Understanding Social Entrepreneurship:

How the Use of Business Disciplines Can Help Social Justice Efforts

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The United Nations released the Sustainable Development Agenda in 2015, challenging governments, nongovernmental organizations (NGOs) and businesses to eliminate poverty, hunger and inequalities and promote sustainable cities, infrastructure and clean energy (United Nations, n.d.). While the achievement of these goals will not reduce all hardships in the world, the initiative demonstrates the necessity of promoting social value sustainably on a global scale. Unfortunately, traditional models of aide (NGOs, governments, and businesses) are only contributing to incremental progress (Porter, 2013), so the issues of the past century are still widespread. To make quick, sustainable progress towards social issues, it is imperative to utilize a new model of aide.

Social entrepreneurship is a new method of promoting social value more effectively than traditional forms of aide. Combining the profit-seeking disciplines of business and the altruistic motivations of philanthropists, social entrepreneurs create shared value, or the combination of social value and economic value (Porter, 2013). Social entrepreneurs’ abilities to both generate and distribute wealth using one model enables scalable solutions to social issues. The philanthropic and business benefits of social entrepreneurship demonstrate the emergence of a new business model, one that can only be powered by the support of consumers and governmental aide.

The works and disciplines of sociologists, business strategists, psychologists, and philosophers outline the roles that social enterprises and social entrepreneurs have in solving the world’s most pressing social justice issues. The first section of this paper will address the
limitations of popular models for aide and further demonstrate the need for social entrepreneurship. The second section will address the effectiveness of social entrepreneurship as a business model and as a model for aide. The third section will argue the need to level the playing field of traditional businesses and social enterprises.

**Traditional Models of Aide and Their Limitations**

The traditional models of aide each have limitations that inhibit their ability to solve social problems like the Sustainable Development Goals which will require $5-7 trillion dollars annually (United Nations, n.d.). The models of NGOs and governments do not strategically redistribute enough wealth to develop long-term solutions as well as for-profit businesses could. Limitations of the traditional models of business lie in the tendency of individual firms to prioritize shareholder value over philanthropic efforts. The consequence of all these limitations is a disparity between what is given and invested and what is needed to solve issues. Reporting on behalf of the United Nations, António Guterres stated that “So far, we are not keeping pace… we need more money to implement the Sustainable Development Goals” (United Nations, 2019). The UN is not the only organization struggling to get funds to solve social issues. Charitable giving in the United States is declining, which is leading to fewer organizations being able to effectively meet social needs (Rosalsky, 2019). The current models of NGOs, governments, and businesses are not contributing enough to social value, as they each have unique limitations.

The models of NGOs have limitations that hinder their ability to scale to meet the current need for social value. The term nonprofit starvation cycle describes one limitation caused by NGO members joining primarily to help people rather than to build organizations with adequate infrastructures. This leads to the frequent struggles of NGOs to focus on and establish an infrastructure that allows them to scale their contributions (Indiana University, n.d.). The cycle is
also attributed to funding limitations and pressures from donors. “The power dynamics between funders and their grantees make it difficult, if not impossible, for nonprofits to stand up and address the cycle head-on” (Groggins-Gregory & Howard, 2009). With the total assets of the entire US nonprofit sector totaling $3.67 trillion in 2018 (McKeever, 2018) and complications from the nonprofit starvation cycle, the nonprofit sector is simply not the most effective solution for solving social justice issues on a global scale.

With increasing deficits and a polarized political environment, governments struggle to allocate the trillions of dollars necessary to solve social justice issues like widespread poverty and hunger (Amadeo, 2019). Additionally, citizens’ reliance on government decisions reduces the autonomy of the individual in their decisions of which social justice causes to support. In a democratic society, citizens elect their representatives based on the alignment of their values. Their alignment on countless stances determines the support received by an electoral candidate; citizens do not prioritize a candidate’s portfolio of philanthropy when they vote. The economic limitations of governments and their reduction of citizens’ autonomy demonstrate that it is vital to also utilize alternative forms of aide.

Traditional businesses have failed to effectively tackle social justice issues, despite having the best equipped model to do so. In his TED Talk, Michael Porter (2013) discusses with his audience the idea that all wealth and resources are generated through business. He states that “Only business can actually create resources. Other institutions can utilize them to do important work, but only business can create them” (Porter, 2013). Despite its essential role in generating all wealth, most traditional businesses are structured around shareholder theory, in which the company’s only concern is generating maximum profit to benefit the shareholder (Bragg, 2019). However, profit itself is neither inherently good nor bad. It is what is done with profits that
should drive people’s opinions of individual companies and measure their contributions to social welfare. If profits are used to eliminate social issues, businesses can truly meet the demand for aide in the world.

The limitations of traditional models of aide illustrate the critical role of social entrepreneurship as the global community strives to reduce and eliminate hardships. Using the profit-seeking disciplines that develop reliable infrastructures in businesses and the progressive mindsets that fuel social innovations, social entrepreneurs represent a new model of giving that could meet the demand for aide.

What Social Entrepreneurship Is

The ability to discern an entrepreneur from a social entrepreneur will enable consumers to develop wise and ethical spending habits by supporting social justice causes with their disposable income. Social entrepreneurship has quickly developed into a buzzword in boardrooms and on college campuses, yet the term is often misused and misinterpreted, creating barriers to the necessary comprehension of the topic that fuels the autonomy of consumers’ purchasing habits. To understand and support the importance of social entrepreneurship, one must understand precisely what social entrepreneurship is and how to identify it.

What distinguishes social enterprises that use social entrepreneurship from traditional businesses goes beyond motivation, as it is not merely the incentives of money and altruism that distinguish one from the other. The value proposition itself is what differentiates the social entrepreneur from the entrepreneur. The social entrepreneur creates a social enterprise, a for-profit firm that promotes value, not for the shareholder but “in the form of large-scale, transformational benefit that accrues either to a significant segment of society or to society at
large” (Martin & Osberg, 2007). One example of a social enterprise promoting social value is the shoe company, TOMS. Rather than only donating some of their extra revenue to charities like traditional businesses, TOMS utilizes a one-for-one model in which the company donates one pair of shoes for every pair of shoes it sells (Buchanan, 2016). Contributing to social value through giving over 60 million shoes to children in need as well as restoring sight to over 400,000 people in need, the company demonstrates the potential of social enterprises’ social impact (TOMS, n.d.). The interconnectedness of aide and value offering in the company’s structure enables it to effectively generate economic value while creating social value as well.

**Altruism Through Strategy**

Social entrepreneurship illustrates an incredibly effective system of scaling philanthropic aide, but it can lead to remarkably effective business decisions as well. Although the business model of social entrepreneurship is relatively new, it is transforming how managers and marketers are viewing traditional practices. The business benefits of social entrepreneurship demonstrate that social enterprises could effectively compete with traditional firms in their industries.

Marketers within social enterprises will be more effective than their competitors working in traditional firms, as social entrepreneurial brands are incredibly effective at establishing brand loyalty. A firm’s use of marketing to associate a brand with another entity is known as “affinity marketing” (Bloom et al., 2006, p. 50), and exposure to a company that affiliates with a social cause a consumer cares about will dramatically improve his/her perception of the brand. Also referred to as purpose marketing, affinity marketing, when used to associate brands with social changes, can prove incredibly useful in attracting consumers through their emotions, encouraging them to become loyal customers (Marshall & Johnston, 2018, p. 54). The effects of
linking social causes to marketing efforts are advantageous for social entrepreneurs planning to compete with dominant brands in competitive industries in which consumers buy goods repeatedly.

The use of purpose marketing also increases the efficiency of marketing efforts. Simon Sinek (2009) further explains the reasoning behind why marketing would work more for firms using purpose marketing in his viral TED Talk, *How Great Leaders Inspire Action*. Sinek (2009) explains that “people don’t buy what you do, they buy why you do it”. Due to the limbic brain’s dominance in most decision-making situations, emotions take control of low involvement purchasing decisions. Marshall and Johnston (2018), Bloom et al. (2006), and Sinek (2009) would all agree that marketing brands that create shared value will attract socially conscious consumers and build powerful loyalty among them. The advantages social enterprises have in establishing brand loyalty demonstrate a unique opportunity for social entrepreneurs and their investors.

A strong benefit of social entrepreneurship is its alignment with consumer demands. A rapidly increasing number of consumers is considering purchases “in a holistic sense” (Fox, 2016), as consumers consider costs on environments, people, and animals in addition to the money they pay at the register. Additionally, psychologists have found that consumers will pay premiums for products that meet needs beyond their own. Prosocial spending explains that when people use their purchasing power to help others, they will be happier and may live longer (Aknin, L. et. al., 2010). Although not all consumers will pay premiums, this psychological universal suggests that social enterprises can still succeed while establishing themselves in their industries. Social enterprises can meet consumers’ demand for businesses that create social value more effectively than traditional businesses can.
Social entrepreneurs are devoted leaders driven by the idea of using business to solve social problems, and this creates significant managerial benefits to using social entrepreneurship. Although most entrepreneurs develop businesses with goals of meeting needs and not merely seeking profits, social entrepreneurs double-down on these goals by using their profits to scale their good works to meet even more needs. While this may not be the most attractive opportunity for an employee working to maximize personal wealth, it entices workers who are driven by the cause they are working for and leaders who genuinely want to solve relevant problems. There is a growing number of companies hiring people whose motivations revolve around making an impact (Vanham, 2016), and social entrepreneurs will not struggle to find these managers and leaders to help their cause. While wealth is a strong motivator for employees in the workforce, money is not the strongest motivator or determinant in where employees seek to work. One of the most prominent intangible assets and motivators is company culture, which, according to Sinek (2009), is what drives a sense of purpose within employees. Developed to drive social change and attain visions of a better world, social enterprises are a source of the sense of purpose that millions of the most dedicated employees are seeking. They attract employees who are intrinsically motivated in their work rather than simply working as a means to earn a living, which leads to less ethical fading and increased employee engagement.

Since social entrepreneurs strive to attain meaningful visions with tangible results, they’re able to inspire both their employees and their customers. Throughout his work The Infinite Game, Simon Sinek (2019) explains that companies need to have “just causes” to work towards and visions that cannot be achieved for generations. It is only with an infinite mindset that business leaders will understand the real purpose of their work and create long-term sustainable practices that last for generations. Social entrepreneurs do not lack that vision and
will not struggle to communicate the purpose of their companies if they are genuinely contributing to social justice effectively. Additionally, to achieve a vision, teamwork, both within and outside of the firm, is essential. Social entrepreneurs will actually maximize their social impact if they actively work with NGOs and governments to deliver value (Porter, 2019). With the willingness and the expertise to optimally contribute to social causes, social enterprises demonstrate an unparalleled opportunity for delivering shared value.

With its benefits impacting the entire value chain of social enterprises, the practice becomes an attractive opportunity for socially conscious leaders and investors to explore. Although the motivations that drive social entrepreneurs won’t be found in everyone, the fear of not being able to contribute to the betterment of society through social entrepreneurship should not limit anyone from pursuing it or supporting it. There are countless opportunities for generating shared value for each of the countless needs of the 21st century, and the success of strategies implemented by social entrepreneurs demonstrate the effectiveness of the practice.

The Ethics of Social Entrepreneurship

Social enterprises demonstrate a level of responsibility that all organizations should aspire to achieve. In an era in which the inner workings of any organization can be made public at any moment, it is vital that companies practice strict codes of ethics that not only obey rules and regulations, but also aspire to contribute to the people and environment around them. Using the Utilitarian model of ethics, it is apparent that social enterprises are responsible forms of organizations.

Purchasing from and investing in social enterprises are opportunities for doing good in the mind of any ethical consumer and businessperson. Throughout his work *Utilitarianism*,
philosopher John Stuart Mill (1863) postulates that the ideal moral philosophy is used when people take actions that reduce the most pain and create the most pleasure in the world. When consumers modify their purchasing habits to align with a Utilitarian mindset, they contemplate their purchasing behaviors before they make them, considering the impact of their decisions on themselves and others. For people following Utilitarianism, supporting social entrepreneurship through purchases or investments is considered ethical decision-making.

The True Role of Profits

Profit is a crucial component in all entrepreneurs’ efforts, and social entrepreneurs are no exception. Wendy Woods (2017) speaks about the importance of profit in her TED Talk The Business Benefits of Doing Good when she states that “the job of business is to meet customer needs and to do so profitably”. The act of meeting needs at a profit also creates all wealth, as Michael Porter (2013) stated in his TED Talk. Since profit is the ultimate factor of a business’s survival in a Capitalistic society, social entrepreneurs effectively develop profitable solutions to social issues but use a significant portion of the profits to meet the needs of others, not just themselves or their shareholders.

When social enterprises utilize profit productively and ethically, they can scale their businesses and generate sustainable solutions to the world’s problems. When companies make profits, they learn that the needs they are meeting are being met sustainably (Porter, 2013), and social entrepreneurs realize this too when they contribute to the development of impoverished and underdeveloped communities. When they earn profits, solutions become scalable and sustainable, which enables social entrepreneurs to bring their solutions to other communities, regions and nations.
Businesses seeking investment will not receive it if they cannot convince others that the value they add is sustainable in the long-run, just as a philanthropist seeking to solve a social issue will not succeed without a plan for longevity. This has been an important issue faced by companies and NGOs for generations, and in the 21st century, with more organizations than ever, they need to instill in investors the confidence that their investments are worth pursuing.

Sambazon is a California-based social enterprise demonstrating the idea that social enterprises can prosper in the long-run. Generating over $50 million in revenue, Sambazon uses its earnings to benefit the lives of over 10,000 family farmers in the Amazon Rainforest while protecting the sensitive region and establishing infrastructure in its communities. Ranked as the 5th fastest-growing private food and beverage company in the US just three years after its incarnation (Cengage Learning, 2009), Sambazon is demonstrating that social enterprises have the capabilities to scale and lead industries as effectively as traditional businesses.

Establishing Social Entrepreneurship as a Norm

Just as financial measurements outline the success of a traditional firm and the support it receives, social enterprises have systems to measure how well they are meeting their goals of helping people. Measuring the successes of social enterprises requires consideration of non-monetary criteria for investors and organizations that care more about lasting impact than short-term profits. Established tools for measuring the profitability and social impact of social entrepreneurship will justify investments and systems of incentives for social entrepreneurs’ pursuit of delivering aide.

Measuring the Impact of Social Entrepreneurship

While the finances of companies have been used to measure the successes for traditional firms, social enterprises have different goals that transcend money and leverage. For sociologists,
economic measurements such as gross domestic product and income levels are not enough to measure efforts towards social justice, as the needs of people and the issues they face are not always economic. Additionally, needs and solutions are frequently unique in different communities, so measurements including quality of education or life expectancy cannot be used universally. Bornstein and Davis (2010) explain that due to the subjective nature of measurements from impacts of social change, “funders have sidestepped them, making decisions based on anecdotal evidence, personal preference, or political exigency,” (p. 63). With only a few systems of measurement at their disposal, consumers need to skeptically look at companies’ missions and initiatives to fully understand the impact of their work.

One commonly proposed solution to the issue of measuring the social impact of companies is the triple bottom line, which reports companies’ contributions to profit, socioeconomic prosperity, and environmental longevity. However, this methodology is unreliable, as it is too broad and presents opportunities for companies to deceive consumers and investors. Researchers Kaushik Sridhar and David Jones (2012) state that since there is no mandatory standard for reporting these metrics, companies choose to handpick their most favorable metrics “while ignoring those that cannot be measured or those that could possibly show a darker side of the corporation in terms of their sustainability initiatives” Practicing greenwashing, some companies report their positive impacts on the environment to mask the injustices they create, which dissolves trust between consumers and businesses (Moritz-Rabson, 2019). One alarming example of greenwashing is Volkswagen’s ad campaign that promoted the company’s technology that emitted fewer pollutants. In reality, Volkswagen used a tool called a defeat device, designed and implemented to help cars pass emissions tests, despite the cars’ emissions totaling up to 40 times the legal limit of the United States (Faizal, 2019). Since the
triple bottom line resembles a marketing initiative more than it resembles a legitimate measurement of social contribution, it is not sufficient in determining how well a company is performing.

Through the recent development of innovative tools that measure the impact of social organizations, consumers and investors can play a more educated role in the development of the right companies and the right causes. The development of web tools has proved to be useful in consumers’ assessment of the impact of social changes. Web tools including the Impact Reporting and Investment Standards and the Pulse portfolio management system have recently been developed and supported by companies including Google, Deloitte Consulting, and Salesforce to facilitate the decision-making processes of investors concerned primarily with supporting societal changes (Bornstein & Davis, 2010, p. 65). These tools can be used by investors and consumers alike to increase their autonomy in deciding what companies and causes they wish to promote and support.

The business landscape is not known for being driven by emotion or sympathy, but social entrepreneurs along with their investors and consumers may find it beneficial to use both logic and emotion to assess firms. Discussing the tools for measuring the effectiveness of social enterprises, Bornstein and Davis (2010) state that, “Just as it takes two eyes to see in three dimensions, it is only by combining data and storytelling, and by appealing to reason and emotion, that social entrepreneurs convey the true impact of their work” (p. 67). This reflects the findings of Simon Sinek (2009) about the limbic brain’s role in decision-making. Although they may not always present a clear outcome of their aide or have the highest return on investment, social enterprises pitch ideas necessary for the development of domestic and global communities.
The Future of Social Entrepreneurship

The widespread acceptance and promotion of social entrepreneurship will facilitate consumers’ and governments’ desires to generate shared value. The proliferation of social entrepreneurship and its competition with traditional firms would contribute to what Michael Porter (2013) refers to as “a higher kind of Capitalism. It’s Capitalism as it was ultimately meant to be, meeting important needs, not incrementally competing for trivial differences in product attributes and market share”. Through social entrepreneurship, consumers have the autonomy to choose which businesses to support and the causes they contribute to. Not only would this reduce the amount of responsibilities faced by governments, it would enable the trillions of dollars within the business sector to be distributed to deliver social value.

The success of social entrepreneurship can only happen through effective competition with traditional for-profit firms. Without the same commitments to ethics and fair compensation found in the business models of social enterprises, traditional firms have an established economic advantage over their socially conscious counterparts. Although they have the potential to become industry leaders as Sambazon has become, most social enterprises will have to compete with dominant firms in competitive markets. Competing against firms that only prioritize creating value for shareholders, social enterprises are at an economic disadvantage, as their bottom lines are heavily impacted by their good deeds. To facilitate social enterprises’ competition with traditional firms, governments should institutionalize benefits for socially conscious businesses based on their ability to generate shared value.

Tax incentives for social enterprises would lower their costs and increase their profits, which would allow them to compete with traditional firms on price and contribute more social aide directly. Consequentially, traditional firms would not have these incentives, making prices
more competitive and, in the short run, provide more revenue to governments. This initiative is limited by the close relationship between politicians and powerful companies. However, its implementation would ultimately contribute more to the betterment of nations and their communities than does the current practice of governments giving tax incentives to wealthy corporations. Implementing a tax incentive for social enterprises would allow social entrepreneurs to compete with traditional businesses more effectively than they do currently and contribute even more to the elimination of social justice issues.

Conclusions

Initiatives like the UN’s Sustainable Development Goals require $5-7 trillion annually, and the traditional models of aide like governments and NGOs along with philanthropic donations from businesses are not ideal in meeting a demand that substantial. With the most promising model of generating and distributing wealth, for-profit firms stand the best chance of solving social justice issues if they structure their businesses around social entrepreneurship. Businesses that deliver shared value effectively will be able to scale their contributions and profit effectively while generating shared value.

The business benefits of social entrepreneurship demonstrate that social entrepreneurs do not eliminate profitability when generating shared value, as there are advantages to managers, marketers, shareholders and consumers found in the social entrepreneurship model. Benefits including increased employee engagement and marketing efficiency demonstrate that once they’re well-established in their industries, social enterprises could perform better than their traditional competitors. These for-profit firms may not appeal to investors looking for short-term gains, but their devotion to long term, sustainable change is worth investing in.
Consumers’ increasing support of just causes through their purchasing habits and the successful implementation of social entrepreneurial models indicate that governmental support for social enterprises is warranted. Although more research is necessary to develop a tax incentive plan based on measurements of social enterprises’ contributions to shared value, the concept of tax incentives would allow social enterprises to compete with traditional firms more effectively and contribute to an enhanced form of Capitalism. When social enterprises can compete with traditional firms, they will ethically and sustainably contribute to social justice developments on a global scale.
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