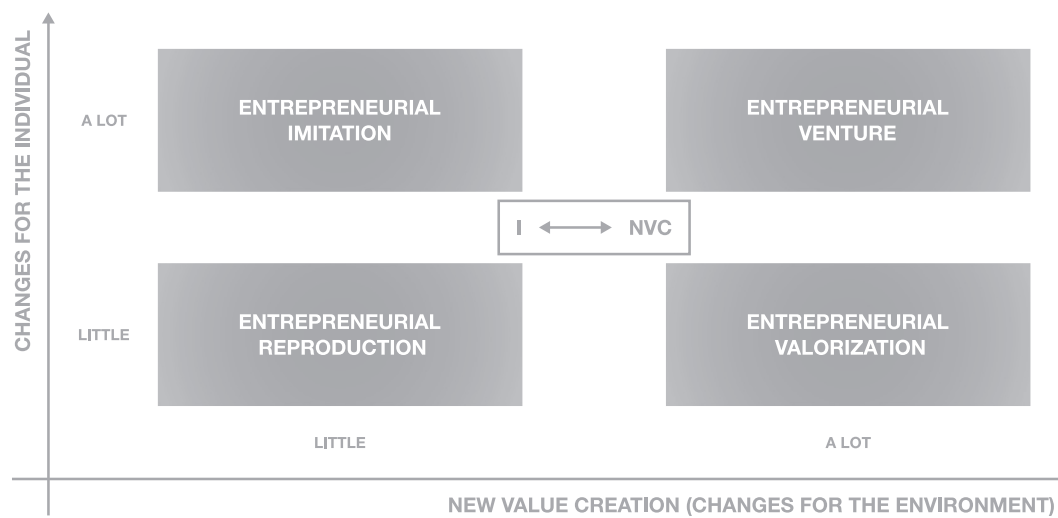


FIGURE 6: HETEROGENEOUS SYSTEMS OF ENTREPRENEURSHIP  
(SOURCE: CF. BRUYANT/JULIEN 2001: 174)

As shown in the figure above, entrepreneurship varies from ‘minimal’ to ‘maximum’ with respect to two dimensions: new value creation and changes for the individual/entrepreneur. Beginning with the ‘little new value creation’ and ‘little changes for the individual’, entrepreneurial reproduction is the first form where an entrepreneur starts up with proven/standardized method of operating a specific type of business, e.g. a chef with many years of experience is launching his own restaurant. Entrepreneurial reproduction typically implies almost no to very little innovation and few changes for the individual/entrepreneur. The second form refers to the entrepreneurial imitation; which at the core is an operation of a similar business model, but applying a new approach of value creation. Because the new approach is not yet proven, there can be some mistakes in the execution by the entrepreneur so that the risk of not successfully generating new value is higher than in the case

of entrepreneurial reproduction. In summary, entrepreneurial imitation indicates little new value creation for the environment, but strong change for the individual situation of the entrepreneur. The third form, entrepreneurial valorization, can be shown on the example of an engineer with unique know-how and long experience in established company, who would like to set up his own project. On the one side, 'a lot' of value creation would come from the scarce and unique know-how and skills of the engineer, while on the other hand, he will change his personal circumstances just a little. Finally, entrepreneurial venture involves both 'a lot of new value creation', as well as, 'a lot of changes for the individual/entrepreneur', as successfully running new types of entrepreneurship presumes a high risk and a lot of challenges for the entrepreneur himself (cf. Bruyant/Julien 2000: 173-175).

The commercial entrepreneur first identifies an entrepreneurial opportunity and a form for his enterprise; he then starts to explore it by investing his tangible and intangible resources like capital, labor, and time to receive foremost a financial return in the future. As the return on investment is uncertain (cf. Venkataraman 1997: 124), commercial entrepreneurial activity is associated with the willingness to take high risks (cf. Stevenson/Gumpert 1985: 85).

### *2.2.2 Commercial Entrepreneur Versus Manager*

In the next step, commercial entrepreneurs will be distinguished from managers; first by a rough identification of three possible types of leaders, and second, by explaining the differences and similarities between entrepreneur and manager comparing them (I) from a psychological point of view and then (II) from a decision-making point of view.

Firstly, there are three types of leaders to be defined: innovators as dreamers, entrepreneurs as builders, and managers as trustees. All three types of leadership are essential in a company, but at a different stage of the company's development. After the innovator originates an idea and sketches it, the entrepreneur transforms the idea into reality. When the entrepreneurial idea will reach the level of 'going concerns' and the entrepreneur loses interest in it, then the idea is turned over to a manager as a trustee for managing and securing the long-term financial viability of the company (cf. Boschee 2006: 362). Because of Schumpeter's association of entrepreneurship with innovation (see chapter 2.1.2.2), the entrepreneur will be defined as a combination of entrepreneur and innovator in this paper.

By definition, commercial entrepreneurs and managers do not display the same kind of leadership. It is further important to contrast them in a (I) psychological and (II) decision-making comparison.

First part of comparison, psychological comparison, begins with the five personal dimensions: (i) conscientiousness, (ii) openness to experience, (iii) neuroticism, (iv) agreeableness, and (v) extraversion, where the biggest difference between commercial entrepreneurs and managers lies in diverse level of conscientiousness and openness to experience, while neuroticism and agreeableness of entrepreneur are scored lower than of manager, and extra-version is rated by entrepreneurs and managers at a similar level (cf. Zhao/Seibert 2006: 259ff). First, conscientiousness is defined as a composition of motivation for achievement and dependability. The entrepreneur typically starts his business, as he is very achievement driven. He identifies the tasks and duties in the entrepreneurial organization. The entrepreneur works very hard and persistent; furthermore he reaches his goals without any external monitoring. Because the entrepreneur predominantly relies on himself, his motivation for achievement and dependability are both higher than of managers, which leads to a higher level of conscientiousness as a result. Second, the dimension of high openness to experience is represented by individuals with innovative, creative and untraditional ways of being and acting. Whereas entrepreneurs prefer innovative approaches (cf. Ann et al. 1991: 71) in business models, managers focus on maintaining and successfully operating the existing business model. This fact shows the difference in the dimension of openness to experience from high degree expressed by the entrepreneur to low degree expressed by the manager. Third, neuroticism is a personal trait, which characterizes an emotional instability of an individual. High neuroticism implies high emotional instability and the tendency of feeling more negative emotions such as depression, hostility, anxiety, impulsiveness. Individuals with low neuroticism are exposed much less to such negative emotions and are characterized more as self-confident and relaxed. Although entrepreneurs have less financial security, less structured, and more intensive work, they appear to have lower neuroticism than managers do. Fourth, personal agreeableness evaluates interpersonal relationships with other individuals. While high agreeableness typifies an individual with very collaborative, cooperative, and caring for individuals, low agreeableness is expressed in manipulative, self-centered, and suspicious ways of acting. Managers have an advantage of cooperating with co-workers in a company, but on the other hand, they experience the disadvantage of being bound in all relationships; therefore, they cannot easily bargain and manipulate the counterpart in order to reach better conditions. Entrepreneurs are more flexible in this way. They are not bound, and can create higher value for

their growing company. As a result, the degree of agreeableness of entrepreneurs is lower than that of managers. The fifth dimension, extraversion, describes to what degree an individual is energetic, talkative, dominant, and outgoing. As result of the study of Zhao and Seibert shows, entrepreneur and manager have similar degrees of extraversion, and enjoy contacting other individuals including potential customers, suppliers, and partners. Additionally, there are two other personal dimensions; risk propensity and individualism. Risk propensity is viewed as a combined product of the five personal dimensions or as a sixth separate dimension. By focusing on the results of research of the second case, entrepreneurial risk propensity of commercial entrepreneurs is described to be higher than for managers (cf. Brockhaus 1980: 513), due to the fact that entrepreneurs usually give their personal financial guarantee; while managers carry almost no personal financial risk. Finally, the seventh personal dimension is individualism of entrepreneurs. The typical entrepreneur is someone who, by setting up a company and achieving the given goals, prefers his independence, autonomy, and absence of authority. Commercial entrepreneurs predominantly value individual action and achievement of the goals rather than goals reached by a group of individuals (cf. McGrath et al. 1992: 116, 120).

The second part of comparison regarding the decision-making of entrepreneur and manager is derived from a study of Busenitz and Barney, who found that biases and heuristics like overconfidence and representativeness under non-rational assumption could lead to different decisions: in the first step, two elements of non-rational decision-making (decision uncertainty and decision complexity) are explained; and in the second step, it turns to comparison of the influence of two biases and heuristics (overconfidence and representativeness) on decision-making made by entrepreneurs versus managers (cf. Busenitz/Barney 1997: 9-17). Entrepreneurs and managers vary in their decision uncertainty. Managers on average make more rational decision than entrepreneurs do. The reason lies in the availability of past data, availability of established and proven approaches to make decisions, and therefore lower decision uncertainty and lower decision-making costs. Managers usually derive some future trends from past data, while entrepreneurs cannot rely on past data, as there are no past data available. Entrepreneurs start from scratch, which implies that launching a new product or service together with the absence of past trends drives decision-making costs and decision uncertainty on higher level than it is the case with managers (cf. *Ibid.*: 13-14). Decision complexity is on average higher for entrepreneurs than for managers. Because managers act in established companies with established approaches and policies, the majority of decisions are performed as 'routine' decision based on the company's experience. In contrast to

managers, entrepreneurs cannot follow company policies and justify their decisions based on such policies, because those policies just do not exist (cf. Litzinger 1965: 268). In situations of high decision uncertainty and decision complexity, entrepreneurs tend to be more prone to biases and heuristics, which are some cognitive mechanisms helping individuals to simplify their decision process. In this paper, there will be shown two examples of biases and heuristics: overconfidence and representativeness. Overconfidence generally takes place, when an individual overestimates the probability of being right. While managers can use past data and their track record in order to win the support of higher management to pursue some projects, entrepreneurs start their venture inspired by their idea with the assumption of an optimistic picture of the situation, but without possessing all information and potentially not all necessary contacts. If an entrepreneur would have to collect full information needed and incorporate it into his strategy to make a more rational decision, it would be very time consuming. By not operating immediately and waiting for all the information, the window of opportunity could close before the entrepreneur would start to decide more rationally. That is why entrepreneur's decision seems to possess higher degrees of overconfidence than the decision of managers in large organizations. Representativeness takes place when an individual tends to generalize from very little characteristics or observations. Because entrepreneurs do not have access to all data or time to collect such data about potential customer demand, production costs and other success influencing criteria, they have to generalize from small amounts of samples and their personal experience, to a general pattern in order to make a decision. In comparison, managers are not dependent on limited numbers of samples which allows them to make more rational decisions. As a result, entrepreneurs seem to demonstrate a higher degree of representativeness in their decision-making process than managers (cf. Busenitz/Barney 1997: 9-17). In summary, entrepreneurs show both biases and heuristics in decision-making to a larger extent compared to managers of large companies, although it is not clear to which extent.



### ***3. Comparative Analysis of Social and Commercial Entrepreneurship Along the Entrepreneurial Process***

#### *3.1 General Framework*

The next phase of the paper is to explore social entrepreneurship in depth and compare it to commercial entrepreneurship. The general framework of the third chapter is divided into three phases: planning phase (chapter 3.2), operational phase (chapter 3.3), as well as appraisal phase (chapter 3.4). In the planning phase, goals and objectives of social entrepreneurship will be defined while imagining a new equilibrium; then observing the market and finding market failure/opportunity. In the operational phase, areas of operations and business models will be contrasted, sources of funds and fundraising will be examined, as well as a comparison of shareholder versus stakeholder orientation of an enterprise will be made. In the appraisal phase, the focus will be placed on input-output relation and performance measurement methods of measuring results of social entrepreneurial projects. The order of each subchapter is to describe the situation, methods, or characteristics of social entrepreneurship, and to explain the similarities and dissimilarities of this type of entrepreneurship to commercial entrepreneurship.

#### *3.2 Planning Phase*

##### *3.2.1 Imagining a New Equilibrium*

The planning phase begins with the imagining of a new equilibrium, which means to image an improved situation in the world and then to identify the goals and objectives in order to get to the desired new equilibrium. New equilibrium can be found by an individual or a group of individuals by going through a creative, highly inspirational and strongly intellectual challenging process (Light 2008: 61). After having an image of a desired state, goals and objectives can be defined. The goals of social enterprise can be divided into four groups of creating capital: (i) financial capital, (ii) social capital, (iii) aesthetic capital, and (iv) environmental capital (cf. Thompson et al. 2000: 330). Financial or economic capital is derived from the typical commercial entrepreneurial project and is represented in creating of mid- and long-term competitive advantage; ensuring financial sustainability and efficiency of the enterprise (cf. Campi et al. 2006: 30). For social entrepreneurship,

the creation of a financial goal is not dominant. It could have either the same priority with other goals or a second priority after creation of social value/capital. Social capital/value relates to the 'social' element and social mission of social entrepreneurship. The goal of creation of social capital implies the pursuit of resolved social problems, improved social infrastructure, and restored social justice for disadvantaged groups of individuals. The achievement of aesthetic capital is an intangible type of capital that provides society members with a 'feel-good factor', e.g. it can have a shape of music concert with the purpose to collect charities for the disadvantaged groups of people in the third countries, where aesthetic would be musical capital (cf. Thompson et al. 2000: 330). Finally, environmental capital represents bringing environmental sustainability of using natural resources into position besides the goals of financial and social sustainability (cf. *Ibid.*: 330).

By putting financial capital and social value on the same priority is defined as double-bottom line, or, in other words creation of total wealth within a social enterprise (cf. Zahra et al. 2009: 521). Total wealth (TW) is defined as a sum of financial/economic wealth and social wealth ( $TW = EW + SW$ ), where economic wealth is the creation of economic value after deducting the economic costs (EC) and opportunity costs (OC) of the creation of other products, and where social wealth is net social valued (SV) after deduction of social costs (SC) (Zahra et al. 2009: 522). Thus, total wealth can be mathematically summarized as:  $TW = EV + SV - (EC + OC + SC)$ . The approach of simultaneously pursuing all three goals (social, financial, and environmental capital) is named triple-bottom line (cf. Savitz/Weber 2006: 59).

Similarities & Dissimilarities: The similarity in the planning phase consists in the overlap of goals and objectives of social and commercial entrepreneurship. The overlap for both, social and commercial entrepreneurship, is located in considering financial/economic goals. The dissimilarities begin with the difference in prioritization of financial goal and inclusion of further goals. Commercial driven enterprises traditionally concentrate on only one dominant and major goal, which is the maximization of financial return on the invested capital (cf. Hansmann 1996: 238) or in other words, profit maximization (cf. Campi et al. 2006: 30). In order to maximize the financial return, the commercial entrepreneur is interested in enhancing the efficiency, therefore decreasing costs, exploring arbitrage opportunities related to higher efficiency to further maximize the performance of the entrepreneurial project (cf. Nicholls/Cho 2006: 102). Social driven enterprises include further goals such as social and environmental goals on the same or higher level and consider financial goals not as the major objective.

### 3.2.2 Discovering an Opportunity

After the goals and objectives of social entrepreneurship were defined, the next logical step is to find out, whether there are appropriate entrepreneurial opportunities available in order to start an entrepreneurial project. An entrepreneurial opportunity is defined as an execution of a new approach or introduction of new goods, services, raw materials, and organizational methods in order to create economic value (cf. McMullen et al. 2007: 280) and in case of social entrepreneurship social value as well.

In order to show the process of discovering an entrepreneurial opportunity, there will be used the framework in figure 7 below. The framework consists of the following three major steps: First, there will be described what is meant by market disequilibrium which is an assumption for exercising entrepreneurial projects. Second, there will be specified a range of market/governmental/social failures in the system which cause market disequilibria. Third, assuming the existence of market disequilibria there will be presented three elements of opportunity recognition, evaluation, and exploitation.

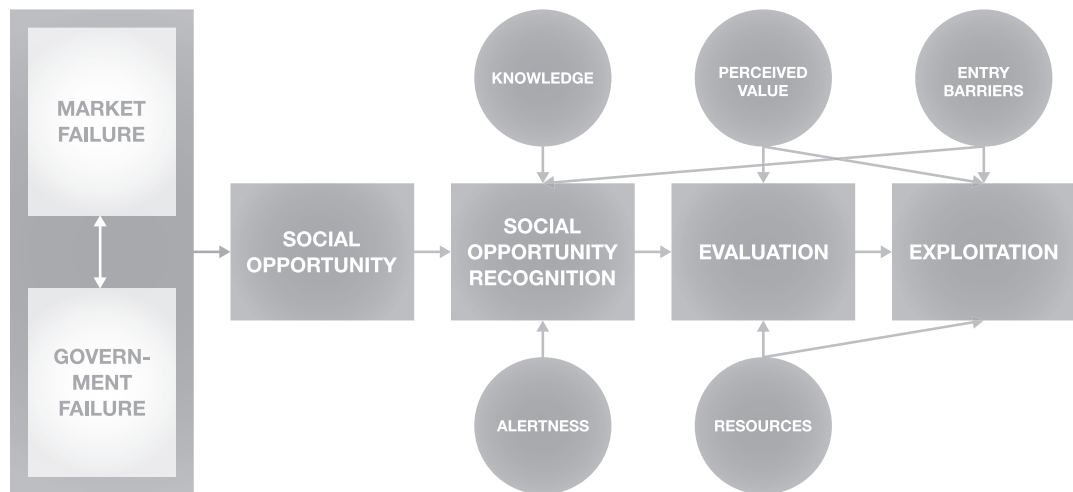


FIGURE 7: CONCEPTUAL FRAMEWORK OF SOCIAL OPPORTUNITY RECOGNITION AND EXPLOITATION (SOURCE: ADAPTED FROM MONLLOR 2010: 116)

**Market Disequilibrium:** A market disequilibrium exists in the market because of the existence of inefficiencies and failures, so that the market does not fulfill the pareto optimal condition (cf. Monllor 2010: 105). A market is pareto optimal if there is no transaction possible, which would improve the position of one market participant without worsening the position of another market participant. A market disequilibrium can appear on macroeconomic and microeconomic levels (cf. Gaglio/Katz 2001: 99). Market disequilibria on the macroeconomic level can occur as a causation of inventing new technologies and knowledge, while increasing demographics, or changing social values in the society (cf. Gaglio/Katz 2001: 99). This type of disequilibria happens less often than the disequilibria on the microeconomic level. High frequent microeconomic disequilibria could be represented in daily mistakes in investment, production and distribution decisions of market participants (cf. *Ibid.*: 100). In the markets which do not fulfill the pareto optimal condition, social entrepreneurs have the potential to introduce entrepreneurial projects to address some market failures, bring the market in equilibrium, and therewith improve the position of some market participants without worsening the position of others. Because the situation of market disequilibria are predominant in the market (cf. Robinson 2006: 97), entrepreneurs can discover opportunities and introduce solutions on macro and microeconomic levels.

**Market Failures:** Market failures exist in market systems, if the sustaining of 'desired' and inhibiting of 'undesirable' consumption and production of goods and services is not provided (cf. Bator 1958: 351). There are five major market failures identified: (i) imperfect information, (ii) monopoly power, (iii) public goods, (iv) externalities, and (v) market pricing (cf. Monllor 2010: 105). Governmental failures are analogous to market failures.

First, the market failure of imperfect information indicates that, not all market participants possess the whole and the same amount of information. Because of the asymmetric information distribution, some market players who have the information, can use it as an advantage to discover and exploit an opportunity. Although, the possession of information is necessary, it is not sufficient for discovering and executing an opportunity. There is at least another ability of entrepreneurs required in order to be able to detect an opportunity which is called alertness and will be discussed later in this chapter. Second, monopoly power is another market failure. While in market situations with many sellers and buyers, called polypoly, the influence on the price of any seller is very low. In the monopoly market the monopolist can almost dictate prices in order to maximize his own profit. However at the costs of under-provision and over-charging for goods or services for his customers. The third market failure relates to public goods who's utilization cannot be excluded to

any individuals, if there are other individuals, who already use them. Providing public goods can lead to a market failure in two cases: (i) overuse of public goods which takes place in a situation, when individual utilization of the public good leads to its decreasing value/quality; as well as (ii) incentives for 'free-riders' which implicates, that there is a group of individuals who uses public goods, though another group of individuals subsidizes or pays for the provision of these goods. An example for over-usage could be a typical damage of a pasture field due to lots of cows, so that the quality of pasture decreases with the growth of cows using it, as grass would not have time to grow afresh. An example for 'free-rider' problem could be the pollution of water in the upstream of the river at the cost of resulting water pollution and diseases of individuals in the downstream of the same river. Fourth, externalities constitute the next market failure. Externalities can express positive (beneficial) or negative (damaging) side-effects/influences from the action of one individual on the utility of another individual. For entrepreneurs who want to exploit an opportunity based on externalities, the goal is to reduce transaction costs. An example for positive externalities could be a social entrepreneurial project which represents a market place for buying and selling carbon emission allowances. By applying of the market principle of demand and supply, companies can trade carbon emission allowances, consequently reducing transaction costs, reducing overall carbon emission and thus positively influencing the environment. Fifth, incorrect market pricing represents another possible market failure. The reason for flawed market pricing lies in the selective orientation of companies only on the demand for products with the highest profit margin, instead of focusing on the overall demand which includes e.g. demand in the developing countries as well. In the latter case, companies would have to decrease the price of the good, as the people in developing countries possess much lower purchasing power. Offering the goods in the developing countries at a lower price could lead to increase of the overall revenues, but at the same time to decrease of profits for the company (cf. *ibid.*: 105-108).

After discussing economic (and analog to them governmental) failures, the lack of financing for the development of social capital and lack of institutional support are examples for social market failures (cf. Nicholls 2006: 16). In the context of social entrepreneurship, market failures addressed by social entrepreneurs are neither approached by the state, because the majority of states are not able to ensure resolving the social needs, nor by commercial entrepreneurs, because these opportunities are not of commercial interest for them (cf. Haugh 2005: 4). In sum, all kinds of market failures (market, governmental, or social) could be a source of exploring new entrepreneurial opportunities for social entrepreneurs.

Opportunity Recognition: In the literature, there exists a not resolved dispute about the objectivity versus subjectivity of recognizing an entrepreneurial opportunity. One group of researchers argues that an entrepreneurial opportunity exists or can be identified without being dependent on any environmental or individual factors (cf. McMullen et al. 2007: 277). Such entrepreneurial opportunity, described as objective, is not necessarily known by all individuals or entrepreneurs (cf. Klein 2008: 179). The second group of researchers assumes that an entrepreneurial opportunity has a subjective character and cannot be divided apart from the individual or entrepreneur (cf. McMullen et al. 2007: 273). A third group of researchers distinguishes between the objectivity of the opportunity itself and the subjectivity of its recognition (cf. Shane/Venkataraman 2000: 220).

Assuming the latter position, where the recognition of opportunity depends on entrepreneurs, it is interesting to find out which skills and abilities influence the success of recognition of an entrepreneurial opportunity the most. As can be seen in figure 7 above, knowledge and alertness of an entrepreneur play a big role in the opportunity recognition. Additionally, previous experience of entrepreneurs can hugely influence this process as well.

The first influence variable, knowledge, is expressed in three forms: prior knowledge of markets, prior knowledge of ways to serve markets and prior knowledge of customer problems (cf. Monllor 2010: 109). The fact that an entrepreneur knows about the existence of a market failure and the resulting economic or social need is not sufficient for an opportunity (cf. *Ibid.*: 110). The knowledge of the existence of how to satisfy those needs in order to address the customer problem is additionally needed. Additive to the necessity of knowledge (of existence of economic/social needs as well as solution approach to meet these needs), entrepreneurs typically possess a second ability which helps them to recognize the opportunities which is called alertness. Alertness is a characteristic trait of an entrepreneur to be permanent receptive to find not yet discovered failure in a market or civil society which he can use to exploit this opportunity (cf. Kirzner 1997: 72). Entrepreneurs are alert and receptive to opportunities all the time, also while their entrepreneurial project performs well (cf. Yu 2001: 52). The fact of permanent alertness could have at least three reasons: (i) challenging situations with many entrepreneurial difficulties, (ii) self-interest motive, or (iii) inter-temporal self-competition (cf. Yu 2001: 52). The third variable which notably affects the recognition of opportunities, is the previous experience of entrepreneurs (cf. Robinson 2006: 104). Over the period of time, when an entrepreneur gathers experience, he builds his own framework of collecting, systemizing, and interlinking information (cf. Baron 2006: 108). The ability of the

systemization and linkage of information is called cognitive structure (cf. *ibid.*: 108), on the basis of which, the entrepreneur can easier recognize an innovative entrepreneurial opportunity.

In sum, due to the facts that (i) entrepreneurs possess not the same amount of knowledge and alertness, as well as they do not have access to the same cognitive framework of systemizing and linking information, and that (ii) the distribution of knowledge, alertness and experience influences the recognition of opportunities, this leads to the conclusion, that not all entrepreneurs would recognize similar opportunity at the same moment.

**Opportunity Evaluation & Exploitation:** After an entrepreneurial opportunity was recognized, this opportunity is evaluated. If it is evaluated as opportunity with high market potential, then it will be considered to be exploited. In this part of chapter, there will be examined in what extent the following criteria (shown in figure 7) influence the evaluation and exploitation of opportunity: perceived value, availability of resources to the entrepreneur, and entry barriers.

The first criterion, perceived value to an entrepreneur, can be divided into economic, social, and personal value in the future from exercising an entrepreneurial opportunity today (cf. Zahra et al. 2009: 521). A social entrepreneur will focus mostly on opportunities which help realize the creation of social capital for disadvantaged groups of individuals (cf. Weerawardena/Mort 2006: 31). Social opportunity is a particular kind of entrepreneurial opportunity since it has to meet expectations about social and environmental values additional to economic value, as this kind of opportunity is integrated in a social sector market (cf. Robinson 2006: 99). The second criterion, availability and accessibility of resources to an entrepreneur, is highly influential on the evaluation and decision to execute an opportunity, because only with the financial and human resources and support in the form of governmental grants, a social or commercial enterprise can be started (cf. Monllor 2010: 113). The third criterion is entry barriers. The influence of such barriers is the following: the higher the entry barriers, the lower would be the evaluation of an entrepreneurial opportunity and thus the probability of exploiting. Entry barriers can be divided into three groups: (i) economic entry barriers, (ii) social entry barriers, (iii) institutional entry barriers (cf. Robinson 2006: 101-103).

First, economic entry barriers could be shaped in form of capital requirement in order to start a company and to compete with existing companies, to hold cost advantage, as well as to invest in product differentiation and in research and development (cf. Harrigan 1981: 397). The higher such economic barriers are, the higher is the more difficult to get into this particular market for a new entrant. Second, social entry barriers arise when the new or existing market company is separated

from the social network which includes the network of business owners, business organizations, civic organizations, political infrastructure, and attractive labor market, by which entrepreneurs can get access to information about changes within the market and get access to human, capital and further resources (cf. Robinson 2006: 101). Analogical to the economic barriers, high social barriers implicate a limited access to social networks, which could negatively influence the success of an enterprise. Thirdly, institutional barriers can be divided into two categories: either formal/public institutional or informal/cultural institutional barriers. Generally, the role of an institution in the state is to provide a fundament which enables organizations to exchange with other parties and thus to progress their own growth (cf. Ingram/Simons 2000: 25). The formal institutional barriers come into existence from the absence of proper institutions, which are supposed to create a basis for entrepreneurial transactions. Examples for such a situation could be neglected property rights or the absence of active financial markets as a source of information (cf. Robinson 2006: 103). The informal institutional barriers are those like culture, language, dress code and further barriers. Some implicit, but unspoken norms and behavioral rules can influence the decision-making about exploitation of an entrepreneurial opportunity as well (cf. *ibid.*: 103). Conclusively, the higher the perceived value the more resources are available to an entrepreneur, and the lower the entry barriers, the more attractive is a market opportunity for the entrepreneur.

Similarities & Dissimilarities: Social and commercial entrepreneurs are similar in the fact that market disequilibria could be an origin for one of their entrepreneurial projects. Each of the discussed market failures can represent potential entrepreneurial opportunities. The dissimilarity consists in picking different kind of opportunities, conditioned by the different goals of exclusively financial capital for commercial enterprise versus social, environmental and financial capital for social enterprise. While the commercial entrepreneur looks for the opportunity with the highest expectation of profit maximization in the future, the social entrepreneur concentrates on the elimination/solution of social problems caused by accrument of market failures (cf. Light 2008: 122).

The process of recognizing an entrepreneurial opportunity is similar for social and commercial entrepreneurs. Both types use their knowledge, specific degree of alertness and their previous experience in order to recognize an opportunity in for both of them similar world with asymmetric information (cf. Shane/Venkataraman 2000: 221).

In the process of evaluation, social and commercial entrepreneurs are very dissimilar. Beginning with the perceived value, for each type of entrepreneur the value would vary due to each



focus. Social entrepreneurs would attach greater importance to an opportunity which creates social capital than they would attach to another opportunity which could produce only economic capital.

Social and commercial entrepreneurship are partly similar and partly dissimilar in the decision-making of how to exploit an opportunity. The similarity is embodied in the consideration of entry barriers and resources available in the decision-making process. In the case of entry barriers, the following rule holds: if the entry barriers are too high for a specific entrepreneurial opportunity, this opportunity would probably not be exploited. The dissimilarity consists in the focus on distinct entry barriers in the decision-making process. On the one hand, social entrepreneurship is very dependent on institutional entry barriers (cf. Mair 2006: 90), because they can result in a decrease or elimination of social needs mostly via the support of the institutional framework. On the other hand, commercial entrepreneurship is more dependent on the economic entry barriers, as for them a huge expected demand, high industry profit margins, and low competition characterize an attractive and potentially successful opportunity (cf. Shane/Venkataraman 2000: 523).

### *3.2.3 Inventing the Idea for Change*

After imagining a new equilibrium and the process of opportunity discovery, evaluation, and exploitation, the decision for exploitation of an entrepreneurial opportunity is not enough to create a successful entrepreneurial project (cf. Light 2008: 63). Additionally, there is an innovative idea for change required. In figure 8 below, the process of generating and transforming a promising idea into a comprehensive concept is depicted. There are three steps to create social impact. Step 0 is referred to as discovery of opportunity and was discussed in the previous subchapter. Steps 1 and 2, generation and transformation of promising ideas into comprehensive concepts, will be explicated in this subchapter.

In step 0, it was delineated that disequilibrium caused by market or governmental failures create the basis for an entrepreneurial opportunity. The evaluation of the particular opportunity would influence the decision of its possible exploitation. At this stage it is questioned, how a promising idea can be generated (step 1) and how this idea can be translated into a specific concept in order to be invented and to create social impact (step 2).

Step 1: Here, the social entrepreneur uses his personal experience (e.g. in education or work) and looks permanently for opportunities and ideas, which would cause positive changes, eliminate social problems and meet social needs in the society (cf. Drucker 1985: 28). A characteristic

entrepreneurial trait, opportunity-orientation (instead of problem-orientation), is recognized to support the positive effect on the generation of promising ideas as well (cf. Guclu et al. 2002: 5). Ellen Langer, a Harvard psychologist, showed in her study how schoolchildren's answers can vary depending on the question's phrasing (cf. Dees/Economy 2001: 3). The reaction to the question whether a disabled person in a wheelchair can drive a car was answered predominantly negative, while asking the same group of children how such person can drive a car, schoolchildren proposed many positive ideas how it would be possible (cf. *ibid.*: 4). Entrepreneurs typically concentrate on solution-oriented "how" and not on problem-oriented "whether or not" questions.

While some promising ideas are generated in the process of trial and error (cf. Light 2008: 63), other ideas can require more typical approaches of problem solving (cf. Birkinshaw/Mol 2006: 85). As the trial and error approach is very costly, two researchers, Wolcott and Lippitz, propose four strategies to get to promising ideas in corporate entrepreneurship: (i) the opportunistic model, (ii) the enabler model, (iii) the advocate model, and (iv) the producer model (cf. Wolcott/Lippitz 2007: 76-79). All four strategies which can be applied in social and commercial entrepreneurship can be differentiated on the basis of two criteria: diffusion or focus of organizational ownership and ad hoc dedicated resources availability.

The first model is the opportunistic model which is an usual startup case with almost no established ownership structure and with very limited resources available to an entrepreneur (cf. *ibid.*: 76). Such entrepreneurial projects are originated by some individual's successful idea and can be flourished best in a reliable network of supportive people. Because the idea is not previously proven and therefore undependable/non-secure in terms of expected outcomes, such supportive environment is almost the main requirement for successful processing from the promising idea to the working entrepreneurial concept. The second model, the enabler model, occurs when there are dedicated resources available to the entrepreneur and almost no organizational ownership exists which would influence an entrepreneurial project (cf. *ibid.*: 77). An entrepreneur has freedom to cultivate his promising idea while it fits into his strategy, to a level of a promising entrepreneurial concept, and exploit the concept in the market. The third model, the advocate model, is characterized by the dominant initiative driven by organizational ownership to exploit an entrepreneurial project also under the circumstances of ad hoc resources (cf. *ibid.*: 78). In the fourth model, the producer model, promising ideas are supported inside the established enterprise in the form of an entrepreneurial incubator (cf. *ibid.*: 79). The process of inventing an idea, transforming it into a concept and eventually into a working project is supported by the organization's owners who provide dedicated resources.

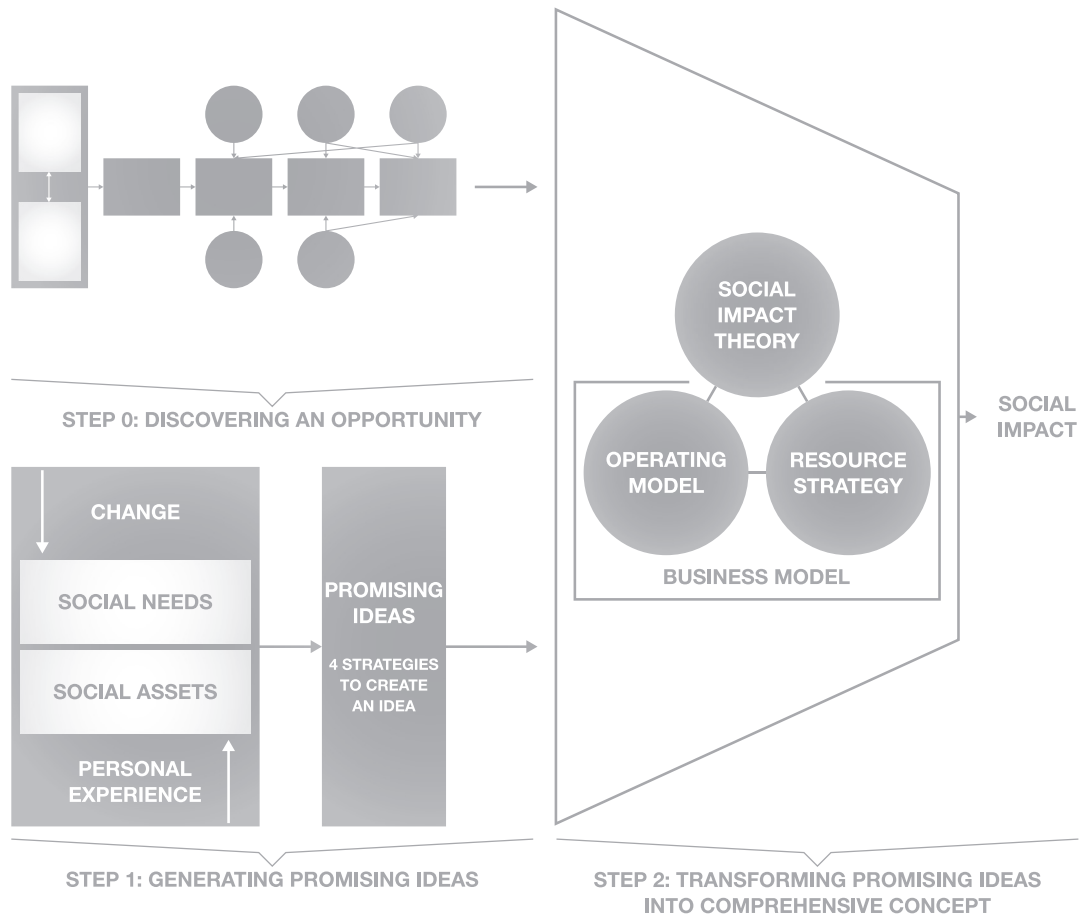


FIGURE 8: GENERATING AND DEVELOPING PROMISING IDEAS FOR CHANGE  
(SOURCE: ADAPTED FROM GUCLU ET AL. 2002: 2)

Step 2: After the generation of innovative entrepreneurial ideas in step 1, step 2 illustrates the transformation of this idea into a comprehensive concept and its invention to the world with the objective of producing change (for social entrepreneurship – social impact; for commercial entrepreneurship – monetary wealth creation). Although a very promising idea could be outstanding by itself, nonetheless in the second step it will be tested whether this idea could be transferred into

a comprehensive entrepreneurial concept worthwhile to be exploited or not. In step 2, promising ideas are challenged by institutions of the operating environment like market, industry structure, political environment, and culture. The challenging process of testing whether a generated promising idea is worthwhile to become a promising concept, is divided into two parts: (i) testing the availability of social impact after having executed the potential concept, and (ii) checking the business model which consists of the operational model and the resource strategy (cf. Guclu et al. 2002: 6).

First, in order to test the availability of social impact, assumptions about the possibility of generating social impact will be tested. Some assumptions could be partly verified before the exploitation of the idea while other assumptions can only be verified after the entrepreneurial project has started. Before and after the implementation of the promising idea, the role of an entrepreneur is to monitor whether the social impact is generated in the operating environment. If the project does not meet the expectation based on the elaborated assumptions, the framework of social impact achievement has to be modified so as to fulfill the objective of creating social impact in order to be recognized as a successful entrepreneurial idea (cf. *Ibid.*: 7).

Second, a business model of the promising idea is divided into two elements: operational model and resource strategy. To transfer promising ideas into a reliable entrepreneurial concept, the first element of that process, the operational model, determines how and in what form an entrepreneurial idea will be realized in practice. Detailed aspects regarding the forms and areas of operational models will be explained in chapter 4. The second element is the resource strategy. As previously discussed, the availability of resources is one of the factors which makes an entrepreneurial opportunity attractive. Any operational model with any social impact strategy cannot be started without feasible resources and a reliable strategy concerning how tangible and intangible resources can be acquired (through volunteer work, partnerships, others). Similar to social impact, all assumptions on which the resource strategy is based have to be tracked and, if necessary, modified in order to ensure that an entrepreneurial idea is progressing towards a successful enterprise (cf. *Ibid.*: 8-11).

**Similarities & Dissimilarities:** For social and commercial entrepreneurship, the similarity consists in the invention of an idea which means to transfer an idea into a concrete concept that can be exploited in the operating environment of specific markets, industry infrastructure, and culture. Although personal experience varies from entrepreneur to entrepreneur, not necessarily depending on the area where he operates, the similarity consists in the necessity and application of personal experience which is used to progress the idea to faster and more efficiently progress the idea into a working concept based on the previous learning of the entrepreneur. Social and commercial

entrepreneurs are also similar in their goal to change the status quo. Promising entrepreneurial ideas of social and commercial entrepreneurship are similar in the way that they are typically new, innovative, possibly radical, as well as they promise a visible improvement of the current situation (cf. Light 2008: 110). Social and commercial entrepreneurs can apply four different strategies to create a promising idea and then a promising concept. A further similarity in the frameworks of the two types of entrepreneurship is the fact that both of them identify what their customer needs and the resources available to invent the idea/concept and develop it into a successful enterprise.

The main dissimilarity lies in the focus of the entrepreneurship that is derived from the goals and objectives of each type of entrepreneurship. Dissimilar are also the target groups of both types of entrepreneurs. Social entrepreneurs concentrate on socially disadvantaged groups of the population and prefer to solve unresolved social problems and create social impact. Meanwhile, the commercial entrepreneur is interested in customers who can pay for products more than its the production of the good costs. In addition, he is determined to improve his recent product or production approach and therewith to create value for customers, financial wealth for himself and for shareholders. A further dissimilarity exists in the resource strategies. While a social entrepreneur is more dependent on social assets (social networks, support from institutions, grants from state, volunteers, etc.), the commercial entrepreneur is dependent on personal assets and financial assets which he can acquire in the private sector or on capital market (e.g. VC, PE, bank loan). The similarities and dissimilarities in the business models as well as in the operational phase will be described in the following chapters in deeper detail.

### *3.3 Operational Phase*

#### *3.3.1 Areas of Operations*

The areas of operations of social enterprises are areas where the welfare state and market functions do not or can not fulfill customer needs (cf. Kerlin 2006: 253). According to Verma, the following seven areas of operations for social enterprises can be identified: (i) poverty alleviation (e.g. microfinance projects in order to enable people to develop themselves), (ii) health care (e.g. to provide affordable medicine to prevent pandemics on small and bigger scale), (iii) education and training (e.g. to facilitate the basic education and exchange knowledge in order to support the growth in developing regions), (iv) environmental preservation and sustainable development (e.g.

to start 'green'-energy projects like using solar and wind energy), (v) community regeneration (e.g. to enhance the housing conditions, as these have a high influence on the health of people living there), (vi) welfare projects like employment projects for unemployed, homeless, or alcohol/drug abuse groups of people, and (vii) advocacy campaigning like Fair Trade and human rights initiatives. This list can be extended by further potential areas which represent the current challenges in social and environmental areas and could be areas of operations of the social entrepreneurial sector in the future, e.g. areas like that are associated with more efficient ways of the employment of natural and human resources, optimization of knowledge, management of mass migration, optimization of international trade, development of regulatory and institutional frameworks to restrain the implications of global economic crises, and confrontation with violence (cf. Serrat 2010: 79). In the SELUS survey with about 580 social enterprises in the European area tested, the three biggest industries where the majority of social entrepreneurs operates have been identified: (i) the most social entrepreneurs could be found in finance, real estate, and business related services which altogether sum up to 22%; (ii) the second biggest industry was community, social, and related services with around 20%; and (iii) the third part with 17% was identified in the sector of education and related services (cf. Stephan 2010: 5).

**Similarities & Dissimilarities:** The similarity between social and commercial entrepreneurship appears in the overlap of areas of operations which can be served from both types of entrepreneurship, but possibly in a different manner. Finance provision can be taken as an example for the overlap of offering a product or service to the customer for both types of entrepreneurship. Commercial entrepreneurs would open a bank to provide financing source to companies and private clients by checking the clients credit history and asking them for collateral as security for loans. Based on a better credit history and higher collateral availability, commercial entrepreneurs would offer better conditions for loans. Social entrepreneurs would start to offer microcredits (example of Mohammad Yunus in Bangladesh) in order to satisfy the high need for low volume loans for people with no credit history and almost no collateral. As most people in Bangladesh would not be eligible to get the finance loan, because they do not have any credit history or any collateral in order to reduce the risk for a bank; these people would on average apply for smaller amounts of loan compared to people in Europe. Commercial entrepreneurs would not even consider Bangladesh as a potential market, because of the high risk and high administrative cost per loan. It can be summarized, that although both types of entrepreneurs could have overlap activity in the similar operational area, they would do it in a dissimilar way and possibly in dissimilar markets. The reason for the

dissimilar way of operating is that social entrepreneurship possesses social goals and objectives, as well as it focuses on the social problems and needs. Social entrepreneurship provides services to the people in society who do not have enough purchasing power to buy their products and services at market conditions. Products and services that this group of people needs are neither offered by the market player on a subsidized level nor is their distribution covered by the welfare state. Commercial entrepreneurship produces and offers its products to the market participants who can afford such market prices.

### *3.3.2 Sources of Funds*

For an average social enterprise there is a range of possible sources of funds to begin and operate the idea of social enterprise. The sources of funds are presented below with increasing cost order: (i) governmental grants and private donation, (ii) recoverable grants ('similar to zero-interest loans'), (iii) below-market-rate loans, (iv) tax-exempt market-rate loans or bonds, (v) full-market-rate loans, and (vi) above-market-rate loans (cf. Dees 2001: 72). Although governmental funds and private donation are placed first, it does not implicate that these sources of funds are free of cost. In contrast to others, these sources of funds require search and acquisition costs in form of time, network building, and relationship care, as well as specific restrictions of reporting outline to the funders (Ibid.: 73).

Depending on the sources chosen to finance of social entrepreneurship, there can be differentiated, first, external or grant funded nonprofit (fully reliant on donated assets and volunteers), second, fully self-funded social entrepreneurship, and, third, partially self-funding nonprofit (cf. Nicholls 2006: 12). The first, fully external/grant/donation funded version of organization can be found to be a very controversial description in the literature. On the one hand, to be funded through grants and donations gives social entrepreneurial organizations the opportunity to focus on their underlying social mission while on the other hand, this source of funds can induce the dependencies which could be 'demeaning' for the participants of the social program (cf. Dees/Economy 2001: 13). Additionally there are many difficulties associated with governmental grants and private donations, as e.g. (i) growing competition in the grant and donation market (while the number of social entrepreneurial programs is growing, the donation and grant volume is decreasing), (ii) limitation of funds, as also very successful projects receive only short-term instead of long-term support, (iii) shift of governmental grants from investing in social projects to co-operational projects

with for-profits which led to the shortage of grants available for social entrepreneurial projects and therefore to (i) (cf. Dees 1998b: 57). In comparison with governmental grants associated with the obligations of its usage only for specific purposes, using own revenues and profits as financing have the advantage of flexibility, so that the social entrepreneurial organization can distribute them without the confirmation of third parties, e.g. government (cf. *Ibid.*: 56-57). Because of such attractive characteristics of commercial funding via own earned income and the decreasing volume of governmental grants and donations, the earned income strategy gains its position in the social entrepreneurial circles. Therefore, it will be described in the next part in detail.

**Earned Income Strategy:** Earned income strategy is an alternative source of financing the social program which is obtained through the commercial exchange of the products or services of the social enterprise with its target group or any other market participants (cf. Anderson/Dees 2006: 145). Taking into account the aspects of strict and inflexible obligations for the distribution of grants and donations for specific purposes, as well as the shortage of volume of grants available to social programs, earned income strategy represents an additional flexible and more constant source of funds for social enterprises in comparison to grants, donations, and possible equity loans (cf. Dees 1998b: 56).

By following the earned income strategy, the social entrepreneur executes not just the entrepreneurial innovative social project but he considers market conditions, strives to create revenue (cf. Dart 2004: 420), and therewith tries to operate more efficiently to achieve social and financial values. The possible risk of the earned income strategy is that through its implementation the purpose of the social entrepreneurial organization could be modified (cf. Zimmerman/Dart 1998: 42), so that the main goal could be shifted from the creation of social value to the creation of financial revenues. That is why in literature, earned income strategy is described to be possibly in contradiction with the social goals in the social organization (cf. Foster/Bradach 2005: 99), although it should be taken as a mean to reach the final goal which is social impact (cf. Anderson et al. 2002: 193). On the one hand, earned income is assumed to be very supportive for the social entrepreneurial project as by charging individuals (including target population) a fee for its services or products; such social programs can be perceived as more important and it could be saved some budget for the disadvantaged population as well (cf. Dees 1998b: 62). On the other hand, it is not clear whether it is fair or not to charge the disadvantaged group of society for using such services or goods (cf. *Ibid.*: 62). There are a lot of examples of social enterprises following the earned income strategy which show that this strategy is not newly discovered but rather used



successfully for many decades especially in the medical and education areas (cf. Foster/Bradach 2005: 94). Derived from statistical research, the portion of earned income of all funds together in social enterprises grew from 46% which represented US\$ 109 billion in revenues in 1977, to 47% with US\$ 632 billion in revenues in 1997 (cf. *ibid.*: 92). Although the absolute growth of revenues itself increased dramatically over the 20 years, the percentage remained equal. This relative high percentage of the earned income portion originates mostly from organizations in the medical and educational areas which use fee-for-service and hereby achieve around 70% of the revenues of the whole nonprofit sector (cf. *ibid.*: 95). The remaining part of revenues indicates much smaller percentage of earned income in other nonprofit/social entrepreneurial organizations, presumably because the target group of such sector is mostly not able to pay for services or products from remaining social organizations (cf. Dees 1998b: 60).

Self-Sufficiency, Sustainability and Financial Freedom: As described in the beginning of this subchapter, three versions of social entrepreneurship, differentiated as fully external funded, partially self-funded, and fully self-funded, can be seen in the figure below.



FIGURE 9: A PERSPECTIVE ON FINANCIAL STRATEGIES: DEPENDENCY VERSUS SELF-SUFFICIENCY (SOURCE: CF. ANDERSON/DEES 2006: 146)

Beginning from the left side of the figure 9, some social enterprises/nonprofits fully rely on external sources of funding such as philanthropy or governmental grants which is the so called 'dependency' model (cf. Boschee/McClurg 2003: 3). Because social entrepreneurship is dependent on other individuals and organizations who provide donations, it can be interpreted as a sign of possible weakness (cf. Dees 1998b: 56). According to Boschee and McClurg, a complete or partially reliance on such funds can be named neither self-sufficient nor sustainable (cf. 2003: 3). In the middle of the figure the organizational model which uses a mix of sources of funds, including grants as well

as earned income is defined as 'sustainable' (cf. *Ibid.*: 3). A social enterprise which implements and operates on the basis of the earned income strategy is identified as 'self-sufficient' (cf. *Ibid.*: 3).

The very often described purpose and goal of the integration of earned income strategies in the social entrepreneurial organization is to gain more independency from other sources of funds. Nevertheless, it is questionable whether the self-sufficient model (with the earned income strategy) is that independent. The examples of ten thousands of entrepreneurs who go bankrupt each year, show that operating purely earned income strategy depends not on fund providers but on customers, suppliers, partners, and further stakeholders of the organization, as well as the good conditions of the platform/market where the organization tries to obtain its revenues (cf. Anderson/Dees 2006: 147). Although the self-sufficiency depends (if it is reviewed carefully) on factors described shortly above, there are at least two benefits associated with the exercising of the earned income strategy, in particular (i) greater sustainability through diversification of sources of funds and the possibility of (ii) financial freedom. The first benefit, sustainability, is assumed to be achieved in the case where the organization utilizes the mix of the funds including earned income source, even though it is not certain whether the earned income is much more reliable in comparison to other sources of funds (cf. *Ibid.*: 148). According to Anderson and Dees, the most sustainable source of funds is an endowment as it can be seen in examples of Harvard University and Ford Foundation endowments, although they grow from donations and charity (cf. *Ibid.*: 149). The second benefit of financial freedom can be perceived a little exaggerative because an organization can possess this freedom only over resources which are left after covering all costs for their products/services (cf. *Ibid.*: 151-152).

**Similarities & Dissimilarities:** While social entrepreneurs can finance themselves through governmental grants, private donations, some forms of loans, and earned income, commercial entrepreneurs generally use external forms of funds like debt and equity (e.g. venture capital, private equity), as well as internal sources like own generated income/profit. The similarity between social and commercial entrepreneurship consists in the overlap of using the internal generated income and possibly some external forms of funds (e.g. some similar loans).

The dissimilarity separating social and commercial entrepreneurship is that social or commercial enterprises represent different investment opportunities for funds providers: from a commercial enterprise it will be expected to achieve competitive financial return while a social enterprise is associated with more non-monetary return. Derived from this dissimilarity there can be distinguished characteristics and roles of each source of funds, especially for earned income

strategy. On the one hand, commercial entrepreneurship can get external funds additionally to the internal sources only if it performs financially very well, so that those funds has to be paid back including specific amount of interest. Commercial entrepreneurship is assumed to have huge market potential (cf. Dees 1998b: 57), so that it tries to generate a high amount of revenue in order to cover e.g. production and administration costs, as well as to repay the loans back. On the other hand, social entrepreneurship acquires some funds like governmental grants and private donations with the goal to create social value. In this case, grants and donations have not to be paid back. So that social entrepreneurship views its own income/revenue generation as an additional tool to create financial value in order to create social value in the end. If the social entrepreneur would utilize earned income strategy on the similar level as commercial entrepreneurship does it could succeed financially but possibly fail socially because the nature of the relationship between the social entrepreneurial organization and its target group would be transformed through the commercial way of operating (cf. Backman/Smith 2000: 370). The dissimilarity of earned income is mirrored in the different portion of own income to sum of total funds. The own earned income of social entrepreneurship accounts on average for about 47% because some of the social enterprises follow the dependency model while revenue generation in commercial entrepreneurship (especially small enterprises) is the predominantly source of funds and only bigger firms can afford to get debt or equity funds but very exceptionally subsidies or grants.

### *3.3.3 Business Models*

There is no consistent classification of social entrepreneurial business models in the literature due to different scholars opinions: one group of the scholars characterizes social enterprises as nonprofit organizations with alternative funding strategies; the second group understands social enterprises as commercial enterprises partly operated with social mission; finally, the third group understands it as a hybrid model of providing solutions to social needs and addressing social problems (cf. Mair/Martí 2006: 37). There was already shortly pointed out that a social enterprise is neither purely philanthropic/nonprofit nor purely commercial/for-profit, so that it is positioned as a hybrid ('nonprofit-for-profit') form of enterprise with double (triple) bottom line of social mission and money (cf. Dart 2004: 415).

The classification of business models of social entrepreneurship can be differentiated upon the type of integration of social and business activity in social enterprise, or in other words upon

the type of integration of for-profit objectives within nonprofit activity. There are three possible types here: (i) embedded social enterprise, (ii) integrated social enterprise, and (iii) external social enterprise (cf. Grassl 2011: 76). In the embedded social enterprise, the functions of social and business activities are brought together as both functions are ‘embedded’ simultaneously into one enterprise. Usually embedded social enterprises are self-financed and mission-centric which means that the business activity is operated for the social purpose/mission (cf. *ibid.*: 76). In the integrated type of social enterprise, social and business functions have a small overlap but in the non-intersecting parts both functions take an advantage of synergies in form of financial and social resources, e.g. cost sharing, asset leveraging, strengthening the mission (cf. *ibid.*: 76). Integrated enterprises typically are mission-related as the business function supports social activity but not necessarily focuses exclusively on the latter one (cf. *ibid.*: 76). In external social enterprises, the social activity is represented in a separated unit or subsidiary. Although, the social unit does not benefit from the synergy effects as it is in the case of integrated model, the business activity supports the social activity with financial funding so that its activity can be named as unrelated to mission (cf. *ibid.*: 76).

Based on the three types of social enterprises (embedded, integrated, and external) and on the consideration of three different levels of mission involvement (mission-centric, mission-related, and unrelated to mission described in chapter 2.1.4), seven operational models, two combining models, and two enhancing models can be generated which theoretical frameworks were derived from practical examples (cf. Alter 2006: 213). For defining each of the eleven models there is the following legend to interpret the core of each model (see figure 10).



FIGURE 10: LEGEND FOR INTERPRETING SOCIAL ENTERPRISE MODELS

(SOURCE: CF. ALTER 2006: 214)

Operational Models: In the first part, there are seven operational models: (i) entrepreneur support model, (ii) market intermediary model, (iii) employment model, (iv) fee-for-service model, (v) service subsidization model, (vi) market linkage model, (vii) organizational support model. The first model (see figure 11), entrepreneur support model, is an embedded type of the social enterprise with mission-centric focus (cf. *ibid.*: 214). Such an operational model provides support for small and mid size entrepreneurs in developing regions so that they can expand and grow further. Examples are social enterprises like Graham Bank from Muhammad Yunus or Pro Mujer (an international women’s development organization) which operate the microfinance service, so that they distribute small capital loans to the poor group of people who would not otherwise be eligible to get a loan from a typical bank (cf. Seelos/Mair 2005: 243). The Social enterprise strives towards self-sufficiency in order to cover its own enterprise costs while distributing capital loans (cf. Alter 2006: 214). The model functions in the following way: the social enterprise offers and distributes capital loans (service flow) to its target group, to poor people with the willingness but limited opportunity to start their own business. After the target group receives capital loans, it starts to produce and offer its goods and services to the market participants by getting financial flows in response. By operating their small businesses the loantakers generate revenues which will be used to pay back the loan to the microfinance organization. Summarized, the whole entrepreneur support model works in one cycle beginning with the support of small and mid entrepreneurs via the distribution of products and services to the end consumers in the market and returning the micro loan back to the social enterprise.



FIGURE 11: ENTREPRENEUR SUPPORT MODEL (SOURCE: CF. ALTER 2006: 215)

The second model (see figure 12), the market intermediary model, represents the embedded, mission-centric type of social enterprise as well (cf. *ibid.*: 216). The social enterprise works as an

intermediary between the target group and the end consumer in the market. The social enterprise builds a platform where products and services from small entrepreneurs of the target population can be sold to the end consumers at fair prices, thus the target population profits from selling its goods while the social enterprise receives a commission fee for covering the costs of operating the platform. On the one hand, the usefulness of the market intermediary model is achieved by the opportunity to cover as many producers of goods as possible (high scalability), to straighten the social mission, and to finance the social enterprise by itself through the intermediate fees. On the other hand, the possible obstacle of such model could be an insufficient quality level of products compared to regular commercial producers. Examples of this model are Fair Trade organization or agriculture and handicapped groups which provide their members with e.g. market access (cf. *ibid.*: 216-217).



FIGURE 12: MARKET INTERMEDIARY MODEL (SOURCE: CF. ALTER 2006: 216)

The third model (see figure 13), the employment model, combines the social and business activity together in an embedded type of enterprise. Derived from the name and from figure 13, the social enterprise employs disadvantaged groups of people like handicaps, homeless individuals, at-risk youth, and women who would heavily get a job in any other firm in most cases directly. The social enterprise ensures the job training, short hours of work, accommodation of physical needs and more. By employing the disadvantaged groups, the social enterprise sells the products to the end customers in the market and uses part of its income for compensation of wages of employees and the other part for covering its administrative costs. This model is mission-centric and typically self-sufficient, although it has the challenge to overcome the barriers of high Startup costs of an enterprise. Examples for employment models are social enterprises employing the disadvantaged groups in bookstores, bakeries, woodworking, clothing production, or in data entry work like a

Digital Divide Data company in Cambodia. Digital Divide Data gives an opportunity to people with very few computer skills to train them and employs those people in entry data projects (cf. *ibid.*: 217-219).

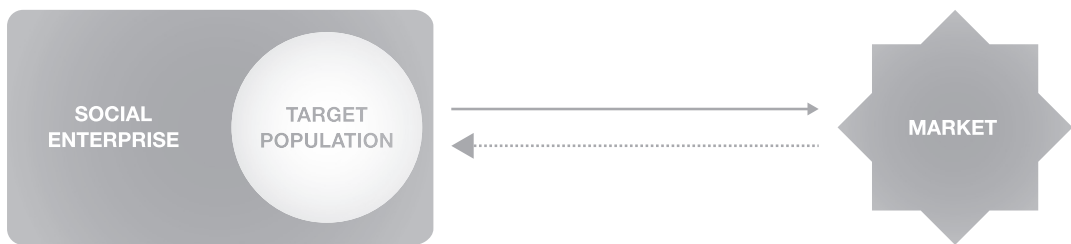


FIGURE 13: EMPLOYMENT MODEL (SOURCE: CF. ALTER 2006: 218)

The fourth model (see figure 14), the fee-for-service model, is represented by social enterprises which incorporate the social mission within their business activity as they offer social services and charge fees for using these services by the end consumer. The model is an embedded, mission-centric type of social entrepreneurship with focus on the achievement of self-sufficiency. As social services are targeted to the population with some disadvantages, who has not necessarily enough money to pay usual market prices for such services, this model can experience some difficulties to start or to continue its activity. Nevertheless, if the social enterprise creates higher income than it needs to cover the cost, the surplus would be directed to subsidize its social programs. There are many examples of fee-for-service model like museums, educational institutes, parks. One other example is <http://www.bookshare.org> which was founded in 2002 by Benetech company in the US as a not-for-profit initiative with the idea of adopting books for the individuals with reading disabilities.

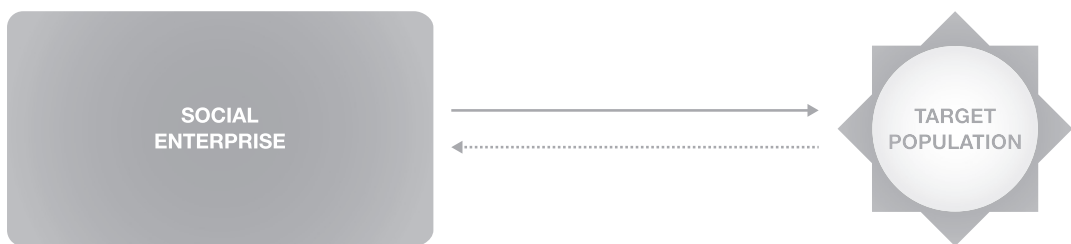


FIGURE 14: FEE-FOR-SERVICE MODEL (SOURCE: CF. ALTER 2006: 219)

There are people who scan their books which will be than adopted with the Benetech program to talking or Braille formats so that the customers can listen or read these books for an one time registration fee and continuing annual fee. Two years after its start, <http://www.bookshare.org> had about 20,000 books and 10,000 readers (cf. *lbid.*: 219-220).

The fifth model (see figure 15), the service subsidization model, forms an integrated type of social enterprise. Business and social activities are not operated together, although they intersect in some parts of operations or share some assets and costs. The business activity is mission-related, which means that income generated in the business part of operations from external market is directed to be used to support and to subsidize social programs for the target population and therewith to fulfill the social mission. Examples for such a model can be found in the immaterial/ knowledge driven industries like consulting, employment training, or marketing. One of the specific examples for service subsidization model was created in Brazil (where the literacy rate is around 80%) by Associacao Nacional de Cooperacao Agricola (ANCA) in the area of literacy training and education. As previously a not-for-profit operating enterprise with the production of educational and training materials, ANCA started an additional social enterprise named Editora Expressao Popular (EEP). EEP runs its business activity by offering its educational products to the end consumers, thereby earning income. The earnings generated by EEP are transferred to ANCA in order to subsidize the social program (cf. *lbid.*: 220-221).

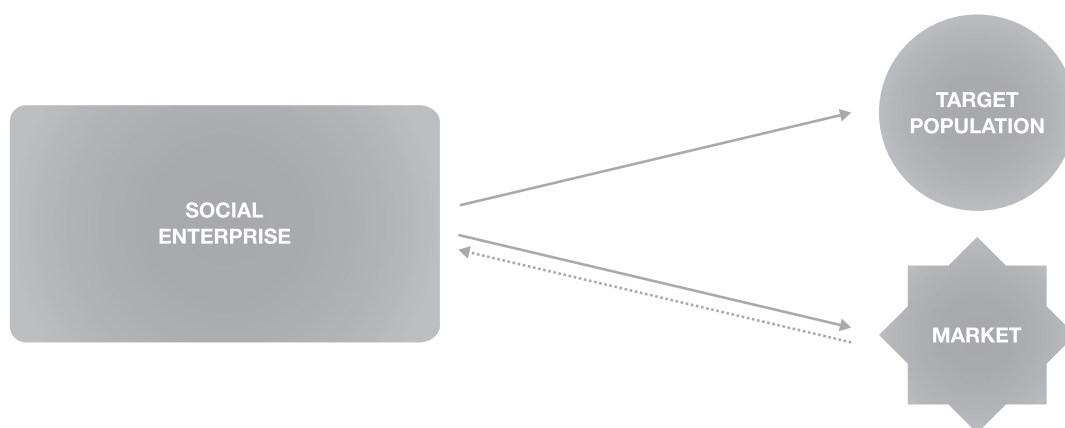


FIGURE 15: SERVICE SUBSIDIZATION MODEL (SOURCE: CF. ALTER 2006: 221)



In the sixth model (see figure 16), the market linkage model, the social enterprise plays the role of an intermediary who establishes the relationship between the producers within the target population and together with the end consumers in the external market. This model can be exercised in (i) embedded or in (ii) integrated versions. In the first version social enterprise would provide the target population with important contacts and information about the external market against a fee, which would be used for self-financing of this social program. In the latter version, the social enterprise would bring the services of the target population to the end consumers and earn a provision fee which then would subsidize e.g. production facilities of the target population. The market linkage model is most convenient for the relationship between the target population in developing countries and the external market in developed countries. An example for such a relationship is Southern African social enterprise PhytoTrade Africa which establishes and uses the relationship to the European customers, suppliers and quality control specialists in order to market the natural products of rural African producers. PhytoTrade partners with Southern African Marula Oil Producers Network (SAMOPN). It works in the following way: while PhytoTrade receives a fee for linking the supply and demand between Southern Africa and Europe, SAMOPN ensures and supports the long-term sustainable, ecologically friendly, high quality production of the goods of Southern African producers (cf. *Ibid.*: 222-223).

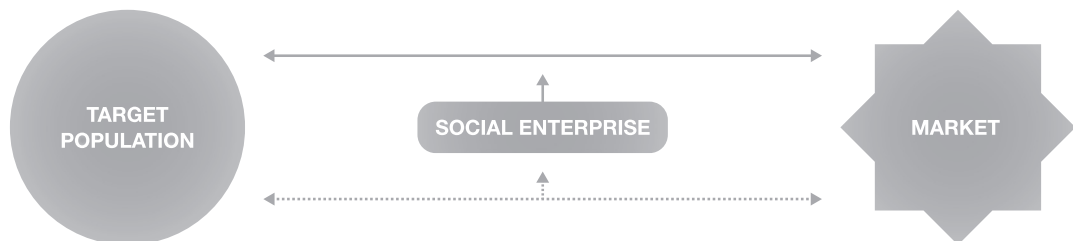


FIGURE 16: MARKET LINKAGE MODEL (SOURCE: CF. ALTER 2006: 222)

The final and seventh operational model is the organizational support model (see figure 17). This is an external type of social enterprise, so that business and social activity do not intersect but the profit of the business activity is forwarded to support the social activity. The business operations usually are not related to mission and typically should achieve high profitability. An example for the organizational support model can be found in Guatemala. Para la Salud which is a national

health organization, launched a pharmacy social enterprise because in the rural areas of Guatemala almost no or very few established pharmacies and health clinics exist. The profits gained in the pharmacies (social enterprise) by selling drugs to the end consumers are directed as subsidies to the health clinics (social service organization) which gives a direct benefit to the rural community that is the target population (cf. *libd.*: 223-224).

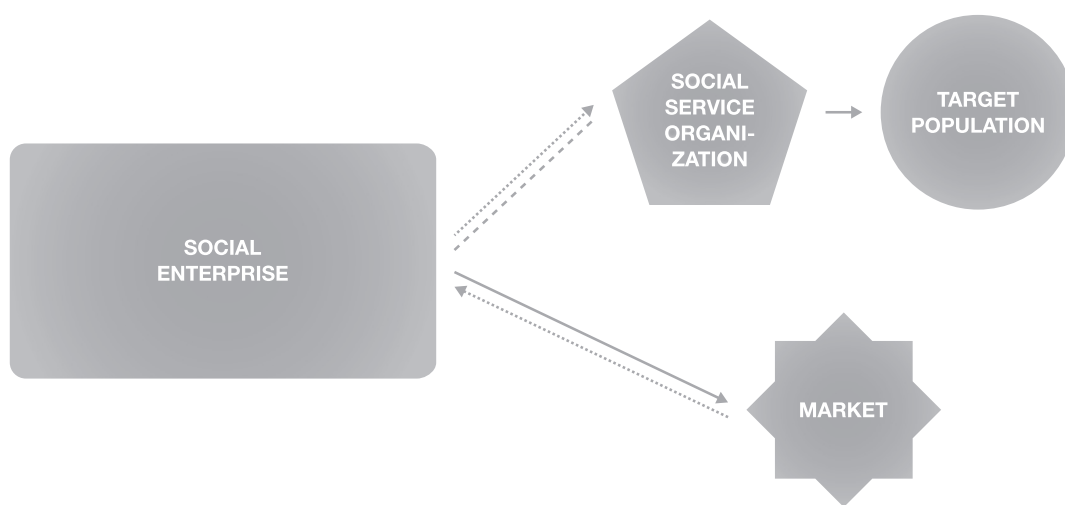


FIGURE 17: ORGANIZATIONAL SUPPORT MODEL (SOURCE: CF. ALTER 2006: 224)

Combined Models: The second part of business models is represented by two combined models. The underlying models which are seven operational models presented in the first part, can be combined in order to increase the social mission, to increase profits, or to enter a new market more successfully. There are two combined models to be distinguished: (i) complex model, and (ii) mixed model.

The first combined model is the complex model (see figure 18) which typically consists of two or more initial operational models. The idea of the complex model is to realize a higher financial or/and social return from the social enterprise. The advantages of combining embedded models lies in a higher social performance while the combination of integrated or external models lead to a higher financial performance. In figure 18 can be found an example of an employment model in combination with an organizational support model (cf. *libd.*: 225).

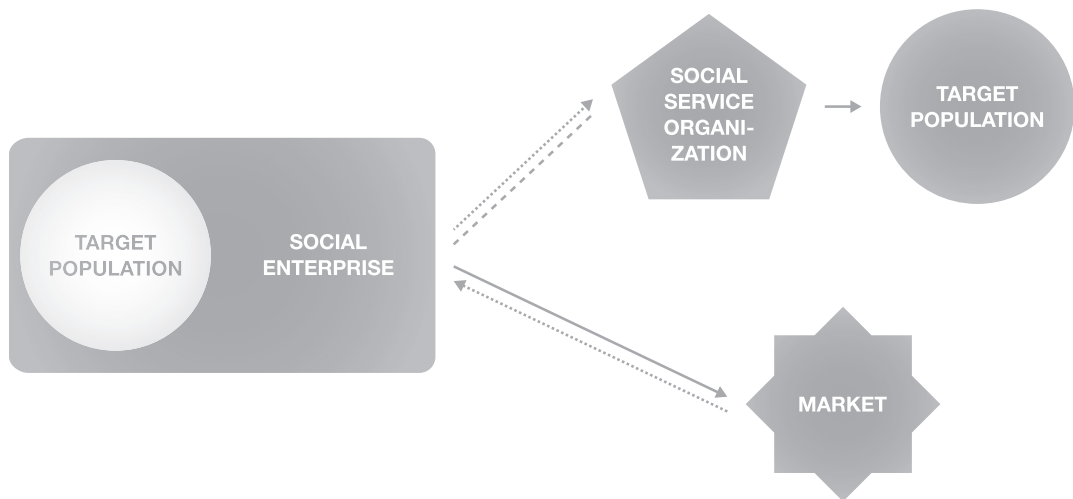


FIGURE 18: COMPLEX MODEL (SOURCE: CF. ALTER 2006: 226)

In the second combined model (see figure 19), the mixed model, additionally to the combination of many operational models (as in complex model, see figure 18), many social targets and financial objectives are pursued at the same time (cf. *Ibid.*: 225). An example for such a mixed social organization would be a multisector organization which drives social programs in areas like health, education and economic development at the same time (cf. *Ibid.*: 226). Figure 19 visualizes a potential example, where there are three different target populations served by three social enterprises (operating partly for the external market and partly for the target population), so that the financial return from social enterprises is used for different social programs. A real life example for mixed models can be found in Egypt, named Sekem. Sekem is a social organization which operates different businesses like biodynamic agriculture and implementation of plant protection systems. With its profits Sekem tries to pursue social needs of different target groups in areas of children and adult education, as well as in medicine (cf. Seelos/Mair 2005: 243).

**Enhancing Models:** The third part of business models, includes two enhancing models: (i) the franchise model, and (ii) the private-not-for-profit partnership model. First, the franchise model could be any of the operational or combined models and can be scaled and repeated by further social entrepreneurs. Such a social entrepreneur buys a franchise license in order to execute the proven model. Both parties have an advantage in this transaction; on the one hand, the franchiser can

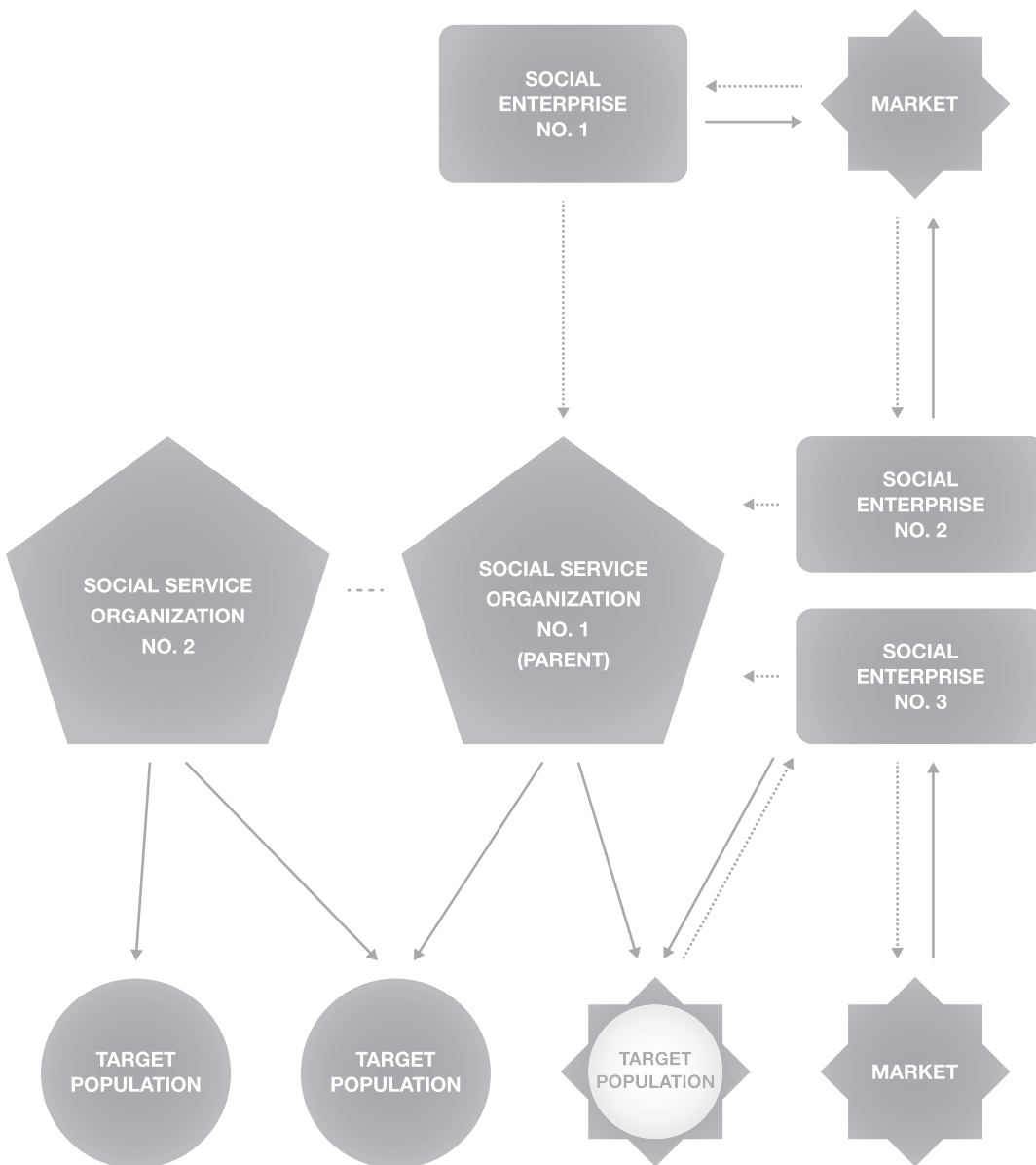


FIGURE 19: MIXED MODEL (SOURCE: CF. ALTER 2006: 226)

replicate the proven model many times, so that more social needs will be satisfied, and on the other hand, the social entrepreneur gets a proven concept with business and social tools how to operate this social enterprise successfully (cf. Alter 2006: 228). Second, the model of private-not-for-profit partnership is designed for the cooperation between for-profit private companies with not-for-profit social enterprises. Each party has its benefit by signing a mutual co-operational agreement. While the social enterprise could learn from the for-profit company how to achieve financial objectives in order to expand the social mission the private company would gain the positive (social mission related) image and therewith attracts further customers (cf. *Ibid.*: 229).

**Similarities & Dissimilarities:** The usual opinion of one group of researchers is that the business models of commercial enterprise cannot be adapted to the social enterprise because the idea of the social enterprise is absolutely unique and requires some specific elements which do not exist in any commercial enterprise model (cf. Mort et al. 2002: 86). Another group of researchers points out that there is no core business model available to apply in the entrepreneurship (cf. Roberts/Woods 2005: 46) and therefore some practices of business activity can be applied in social activity. Based on the latter opinion, there could be identified the first similarity between the non-existence of one core/fundamental business model in social and in commercial entrepreneurships. Each of the above described operational, combining, and enhancing models demonstrates business models which can be found in an adapted, similar version in commercial entrepreneurial practice. Both types of entrepreneurship learn best practices from other enterprises and implement these elements in their own businesses (cf. *Ibid.*: 46).

The dissimilarity between the two types of entrepreneurship is generally reasoned by social element and social objectives which raises the uniqueness of the social enterprise and its possible non-adaptation of commercial business models. The social enterprise embeds, integrates, or operates the social mission either exclusively on the first priority basis (or in other words, superior to the financial objectives) or social and commercial objectives are weighted equally (cf. Weerawandera/Mort 2006: 33). Meanwhile, commercial enterprises, usually, do not consider the social mission to have the same priority as financial objectives within the company. The integration of CSR (Corporate Social Responsibility) within the activity of commercial enterprises could produce a slightly shift from the exclusive financial objective of shareholder wealth maximization towards the incorporation of some ethical, environmental, and social elements within the enterprise (cf. Zahra et al. 2008: 118). The importance of CSR goals varies from enterprise to enterprise, and one of the factors how seriously such goals are considered could be the preparation and printing of CSR a report

(cf. Chapple/Moon 2005: 428 and cf. Idowu/Papasolomou 2007: 142). Commercial enterprises can benefit from the incorporation of CSR in terms of a more responsible image by customers and a possibly higher satisfaction of stakeholders (cf. Castka et al. 2004: 148). Altogether, social enterprises can serve a similar group of customers as commercial enterprises by applying a similar business model but forward its generated profits to the disadvantaged group with the purpose of enhancing their position in the society and maximize therewith its social mission. Commercial enterprises usually operate in markets with high scale opportunities in order to maximize its financial objectives. Therefore social and commercial entrepreneurs can operate the similar business model but reach dissimilar goals due to focusing on social mission in social enterprises and on financial profit in commercial enterprises.

#### *3.3.4 Shareholder Versus Stakeholder Orientation*

Beginning with definitions, a stakeholder is an individual or a group of individuals who has influence on or can be influenced by the realization of companies' goals (cf. Freeman/Reed 1983: 91). Involved in terms of holding some financial stake or other motivation (cf. Mason et al. 2007: 288), stakeholders typically possess some 'inalienable' rights to take an active part in the decision-making process of an enterprise (cf. Evan/Freeman 1993: 82). These individuals or groups of the individuals who have interdependencies with the organization (cf. Mort et al. 2002: 84) could be company's employees (e.g. managers, volunteers, normal workers), consumers, suppliers, local community, government, funds providers (e.g. donors), and further groups (cf. Campi et al. 2006: 35). The shareholder is one of the stakeholders and is defined in the neo-classical theory as an individual or group of individuals who obtains the ownership rights through financial investment in an enterprise with the goal of profit maximization (cf. Laville/Nyssens 2001: 314). While shareholder orientation is meant by the orientation on the interest of only shareholders and ownership rights holding by only this particular group (which is the standard model in the neo-classical theory), stakeholder orientation exists in the organization where interests of all (in best case) stakeholders are considered in the decision-making, as well as the ownership rights (rights of residual control and rights of residual income) are distributed between all stakeholders (cf. *Ibid.*: 315). Stakeholder orientation could have a variety of expressions or forms of distribution of ownership rights (cf. *Ibid.*: 314).

Social entrepreneurship predominantly follows the multi-stakeholder orientation, so that stakeholders are involved internally (instead of the traditional external role) which can be expressed

in two forms: either involvement of two or more groups of stakeholders in a decision-making process of an organization, or through distribution of the ownership rights among all stakeholders (cf. Campi et al. 2006: 35). From empirical study, there are found 58% out of 158 social entrepreneurial organizations which have at least two or more different stakeholders involved within the decision-making process (cf. *Ibid.*: 46). In the social entrepreneurial organization all stakeholders usually operate on the same level, so that all of them together are in the first place concentrated on solving social problems and the creation of social value to themselves and other stakeholders, and only in the second place they pay attention to financial revenues (only as a mean to create social value) (cf. Mort et al. 2002: 85).

Although, the stakeholder orientation has more empathy in the social entrepreneurial organizations it gets some criticism as well. An example of such criticism is the problem of accountability in the organization with more than one group of stakeholders involved in the decision-making and organizational process (cf. Mason et al. 2007: 289). If all stakeholder groups operate equally, it is not obvious who has to report to whom, and who is accountable for successful or failed achievements of the enterprise. Because of poor management stakeholders possibly would not ensure a productive way of attaining social goals. Social entrepreneurial organizations may have to choose between the democratic roles of involvement of all stakeholder groups versus the subordination of one group of stakeholders in order to meet its goals (cf. *Ibid.*: 290). A possible implication of the subordination of one group of stakeholders can lead to neglecting the interests of the other stakeholders, so that it would result in a failed creation of social value (cf. *Ibid.*: 290). That is why, the task of social entrepreneurship is to find an equilibrium between the maximization of stakeholders that are involved in the decision-making and the maximization of social value (cf. *Ibid.*: 295).

In sum, it cannot be definitely said what form of stakeholder orientation (one versus multi) is the best suitable for social entrepreneurial organizations (cf. Laville/Nyssens 2001: 315). The multi-stakeholder by trend seems to be preferable and more effective in social entrepreneurial circles than the shareholder orientation (cf. Mason et al. 2007: 295) because through the involvement of two or more stakeholders and the exchange of knowledge and opinions of these stakeholders, there can be achieved more adequate quality and accessibility of goods and services for the disadvantaged groups of society (cf. Laville/Nyssens 2001: 315).

**Similarities & Dissimilarities:** While the major part of social entrepreneurial organizations are multi-stakeholder oriented, the majority of commercial enterprises are dominated by shareholder orientation with the primary focus on shareholder value maximization (cf. Mort et al. 2002: 84).

Except for the minor part of social enterprises, social and commercial entrepreneurship are mainly dissimilar in the category of corporate orientation. The first dissimilarity consists in the fact that commercial entrepreneurship has to satisfy the interests and needs of shareholders including the achievement of the financial profit maximization, meanwhile social entrepreneurship aims to satisfy social interests and needs, as well as to eliminate environmental problems which together cannot be reduced just to achieve financial objectives (cf. Peattie/Morley 2008: 103). The second dissimilarity is that the position of the shareholders in commercial entrepreneurship is primary while in social entrepreneurship the multi-stakeholder orientation allow all stakeholders to be equally positioned (cf. Mort et al. 2002: 84), so that through codetermination multi-stakeholders can express ideas and sources which could have a positive influence on the decisions made (cf. Mason et al. 2007: 289).

In figure 20 (Stakeholders value options) below, social and commercial entrepreneurship can be compared on the basis of two dimensions: shareholder value and intended social impact. Each axis is labeled from low to high expression of the dimension. Pure charity/philanthropic organizations are positioned where the intended social impact is high valued but the shareholder value maximization has very low importance. Pure business/commercial organizations are characterized by high shareholder value orientation with only low with only low intention to create social impact or even absolutely neglecting it. Standard social entrepreneurial organizations are positioned in between, so that it has to balance shareholder interests with interests and needs of other stakeholders and the maximization of social impact/value. The line which goes from the upper left to the lower right corner and connects pure charity/philanthropy and standard social enterprise, with pure business is named the trade-off line, as an organization has to decide the trade-off between focusing on social impact creation versus pursuing and maximizing the shareholder value. Standard social enterprises can shift either towards (i) a low-synergy trade-off line to the low-performing social enterprise, or towards (ii) a high synergy trade-off line to high-performing social enterprise. In the first case, the social enterprise could experience some limitations, like less working efficiency of disadvantaged groups compared to more efficient and better educated employees in commercial enterprises (cf. Huggett 2010: 99), to achieve social impact and therefore shift to the low-performing social enterprise (lower left corner). In the second case, if the social enterprise can gain synergies by following social and commercial strategies (e.g. through sharing of overhead costs or reaching additional commercial customers on the basis of the social image of the enterprise), it can develop towards the high-performing social enterprise (upper right corner).



Possible similarity could appear only in very few if any available cases for example if the social entrepreneurial organization would prioritize shareholders over other stakeholders which would neglect the intended social goals. As was mentioned before, the shareholder orientation would possibly transform social into commercial objectives and therefore social into commercial enterprises. In total, social and commercial entrepreneurship are defined as more dissimilar than similar in the dimension of corporate orientation.

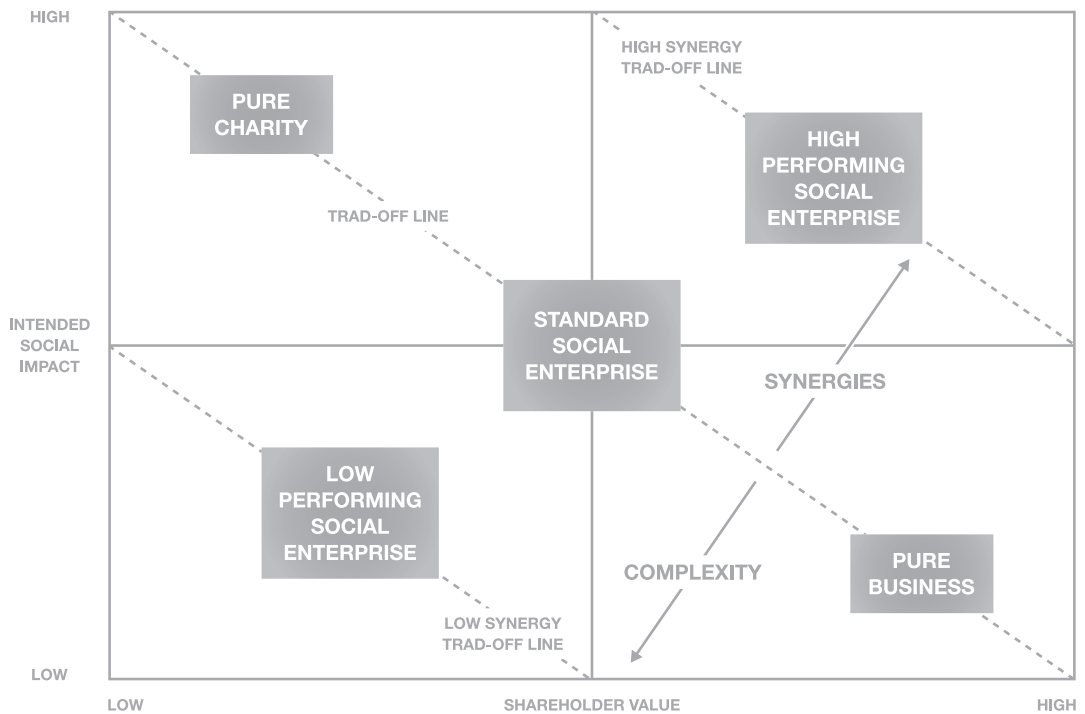


FIGURE 20: STAKEHOLDERS VALUE OPTIONS (SOURCE: CF. HUGGETT 2010: 99)

### *3.4 Appraisal Phase*

#### *3.4.1 Input-output Relation*

In order to measure the performance and the progress of the social enterprise and its projects, there will be first visualized the framework of the basic logic model. Developed by the W.K. Kellogg Foundation the basic logic model presents a chain of the entrepreneurial evolution beginning with the input variables (resources) which are utilized in the social entrepreneurial activity in order to produce the output and then outcomes and impact in the external world.

The figure 21 on the right represents this chain of the entrepreneurial process steps consisting of three phases: planned work, intended result, and result evaluation (cf. W.K. Kellogg Foundation 2001: 1). Beginning with the first phase, resources or inputs can be human, material (e.g. financial), organizational and public (cf. Tulchin 2003: 9 and cf. W.K. Kellogg Foundation 2001: 2). If there are enough resources available the entrepreneurial organization can begin its activities which implies the preparation and production of goods or services by utilizing the resources using specific technologies and methods in order to achieve the intended result (cf. W.K. Kellogg Foundation 2001: 2). After the planned activities are completed, in the second phase, the outputs in form of tangible goods and services are intended to be delivered to the customers (cf. Tulchin 2003: 9). After the results of the planned activities and outputs are delivered to the customers, in the third phase, the entrepreneurial outcome could be observed and evaluated in terms of effects and consequences on the behavior, knowledge and level of functioning of the end consumers (cf. Haugh 2006: 181). The entrepreneurial performance can be measured on the basis of short-term outcomes within 1 to 3 years and long-term outcomes within 4 to 6 years after the entrepreneurial activity (cf. W.K. Kellogg Foundation 2001: 2). The measurement of outcomes could have internal reasons like monitoring and control, as well as external purposes like accountability, building confidence, trust, and image management (cf. Haugh 2006: 181). The outcomes themselves could be expressed in financial, social, and further forms (cf. Tulchin 2003: 9). If the intended outcomes are realized by the end consumers who gain value from the output of the entrepreneurial organization, the impact of the entrepreneurship could be recognized by intended or unintended transformation in social communities and in part or whole systems within 7 to 10 years after the entrepreneurial activities (cf. W.K. Kellogg Foundation 2001: 2).

In this process chain, from inputs and activities via outputs and outcomes to impacts, it might be very difficult to determine the direct interrelationship and causality from inputs to outcomes and more challenging to impacts from the original entrepreneurial activity (cf. Tulchin 2003: 9). Usually, entrepreneurial organizations have the so-called data horizon which is the time boundary of the measurement and evaluation of the entrepreneurial results (cf. Bloom 2006: 289). The data and feedback evaluated within the data horizon will be implemented in the organization in order to improve the entrepreneurial process and the output for the customers (cf. *ibid.* 2006: 289), but as can be seen in the figure, improvements within the data horizon represent just a part of all feedbacks and possible improvements.

**Similarities & Dissimilarities:** The similarity between social and commercial entrepreneurs consists in the general framework as the basic logic model can be applied to any social and commercial entrepreneurship. Both types of entrepreneurship use some inputs in order to produce goods or services to deliver them to the customers. Both types of entrepreneurship are similar in the fact that they measure and evaluate their performance for purposes of inclusion of possible feedbacks into entrepreneurial process in order to satisfy the customer needs better or to achieve higher efficiency.

The dissimilarity consists in the application of mostly different performance measurement methods. There are a lot of approaches how outputs, outcomes, and impacts can be measured and evaluated: directly and indirectly, financially, socially, and environmentally. While commercial entrepreneurship deploys almost solely financial evaluation methods of outcomes and impacts, social entrepreneurship exercises measurement tools to evaluate both, financial and social outcomes of social projects, as only financially measured outcomes could not represent the whole picture of the social entrepreneurial performance. For example financial measures which are used by commercial entrepreneurship can be measures in the form such as revenues, profitability key performance indicators, sales, market share, number of customers, customer satisfaction, or quality of the product (cf. Haugh 2006: 185). In contrast, in order to provide the information for the stakeholders and use it as a feedback to improve the social business model, social entrepreneurs use direct financial measures like number of jobs (and socially-useful jobs) created, tax revenue, turnover from trading and service agreement contracts, non-trading income from grants, loans, donations, and others (cf. *ibid.*: 186). In the category of indirect financial outcomes, social entrepreneurial organizations are interested in measures like the rise of skills of the local population for improvement of their employment prospects or the increase of innovation and creativity (cf. *ibid.*: 186). The category of

direct social outcomes would include information like improvement of quality of life and access to initial services, and indirect social outcomes like perception of increased community empowerment, increase in levels of individual's confidence, control, independence, and personal development (cf. Ibid.: 182, 187). If the social enterprise drives the triple-bottom line the environmental outcomes could be measured directly by e.g. reduction of CO<sub>2</sub> emission, reduction in unrecycled waste products, or contribution to local environmental capital, as well as indirectly by e.g. level of improvement of the attractiveness of the region, contribution to sustainability agenda (cf. Ibid.: 186-187). The particular methods of performance measurement will be presented and explored in the next subchapter including the description of some limitation of these methods.

Further dissimilarity consists in the distinct perception and distribution of the financial outcomes (profits) from the entrepreneurial activity, earned during the input/output process. The Commercial enterprise focuses on the creation of financial value at the end of the entrepreneurial process, which would be mainly distributed to the shareholders of the company in order to maximize their private financial profit, as well as partly reinvested in further development of the entrepreneurship, whereas the social enterprise pursues the creation and maximization of social and environmental value in



FIGURE 21: THE BASIC LOGIC MODEL (SOURCE: ADAPTED FROM W.K. KELLOGG FOUNDATION 2001: 1 AND BLOOM 2006: 290)

each phase of the basic logic model, so that financial value will be either distributed to different stakeholders, reinvested in further social projects, or used as subsidy for the disadvantaged groups of society (cf. Somers 2005: 46-47).

### *3.4.2 Performance Measurement*

Performance measurement methods in the business areas were invented and deployed mostly in the last 100 years, as well as in the last 20 years in the sociological areas, as a result of the emergence of accounting regulations and convenience in the reporting practice (cf. Nicholls 2010: 242). Today, performance measurement plays a central role for decision-makers in organizations, so that they can meet more adequate return maximizing and risk minimizing decisions on the basis of costly but valuable performance measures (cf. *Ibid.*: 241). Because of the centrality and high frequent usage of performance measures, today's society is named as 'audit society' (cf. *Ibid.*: 243). The performance measurement methods can be differentiated along the time horizon between prospective (future forecast), ongoing, and retrospective (past methods) (cf. Tuan 2008: 8), as well as within the categories of metrics: control measures (the unit of analysis), planning measures (the issue of the purpose of measure), and accountability measures (the issue of the audience of measures) (cf. Nicholls 2010: 248). While performance measurement methods are used for the translation of the qualitative and quantitative results into consistent quantitative metrics, it is questionable whether the resultant metrics are objective and impartially measured (cf. *Ibid.*: 241). Within this subchapter there will be presented and explained four examples of performance measurement methods used in social entrepreneurial organizations: (i) cost-effectiveness analysis, (ii) cost-benefit analysis, (iii) social return on investment, and (iv) sustainability balanced scorecard. The first two methods are classical methods and partly used as a basis for other methods. The latter two methods were elaborated especially in the social entrepreneurial practice in the last decades. After presenting all four approaches there will be sketched the most evident limitations of these approaches. Subsequently, there will be discussed the comparison of the performance measurement methods between social and commercial entrepreneurship.

**Performance Measurement Methods:** The first classical method is the cost-effectiveness analysis (CEA) by which is meant a ratio of cost per a non-monetary outcome or benefit (cf. Tuan 2008: 10). The CEA can be applied to those areas where the outcomes and benefits cannot be translated into a monetary unit which means that these cannot be summed up in an overall result. Typically,

outcomes and benefits can be compared only within one area, which uses the same underlying benefit or outcome (e.g. high school education of one child, health improvement from malaria disease of one person) (cf. *ibid.*: 10). This method usually is used for evaluating direct effectiveness/benefit of the project by getting around the translation (from non-monetary to monetary metrics) risk and by using direct comparison of benefits/outcomes of different projects (cf. *ibid.*: 10).

The second classical approach refers to the cost-benefit analysis (CBA) which measures the net benefit resulting in expression in monetary unit benefits to all stakeholders and less costs invested for the program, e.g. the net benefit of the education of a child is the surplus in the economic productivity minus the cost for his education (cf. *ibid.*: 27). An alternative way of the cost-benefit analysis is the rate of return which can be used as well as the decision basis for selecting one project over another (cf. *ibid.*: 10). Compared to the cost-effectiveness analysis cost-benefit analysis has, on the one hand, an advantage of using one common unit, so that many projects from different areas could be assessed and compared on the basis of one common unit (money), but at the same time on the other hand, an disadvantage of higher costs and possible risk of incorrect translation of different units into one common unit (cf. Schreiner 2003: 358).

The third performance measurement approach is named social return on investment (SROI) and was developed on the basis of the cost-benefit analysis by the Roberts Enterprise Developed Fund (REDF) (cf. Gair 2009: 5). SROI is a retrospective performance measure which characterizes the social impact of a program as proportion to the total investment spent for the achievement of this impact (cf. Kerr 2007: 648), or in other words, it measures generated social return on the program's activity investment (cf. Gair 2009: 1). The social impact with respect to all stakeholders (e.g. increase in individual's economic standing, reduction in social services costs, reduction in crime, increase of educated individuals) will be converted into monetary units (cf. Flockhart 2005: 34). Although, this approach gives an opportunity to select the programs/projects based on their worthiness, this decision-making tool is exposed to people's and expertise failures as it lacks the systematic approach (cf. Gair 2009: 7).

The fourth performance measure is the sustainability balanced scorecard (SBSC). Originally, the business approach of the Balanced Scorecard which was developed by Kaplan and Norton comprehends not only monetary but also non-monetary strategic soft factors which have a high influence on the economic success and competitive advantage of the organization (cf. Figge et al. 2002: 270). The traditional BSC includes four perspectives: (i) the financial perspective associated with the indication of economic success, (ii) the customer perspective represented by market seg-

ments and customer value proposition, (iii) the internal process perspective shown by processes enabling to meet the customer expectations, and finally (iv) the learning and growth perspective indicated by the necessity of the organizational infrastructure in order to obtain the goals (cf. *ibid.*: 270-271). The SBSC approach integrates additional soft factors like environmental and social perspectives into the original BSC framework (cf. *ibid.*: 273). Within the organizational strategy map, considering financial and soft perspectives, there is necessary the inclusion of performance measurement schedule where each financial, social, or environmental goal is linked to a success indicator and employee or stakeholder responsible for reaching it (cf. Somers 2005: 51). The successful achievement of all goals would lead to the maximization of the overall score in the SBSC.

Limitations: Although, the methods of performance measurement are in use for many decades in the business and social sphere, most of these methods demonstrate some common or particular limitations.

Beginning with the common limitations there can be identified, first, the problem of applying of different discount rates, as due to the lack of consensus about what discount rates should be used in the cost-effectiveness and cost-benefit analysis which leads to incomparable results (cf. Tuan 2008: 15). By discounting the future cash flow with a lower rate the net present value would be higher and therefore make the project/program more attractive than it would be by discounting the future cash flow with a higher discount rate. In practice, the discount rate across the areas could vary from 4% in the drug, criminal and children intervention policy area, or 3-5% in the medicine areas, to 10% in other areas (cf. *ibid.*: 15-16). The second possible limitation is the shadow market price which can appear especially in the cost-benefit analysis by translating qualitative into quantitative outcomes (cf. *ibid.*: 16). For some qualitative outcomes market prices will be found easily, while for other outcomes it is a challenging task to obtain a comparable adequate market price, e.g. the intangible cost of crime to a victim of crime (cf. *ibid.*: 16). Thus, it can lead to incomparability of results because each organization uses different shadow market prices. The third limitation refers to the timeframe incongruity, as the observation of the outcomes can vary from 5 to 30 years in time horizon (cf. *ibid.*: 16). The fourth limitation is the problem of interdependencies which implies that outcomes are not only influenced by one particular but instead by many factors (cf. *ibid.*: 17). Because it is difficult to assign one outcome to one particular or one group of factors, as well as the influence of interdependencies is difficult to predict into the future, the results of different performance measures can vary due to the fact that interdependencies were either not count, or counted in a different manner. An additional limitation regarding the estimation and evaluation

of the social impact can be reasoned e.g. by the lack of common measure in the social sector, the lack of a common value judgment system, the inconsistency of the usage of important termini as social impact, outcomes and outputs (cf. *ibid.*: 17).

Similarities & Dissimilarities: The category of performance measurement seems to be the most dissimilar for social and commercial entrepreneurships (cf. Austin et al. 2006: 3). While performance measurement in commercial entrepreneurship has a very established, standardized, and recognized status, represented by predominantly financial metrics (like return on investment, net profit margin, sales growth, etc.) and structured across dimension (e.g. efficiency, growth, profit, market share, liquidity) (cf. Murphy et al. 1996: 17), social entrepreneurial performance measurement is still positioned in the establishment process. The reason for the latter case is that the context of social enterprises requires more complex understanding of the relationship between inputs-outputs to social outcomes and impact (cf. Nicholls 2010: 242), as well as limited quantification of impact, multi-causality/interdependencies, and perceptive differences in value judgments of social outcomes and impact (shortly described above) have to be overcome in order to reach an established measurement system within the social sector. The two examples of SROI and SBSC represent a trial of implementation of social (and environmental) factors in originally commercial performance measurement. Through SROI which is used by some social enterprises, it could be achieved more comprehensive social and financial analysis about social entrepreneurial programs while SBSC (used originally by commercial enterprises as BSC) was introduced to commercial and social enterprises because of the concern of the authors of this approach that one or two financial metrics would not provide the comprehensive information about the enterprise (cf. Kaplan/Norton 1992: 71). The social version of BSC was changed on three points: (i) inclusion of additional social perspective, (ii) expansion of financial perspective with the focus on sustainability, and (iii) increase of the number of considered stakeholders (cf. Somers 2005: 48). Dissimilarity between commercial BSC and social BSC (SBSC) is that in the latter financial goals play subordinate and social goals primary role (cf. *ibid.*: 54).

An additional dissimilarity is the different usage of the results of performance measures. While the commercial enterprise allocates its resources according to the highest shareholder gain expectation, social enterprises would do it not necessary depending on the highest SROI or SBSC metric but rather based on emotive reasons or personal charisma of the social entrepreneur (cf. Dees 2007: 30).



#### 4. Conclusion

After the short problem explanation and description of the outline of the paper in chapter 1, chapter 2 began with the description of the historical development and evolution of social entrepreneurship. Further, there were given definitions of two termini: of social entrepreneurship broadly defined as one of the possible three constructs, (i) for-profit organization with strong implemented social goals, (ii) nonprofit with usage of business entrepreneurial activity, or (iii) the hybrid version of both two constructs (i and ii) together; and commercial entrepreneurship as an entrepreneurial organizations with rather for-profit interest. Thereafter, in the main chapter 3 the agenda/framework for investigation of entrepreneurial process was divided into three parts (planning, operational and appraisal phases) within which there were specified the characteristics of the social entrepreneurship. Then its similarities and dissimilarities to the commercial entrepreneurship were compared. Along the three parts of the agenda, the main similar and different points between social and commercial entrepreneurs were identified which are summarized in the figure above.

	SOCIAL ENTREPRENEURSHIP	COMPARISON TO COMMERCIAL ENTREPRENEURSHIP
	GOALS: SOCIAL, FINANCIAL, AESTHETIC, ENVIRONMENTAL SORTED IN THE DOUBLE OR TRIPLE BOTTOM LINE	SIMILARITIES: OVERLAP OF GOALS (FINANCIAL GOALS)  DISSIMILARITIES: DIFFERENT FOCUS AND PRIORITY ORDER OF THE GOALS
PLANNING PHASE	FOR OPPORTUNITY TO BE DISCOVERED ARE REQUIRED EXISTENCE OF MARKET DISEQUILIBRIA AND GOVERNMENTAL OR MARKET FAILURES, AS WELL AS SKILLS OF SOCIAL ENTREPRENEUR LIKE KNOWLEDGE, ALERTNESS, AND PREVIOUS EXPERIENCE	SIMILARITIES: MARKET DISEQUILIBRIA AND MARKET FAILURES AS ORIGIN FOR ENTREPRENEURIAL OPPORTUNITY, SKILLS FOR OPPORTUNITY RECOGNITION, INFLUENCE OF HIGH ENTRY BARRIERS ON THE EXECUTION OF AN OPPORTUNITY
	FOR EXPLOITATION OF OPPORTUNITY ARE REQUIRED HIGH PERCEIVED VALUE OF OPPORTUNITY, AVAILABILITY OF RESOURCES AND LOW SOCIAL AND INSTITUTIONAL BARRIERS	DISSIMILARITIES: FOCUS ON DIFFERENT OPPORTUNITIES, DIFFERENT EVALUATION THROUGH CONSIDERATION OF DISSIMILAR VALUES, IMPORTANCE OF DIFFERENT ENTRY BARRIERS
	FOR GENERATION OF A PROMISING IDEA ARE IMPORTANT USAGE OF ONE OF FOUR IDEA-GENERATION STRATEGIES, OPPORTUNITY-ORIENTATION AND PERSONAL EXPERIENCE OF AN ENTREPRENEUR, AS WELL AS POSITIVE CHANGE / IMPACT ON THE ENVIRONMENT	SIMILARITIES: CLOSE SKILLS AND STRATEGIES BY IDEA GENERATION  DISSIMILARITIES: DIFFERENT FOCUS OF THE IDEAS CONDITIONED BY DIFFERENT GOALS

OPERATIONAL PHASE	AREAS OF OPERATIONS	AREAS OF OPERATIONS: POVERTY ALLEVIATION, HEALTH CARE, EDUCATION AND TRAINING, ENVIRONMENTAL DEVELOPMENT, COMMUNITY REGENERATION, WELFARE PROJECTS, ADVOCACY CAMPAIGNING	SIMILARITIES: OVERLAP OF THE AREAS OF OPERATIONS (E.G. FINANCE, EDUCATION)  DISSIMILARITIES: DIFFERENT WAY/MANNER TO OPERATE IN THE SIMILAR AREAS
	SOURCE OF FUNDS	SOURCES OF FUNDS: GOVERNMENTAL GRANTS AND PRIVATE DONATION, RECOVERABLE GRANTS, BELOW-MARKET-RATE LOANS, TAX-EXEMPT MARKET-RATE LOANS OR BONDS, FULL-MARKET-RATE LOANS, AND ABOVE-MARKET-RATE LOANS, OWN GENERATED INCOME  THREE FINANCING STRATEGIES: DEPENDENCY MODEL (GRANTS AND DONATIONS), SUSTAINABLE MODEL (MIX OF GRANTS, DONATIONS AND OWN INCOME), AND SELF-SUFFICIENCY MODEL (FULLY OWN GENERATED INCOME)	SIMILARITIES: OVERLAP OF USAGE OF INTERNAL GENERATED INCOME AND SOME EXTERNAL FORMS OF FUNDS (E.G. LOANS)  DISSIMILARITIES: SOCIAL AND COMMERCIAL ENTREPRENEURSHIPS REPRESENT DIFFERENT INVESTMENT OPPORTUNITY FOR FUND PROVIDERS, THEREFORE THEY CAN GET OR ACQUIRE DIFFERENT TYPES AND CONDITIONS FOR THEIR FUNDS
	BUSINESS MODELS	TYPES OF SOCIAL ENTERPRISE: EMBEDDED, INTEGRATED, AND EXTERNAL  DEPENDING ON TYPE AND MISSION FOCUS OF THE SOCIAL ENTERPRISE: OPERATIONAL, COMBINING AND ENHANCING BUSINESS MODELS	SIMILARITIES: NON-EXISTENCE OF ONE CORE/FUNDAMENTAL BUSINESS MODEL  DISSIMILARITIES: DIFFERENCE AND UNIQUENESS OF SOCIAL BUSINESS MODELS DUE TO SOCIAL ELEMENT AND SOCIAL GOALS IN SOCIAL ENTERPRISE
APPRAISAL PHASE	SHAREHOLDER VERSUS STAKEHOLDER ORIENTATION	CORPORATE ORIENTATION: PREDOMINANTLY MULTI-STAKEHOLDER	SIMILARITIES: IF SOCIAL ENTERPRISE WOULD PRIORITIZE INTERESTS OF SHAREHOLDER, THIS WOULD NEGLECT THE INTENDED SOCIAL GOALS WOULD HIGHLY POSSIBLE TRANSFORM SOCIAL INTO COMMERCIAL ENTERPRISE.  DISSIMILARITIES: SHAREHOLDER ORIENTATION IN COMMERCIAL ENTERPRISES
	INPUT-OUTPUT RELATION	THE BASIC LOGIC MODEL: PRESENTS A CHAIN OF THE ENTREPRENEURIAL PROCESS FROM INPUTS (RESOURCES) UTILIZED IN THE ACTIVITY IN ORDER TO PRODUCE THE OUTPUT AND THEN OUTCOMES AND SOCIAL IMPACT	SIMILARITIES: SIMILAR GENERAL CHAIN OF ENTREPRENEURIAL INPUT-OUTPUT PROCESS  DISSIMILARITIES: DIFFERENT PARTICULAR INPUTS, OUTPUTS AND OUTCOMES
	PERFORMANCE MEASUREMENT	DEPENDING ON TIME HORIZON: PROSPECTIVE, ONGOING, AND RETROSPECTIVE MEASURES  DEPENDING ON CATEGORY: CONTROL, PLANNING, AND ACCOUNTABILITY MEASURES  EXAMPLES: COST-EFFECTIVENESS ANALYSIS (CEA), COST-BENEFIT ANALYSIS (CBA), SOCIAL RETURN ON INVESTMENT (SROI), SUSTAINABILITY BALANCED SCORECARD (SBSC)	SIMILARITIES: USE OF CLASSIC UNDERLYING METHODS LIKE CEA AND CBA  DISSIMILARITIES: VERY ESTABLISHED, STANDARDIZED, REPRESENTED BY PREDOMINANTLY FINANCIAL METRICS IN COMMERCIAL ENTERPRISES VERSUS STILL EVOLVING METHODS IN SOCIAL ENTREPRENEURSHIP

FIGURE 22: COMPARISON OF SOCIAL AND COMMERCIAL ENTREPRENEURSHIPS  
(SOURCE: OWN DEVELOPMENT)

Chapter 2 and 3 achieved the purpose of the paper to understand the phenomenon of social entrepreneurship and its comparison to commercial entrepreneurship. Especially chapter 3 which results are summarized in the figure 22 above illustrated the comparison (i.e. similarities and dissimilarities) of social and commercial entrepreneurs along three phases of entrepreneurial process. Those elaborated results are helpful to answer the last question of this paper: Why social entrepreneurship seems to be a better candidate (than commercial entrepreneurship) to solve the social and environmental problems and challenges of the high-technological progress of the last century?

The answer to this question consists of the following arguments. First of all, social entrepreneurship has a higher probability and competence to solve social and environmental problems than commercial enterprises because social enterprises concentrate on social and environmental goals and carry an implicit social mission (cf. Dees/Economy 2001: 4) which gives them an advantage in operating more efficiently to address such problems and to focus on the satisfaction of social needs (cf. Light 2008: 89). Commercial enterprises, by comparison, usually do not include social mission within the enterprise and focus rather on financial goals (e.g. profit maximization) (cf. *Ibid.*: 89). Due to the focus on financial, more individual or shareholder orientated (just one group of all stakeholders) goals, commercial enterprises would have to extend their set of goals in order to compete with social enterprises which already incorporate interests of most or all groups of stakeholders and generate public and other goods and services not for themselves but for local or national society with the idea of supporting and building these communities. As social entrepreneurship possesses know-how and determination to help the communities to improve their social welfare, commercial entrepreneurship could strive to become a candidate for improving the current situation by its willingness to operate more sustainable and therewith to reduce (by not causing) those negative effects of high-technological progress of the last century.

For the future research it is interesting to find out at least two things: on the one hand, to explore and suggest better social performance measurement methods, so that social enterprises would gain adequate feedback and use it for its own development; and on the other hand, it has huge relevance to research with which existent or possible invented social business model there could be achieved high scale social impact in communities.

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