



THE JOSSEY-BASS HANDBOOK OF  
NONPROFIT  
LEADERSHIP AND  
MANAGEMENT

FOURTH EDITION

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& ASSOCIATES

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social venture into a viable enterprise that has greater potential for becoming sustainable and successful. Helm offers a thorough explanation of the process of business planning for social ventures, including how nonprofits can use the concepts and practices of business planning to effectively operationalize their visions for community service and impact.

Each of the last four chapters in this part of the *Handbook* explains a specific element of the larger process of leading and managing a nonprofit organization, including how each links to longer-term nonprofit success. In Chapter Thirteen, Brenda Gainer explains nonprofit marketing, the discipline that enables us to understand how to effectively develop and manage relationships and engage in the exchanges that every enterprise (nonprofit and for-profit) must develop with its key constituents, clients, and stakeholders to survive. Gainer describes the key elements of nonprofit marketing and explains the most important ways in which nonprofits can use marketing concepts and practices to advance their impact.

One of the most important and underutilized of exchange relationships in the nonprofit world is that of advocacy. In Chapter Fourteen, Marcia A. Avner explains the advocacy process, including but not limited to the practice of lobbying, and discusses the most effective approaches that nonprofits can employ to engage constituents and exercise influence in governmental policy processes to have an impact on legislation and policy that will affect their work and, often, their clients' lives. In Chapter Fifteen, James E. Austin and M. May Seitanidi offer a new perspective on collaboration and how nonprofits can understand and develop valuable collaborative relationships and alliances—alliances that have the greatest potential for generating additional benefit and impact for all partners. In a world where it takes collaborative and collective action to achieve some of the most important of social outcomes, Austin and Seitanidi's framework offers useful guidance for how to assess and develop the most productive and valuable options.

Of course, the press for nonprofits to show that the work they and their programs do makes a difference requires that nonprofit leaders and managers understand how to assess and communicate about the performance and impact of these programs. With the widespread and growing demands for nonprofits to be highly accountable and provide evidence of performance (as Ebrahim discusses in Chapter Four), nonprofit organizations must develop and maintain systematic ways to analyze and report on program and organizational effectiveness, and this work is addressed in the final chapter of Part Three, Chapter Sixteen by John Clayton Thomas. Program evaluation represents work at the intersection of management and accountability. Thomas explains the core principles of program evaluation, offers guidance for how nonprofits can most pragmatically assess program effectiveness and results, and discusses the basic approaches that agencies often employ to assess outcomes and evaluate programs.



## CHAPTER ELEVEN

# SOCIAL ENTREPRENEURSHIP AND SOCIAL INNOVATION\*

Matthew T. A. Nash

*What business entrepreneurs are to the economy, social entrepreneurs are to social change. They are the driven, creative individuals who question the status quo, exploit new opportunities, refuse to give up, and remake the world for the better.*

DAVID BORNSTEIN, HOW TO CHANGE THE WORLD: SOCIAL ENTREPRENEURS AND THE POWER OF NEW IDEAS

Few concepts in the social sector have caught on as quickly and have captured the imagination of so many, or have been the subject of such intense debate, as has social entrepreneurship. For the first time in human history, within just a few keystrokes on a computer and from the embarrassing comfort of our homes, we have the ability to witness the horrors of widespread hunger, intractable and epidemic disease, gripping poverty, entrenched conflicts, global climate change, unimaginable natural disasters, and inevitable economic turbulence and

\*I am indebted for the definition of social entrepreneurship and for the formulation of much of the material on social entrepreneurship theory to my colleague, the late J. Gregory Dees, who was professor of the practice of social entrepreneurship and founding faculty director of the Center for the Advancement of Social Entrepreneurship (CASE) at Duke University's Fuqua School of Business, and who was widely recognized as the pioneer of social entrepreneurship research and education. This chapter draws heavily on his work and that of our current and former colleagues at CASE, especially Paul N. Bloom, Beth Battle Anderson, and Catherine Clark.

dislocation. Against this sobering backdrop have emerged a new generation of “social entrepreneurs”—those some have called “new heroes” (Byker, Stuart, Cohen, et al., 2005) or “unreasonable people,” possessed of a relentless drive to pioneer breakthrough approaches to some of the world’s most pressing problems (Elkington and Hartigan, 2008). Many of these social entrepreneurs draw upon and adapt principles, practices, and models from the business world, blurring the traditional boundaries between the public, private, and social sectors.

Although the concept of social entrepreneurship started to gain serious attention in the mid-1990s, the field has gained the momentum of a social movement over the past ten years. Social entrepreneurs have garnered public attention as recipients of prestigious prizes such as the MacArthur “genius awards,” the Presidential Medal of Freedom, and even the Nobel Peace Prize; and stories about social entrepreneurs now appear regularly in newspapers and magazines such as *The New York Times*, *The Economist*, and the *Financial Times*. By many accounts, David Bornstein’s 2004 book, *How to Change the World: Social Entrepreneurs and the Power of New Ideas*, and his subsequent focus on “solutions journalism” may deserve the greatest credit for inspiring the public’s admiration of these social innovators.

Since the first known course on social entrepreneurship was offered by J. Gregory Dees at Harvard Business School in the early 1990s, scores of other universities have offered courses or started research initiatives on social entrepreneurship. Networks such as Ashoka’s Changemaker Campus Consortium bring together faculty, administrators, and faculty to share promising practices in education and research. New academic journals such as the *Stanford Social Innovation Review*, *Innovations* (MIT) and the *Journal of Social Entrepreneurship* (Oxford) have emerged to provide a much needed forum for academic discourse. Numerous innovation competitions have emerged to challenge college students to pursue innovative solutions to social problems, such as the Hult Prize, Berkeley Big Ideas, VentureWell, and the Clinton Global Initiative University program, and new kinds of student organizations such as Net Impact, Compass Fellows, StartingBloc, and Design for America inspire their young members to pursue careers that achieve a social and environmental impact in addition to financial returns.

As some social entrepreneurs experiment with business models that aim to achieve a “blended value” of social, environmental, and economic impact, entirely new forms of corporate structure are being advanced, such as the “community interest company” in the United Kingdom, the “social business” proposed by Muhammad Yunus, and the low-profit limited liability company (L3C) and for-benefit “B corporation” in the United States.

The embrace of social entrepreneurship has crossed boundaries into the business sector, where a growing number of companies engage in partnerships with social entrepreneurs—some as a more fundamental approach to philanthropy and “corporate citizenship” that is strategically aligned with their corporate missions and values, some as a strategy to develop new business models and access new markets at the base of the economic pyramid (Chesbrough, Ahern, Finn, and Guerraz, 2006), and some to pursue other opportunities that may generate social and economic value (Austin, Leonard, Reficco, and Wei-Skillern, 2006).<sup>1</sup> Rising social entrepreneurs regularly rub elbows with top corporate executives and government leaders at the World Economic Forum at Davos.

Perhaps the most influential vote of confidence in the promise of social entrepreneurship came from President Barack Obama, who established in 2009 the White House Office of Social Innovation in fulfillment of a campaign pledge to identify the most promising, innovative, results-oriented social innovations and support their replication across the country. Committed to investing in “what works,” the Office, in partnership with the Corporation for National and Community Service, launched in 2010 the Social Innovation Fund to deliver growth capital needed to enable programs with demonstrated results to scale their impact. Under the Obama Administration, agencies across the federal government embraced social entrepreneurship, innovation, and human centered design, with exemplars such as the Investing in Innovation Fund at the Department of Education and the Global Development Lab at the U.S. Agency for International Development.

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### Social Entrepreneurship Is Responding to the “New Realities”

For those who believe that social entrepreneurship represents an important new lens through which to view social change, these developments are encouraging, perhaps even exhilarating. However, the concept of social entrepreneurship did not arise in a vacuum.

One important historical shift that may be contributing to the ascent of social entrepreneurship, at least within the United States, is a widespread recognition of the limits of top-down government solutions to social problems. In the social sector, philanthropy and development aid continue to move away from simple charity and toward more pragmatic, results-oriented strategies, perhaps driven in turn by an engaged citizenry that increasingly demands lasting solutions.

Over the past two decades, as nonprofits competed for limited dollars from government and philanthropic funders, a growing number of organizations began to adopt market-driven approaches and experiment with practices drawn from the business sector, including the launch of earned-revenue ventures, (both mission-related social enterprises and unrelated businesses).<sup>2</sup>

As societies seek to harness private initiative, ingenuity, and investment to find new and better ways to solve social problems, the concept of social entrepreneurship captures the spirit of that search. It reflects broader and deeper social trends that are driving change in how we approach social problems. The rapid growth in popularity of social entrepreneurship can be seen, at least in part, as one response to these trends. Whether it will grow into a significant expression of a new mindset remains to be seen. It depends, in part, on the ability of proponents of social entrepreneurship to capitalize on these propitious circumstances (CASE at Duke, 2008).

## What Is Social Entrepreneurship?

The concept of “social entrepreneurship” is relatively new, even if the practice arguably has been around for a very long time. As with many new concepts, its definition is open to debate. Different people and organizations use the term differently, and the number of academic definitions escalates each year as scholars endeavor to refine and clarify the concept. This discourse is healthy, as definitional disputes are common in many fields. Indeed, the term *entrepreneurship* has been around for more than two hundred years, but dozens of definitions circulate in scholarly literature, contributing to the debate within the field of social entrepreneurship.

Reviewing the development of the field of social entrepreneurship, Dees and Anderson trace the evolution of two major schools of thought and practice—*social enterprise*, which tends to focus on the application of business practices in the social sector, including the generation of earned revenue to serve a social mission, and *social innovation*, which is focused on establishing novel and more effective ways to address social problems or meet social needs. “While these schools are often conflated in popular discourse, they reflect different perspectives, priorities, and, to some extent, values. At times, their proponents have been at odds. But both schools have been critical to the growth of the field of social entrepreneurship” (Dees and Anderson, 2006, p. 41).

## The Social Enterprise School of Thought

Typifying the “social enterprise school” of thought are those who subscribe to the conventional definition of entrepreneurship as the act of starting a business. Indeed, the Merriam-Webster dictionary online defines “entrepreneur” as “one who organizes, manages, and assumes the risks of a business or enterprise” ([www.merriam-webster.com](http://www.merriam-webster.com)). Columbia Business School Professor Amar Bhidé concurs: “Following common usage, I call individuals who start their own businesses entrepreneurs. Theorists attribute a variety of functions to entrepreneurs, such as coordination, risk-taking, innovation, and arbitrage. . . . I refrain from debating which of these roles are truly ‘entrepreneurial’” (2000, pp. 25–26).

The rise of social enterprise in the 1980s and 1990s came about as a result of an increasing interest among nonprofit organizations in finding new sources of revenue to supplement donor and government funding, as well as by a desire among some business executives to promote the provision of human social services by for-profit companies (Dees and Anderson, 2006). An important emphasis among adherents of the social enterprise school is the blurring of the lines between the business and social sectors, often through experimentation with market-based solutions to social problems that seek to align economic and social value creation. One example is the launch of earned revenue ventures, both mission-related enterprises that aim to create social and economic value and enterprises unrelated to the mission and with the main purpose of making money to subsidize more direct social purpose activities.

## The Social Innovation School of Thought

Although it may be commonplace to think of an entrepreneur as someone who starts and runs a business, many scholars contend that the definition of social entrepreneurship should be grounded in a more robust interpretation drawing upon the rich tradition of scholarly research and writing on the concept of entrepreneurship.

**The Nature of Entrepreneurship.** The term *entrepreneur* was first introduced in the 18th Century by French economists, who drew upon the word *entreprendre* from Old French, meaning “to undertake.” According to Jean-Baptiste Say (1803), “entrepreneurs” are value creators who shift resources from areas of lower into areas of higher productivity and yield. Although the precise

definitions of the terms *entrepreneur* and *entrepreneurship* have been debated ever since, these terms have almost always been reserved for the business context. Writing in the first half of the 20th Century, Austrian economist Joseph Schumpeter (1934) suggested that entrepreneurs perform their value-creating function through innovations, the carrying out of “new combinations” (pp. 65–66), including the creation of a new good or service as well as producing and delivering an existing good or service in a new way or to a new market. Schumpeter declared: “the function of entrepreneurs is to reform or revolutionize the pattern of production” (p. 132).

More recently, leading management scholar Peter Drucker pointed out that entrepreneurs constantly search for and exploit the opportunities created by change (in technology, consumer preferences, social norms, etc.) (Drucker, 1985). Put another way, entrepreneurs have a mindset that sees the possibilities rather than the problems created by change. Howard Stevenson carried this idea further, observing that entrepreneurs pursue these opportunities without being limited by the resources they have in hand; instead, entrepreneurs mobilize resources from others to achieve their objectives (Stevenson and Gumpert, 1985).

Although these scholars were writing about business entrepreneurs, their theories—and the skills, practices, and mindset of an entrepreneur—apply equally as well in the social sector. In this way, a social entrepreneur can be thought of as one type of entrepreneur. Simply put, social entrepreneurs are entrepreneurs whose “business” (or mission) is to achieve social impact. A business entrepreneur may seek to create economic value for private benefit, whereas social entrepreneurs seek above all to create social value for the benefit of society; they measure their productivity in terms of social impact and seek a social return on investment.

**Social Innovation.** Proponents of the “social innovation school” assert that social entrepreneurs combine the opportunity orientation identified by Drucker, the innovation as revolutionary change agents as described by Schumpeter, and create value through new and better ways of doing things, as described by Say, although the value that the social entrepreneur seeks to create and sustain is social value. According to this view, social entrepreneurs are individuals who reform or revolutionize the patterns of producing social value, shifting resources into areas of higher yield for the benefit of society. Adherents to the social innovation school do not restrict their definition of social entrepreneurship to the nonprofit sector. Instead, the selection of legal form of incorporation—nonprofit, for profit, cooperative, or hybrid—is seen

as an important tactical decision that the social entrepreneur must make when crafting the strategy for attracting resources and when considering various restrictions associated with each form of incorporation.

In a similar spirit, and building on the scholarly literature on entrepreneurship, in the widely cited “The Meaning of Social Entrepreneurship” (1998b, rev. 2001), Dees elaborates on the proposition that social entrepreneurs play the role of change agents in the social sector, seeking to create systemic changes and sustainable improvements, by:

- Adopting a mission to create and sustain social value (not just private value)
- Recognizing and relentlessly pursuing new opportunities to serve that mission
- Engaging in a process of continuous innovation, adaptation, and learning
- Acting boldly without being limited by resources currently in hand
- Exhibiting a heightened sense of accountability to the constituencies served and for the outcomes created

#### **Social Entrepreneurship Is About Innovation and Impact, Not Income**

Having worked in this field for a while, I am always delighted to find that people are increasingly familiar with the term *social entrepreneur*. Too often, however, they identify social entrepreneurship with nonprofits generating earned income. When the Schwab Foundation for Social Entrepreneurship named Linda and Millard Fuller of Habitat for Humanity and Wendy Kopp of Teach for America, among others, as outstanding social entrepreneurs, it must have confused many people. Both organizations are well known, but neither of them is known for its earned income strategies. They rely heavily on grants and donations. In fact, these social entrepreneurs are masterful at attracting philanthropic donations. What makes them entrepreneurial is that each of them has pioneered creative ways of addressing social problems and marshaled the resources to support their work. Habitat mobilizes volunteers to build affordable houses for the poor. Teach for America recruits talented college graduates to teach in economically distressed schools. Schwab was following a view long endorsed by Bill Drayton at *Ashoka* that social entrepreneurship is about innovation and impact, not income. This view is well grounded in entrepreneurship theory (see my paper on “The Meaning of Social Entrepreneurship” [Dees, 2001]) but not sufficiently.

Despite efforts to spread an innovation-based definition, far too many people still think of social entrepreneurship in terms of nonprofits generating earned income. This is a dangerously narrow view. It shifts attention away from the ultimate goal of any self-respecting social entrepreneur, namely social impact, and focuses it on one particular method of generating resources. Earned income is only a means to a social end,

and it is not always the best means. It can even be detrimental—taking valuable talent and energy away from activities more central to delivering on the organization's social mission. Though it is very popular right now, it is just one funding strategy among many and must be assessed on a case-by-case basis. The key is finding a resource strategy that works.

Focusing on earned income leads people to embrace the problematic idea of a "double bottom line." Profits should not be treated with equal importance to social results. No amount of profit makes up for failure on the social impact side of the equation. Any social entrepreneur who generates profits, but then fails to convert them into meaningful social impact in a cost-effective way has wasted valuable resources. From a management point of view, the financial "bottom line" is certainly important, but it is not on the same level as social impact. Social entrepreneurs have only one ultimate bottom line by which to measure their success. It is their intended social impact, whether that is housing for the homeless, a cleaner environment, improved access to health care, more effective education, reduced poverty, protection of abused children, deeper appreciation of the arts, or some other social improvement.

Many activities that generate earned income are not entrepreneurial at all. Earned income has become commonplace. In fact, if religious congregations are excluded, earned income has exceeded donations as a source of funds for public charities in the United States for many years now. Hospitals charge fees for medical services; private schools charge tuition; performing arts groups sell tickets; many museums charge admission and often have gift shops in their lobbies. No one thinks of these practices as examples of "social entrepreneurship" even though they all involve generating earned income. It would be absurd to give a social entrepreneurship award, for instance, to a major hospital simply because of its extremely high percentage of earned income from patient fees and the record profits at its gift shop and parking garage. Yet, this would be a logical implication of taking earned income as the yardstick of social entrepreneurship. High levels of earned income are often not innovative and may not be correlated with high levels of social impact.

Any form of social entrepreneurship that is worth promoting broadly must be about establishing new and better ways to improve the world. Social entrepreneurs implement innovative programs, organizational structures, or resource strategies that increase their chances of achieving deep, broad, lasting, and cost-effective social impact. To borrow from J. B. Say, the eighteenth century French economist who first popularized the term *entrepreneur*, they shift resources into areas of higher productivity and yield. Habitat persuades volunteers to shift their time from recreational activities to building a house. Teach for America persuades bright college graduates who did not major in education to devote two years of their careers to teaching in schools that have a difficult time finding teachers. This resource-shifting function is essential to progress. As Peter Drucker (1985) has said, "What we need

is an entrepreneurial society in which innovation and entrepreneurship are normal, steady, and continuous."

Of course, some exciting forms of social entrepreneurship use earned income strategies to achieve social impact. We should encourage social sector leaders to explore innovative financial strategies that make their organizations more effective in serving social needs while leveraging social assets. Creative efforts to harness business methods to serve social objectives are often entrepreneurial in the best sense of that term. Consider Grameen Bank that was built around an innovative approach of using peer groups to improve the economics and effectiveness of micro-enterprise lending as a tool to fight poverty in Bangladesh. Or consider Delancey Street Foundation, a residential community of hardcore substance abusers in San Francisco that runs several businesses to provide productive employment to community members and generate funds for the organization. These are powerful examples of how social sector leaders can blend business methods with social objectives. What makes them entrepreneurial is not the source of income, but their innovations and their impact.

Earned income ventures are socially entrepreneurial only when they have a social purpose beyond simply making money. If social entrepreneurship is to be distinctive in any way, it must be because social objectives matter in how the venture is organized and managed. If the only way a venture serves your mission is by generating funds, it may be business entrepreneurship, but it is not social entrepreneurship. If I start a bakery to make money that will be used to support my sailing hobby, we do not call the bakery a "sailing venture." Likewise using the proceeds of the bakery for a social purpose does not make it into a "social" venture. It is a social venture only if social considerations are integrated into its objectives and management. A purely moneymaking venture can be managed using straight business principles. It makes no difference if the owner intends to use the cash generated by the venture to buy a bigger sailboat or to serve the homeless. True social ventures often require a more complex skill set than straight business ventures.

Only if we can embrace a definition of social entrepreneurship that focuses on innovation and impact can we put funding strategies in their proper perspective. It is not surprising that people are drawn to the earned income definition of social entrepreneurship. Resources are scarce and social needs are great. Everyone wants to explore new avenues for generating resources and earned income seems promising. Unfortunately, some social sector leaders appear to be more concerned about attracting resources and sustaining their organizations than they are about assessing, sustaining, and improving their social impact. They assume they are doing a great job on the social side and that they deserve the additional funding, often without much systematic evidence. These are risky assumptions. Finding ways to sustain organizations that are not cost-effectively delivering social value is a terrible waste of energy and resources. Social sector leaders should look for creative resource strategies that enhance their impact, rather than simply sustain their organizations. By embracing a definition of social entrepreneurship that focuses on innovation and impact, we can



assure that social objectives are taken seriously in the entrepreneurial process. In the end, social entrepreneurship must be about creating social value, not simply about making money.

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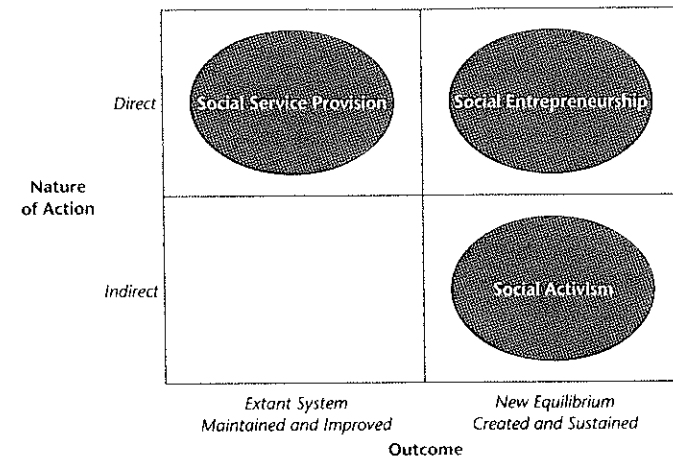
**The Imperative of Systemic Change.** One important tenet of the social innovation school is that social entrepreneurship aims to effect large scale, sustainable, and systemic change. Writing in the *Stanford Social Innovation Review* in 2007, Martin and Osberg argued that social entrepreneurship is characterized by three fundamental components:

- Identifying a stable but inherently unjust equilibrium that causes the exclusion, marginalization, or suffering of a segment of humanity that lacks the financial means or political clout to achieve any transformative benefit on its own
- Identifying an opportunity in this unjust equilibrium, developing a social value proposition, and bringing to bear inspiration, creativity, direct action, courage, and fortitude, thereby challenging the stable state's hegemony
- Forging a new, stable equilibrium that releases trapped potential or alleviates the suffering of the targeted group, and through imitation and the creation of a stable ecosystem around the new equilibrium ensuring a better future for the targeted group and even society at large (p. 35)

Martin and Osberg draw a strong distinction between social entrepreneurship and two other forms of social engagement—social activism and social service provision—noting that the former is an indirect form of social engagement and arguing that the latter does not set out to achieve and sustain a new equilibrium (see Figure 11.1). Acknowledging the distinctive value that each form of social engagement brings to society, Martin and Osberg note that social activists, social service providers, and social entrepreneurs may borrow and adapt one another's strategies and develop hybrid models.

The emphasis on transformational systems change, at the core of this definition of social entrepreneurship, has long been championed by Bill Drayton, who is arguably the primary driving force advancing the social innovation school of thought. In 1980, Drayton founded Ashoka, the global network of leading

FIGURE 11.1. Pure Forms of Social Engagement



Source: Martin and Osberg, 2007. Reprinted with permission.

social entrepreneurs, and he framed its mission to find and support "outstanding individuals with pattern setting ideas for social change" (Drayton & MacDonald, 1993, p. i). Setting a high standard for those who would consider themselves social entrepreneurs, Drayton asserts: "The job of a social entrepreneur is to recognize when a part of society is stuck and to provide new ways to get it unstuck. He or she finds what is not working and solves the problem by changing the system, spreading the solution and persuading entire societies to take new leaps. Social entrepreneurs are not content just to give a fish or teach how to fish. They will not rest until they have revolutionized the fishing industry" (Leviner, Crutchfield, and Wells, 2006).

## Toward a Shared Theory of Social Entrepreneurship

It is easy to see how these points of difference can lead to significant confusion over what "counts" as social entrepreneurship and what does not. Shared definitions will likely emerge from a give-and-take process among thought leaders in the field and the media outlets that popularize the term. In order to propel

this field forward, we must find definitional solutions that increase precision and clarity while allowing healthy disagreements, respecting different perspectives. Too broad a definition will dilute the focus of the community, but too narrow a definition could exclude too many and result in a field that is "too special" for mainstream attention.

A vibrant and diverse community of practice is emerging, including those who embrace all the different definitions mentioned above. In order to maintain the interest, commitment, and participation of key players, while also allowing for academic discourse to advance the state of knowledge within the field, we should pursue a path forward that balances increased clarity with openness and respect for differences and that frames this emerging field of inquiry in a way that builds upon the rich work of reflective practitioners and scholars who have led the way thus far.

For those in the field with a vested interest in resolving the confusions about definitions, CASE has suggested the following guidelines (CASE at Duke, 2008):

- Clearly distinguish "social entrepreneurship," focused on innovation in social value creation, from "social enterprise," focused on the use of business methods to generate income.
- For the foreseeable future, define the community of practice and knowledge to include both social entrepreneurship and social enterprise.
- Find a vocabulary to distinguish the different forms of socially entrepreneurial behavior (that is, to distinguish independent start-ups led by one or two people from organizations engaged in finding innovative solutions to social problems) and the revolutionaries, aiming for major systemic change, from the reformers, aiming for more incremental improvements.
- Recognize the importance and legitimacy of all these forms of entrepreneurial behavior, and acknowledge that they have enough problems, concerns, and passions in common to be part of a shared community of practice and knowledge.
- Respect that it is healthy for key community participants to focus their work on forms of socially entrepreneurial behavior that they deem most important, interesting, and a good fit for them.

These guidelines should allow for the development of a diverse and vibrant community with some critical mass but without all the confusion that currently exists in the field. Participants need to respect honest differences while working together to help find new and better solutions to social problems.

As in many fields, consensus on a basic definition of the field may not emerge for some time. However, the critical need for rigorous research and high-quality teaching requires the field to make advances in the absence of full consensus. Observing encouraging signs of convergence between the two main schools of thought, CASE proposes a way of framing this new field of inquiry that raises a distinctive set of intellectual questions that cut across disciplinary boundaries. Dees and Anderson contend that the most promising arena for academic inquiry lies at the intersection of social enterprise and social innovation, which they identify as "enterprising social innovation," defined as "carrying out innovations that blend methods from the worlds of business and philanthropy to create social value that is sustainable and has the potential for large-scale impact" (Dees and Anderson, 2006, p. 50). This framing forces scholars and practitioners to acknowledge the intimate connection between social and economic realities and the role of markets in the social sector. "In order to be considered 'enterprising,' the innovation must involve some business-inspired elements, whether through the adaptation of business methods to create or enhance social value, the operation of a social-purpose business, or the formation of cross-sector partnerships" (p. 51).

This framing on ventures that blend business and philanthropic methods has the potential to raise theoretically interesting questions and engage a broad range of scholars working in diverse disciplines and domains. Selected areas of academic inquiry could include:

- Aligning market dynamics with social outcomes
- Strengths and limits of different economic strategies (philanthropic and commercial)
- Role of different legal forms of organization
- Bias toward commercial market solutions
- Competitive advantage of social orientation
- Market discipline and accountability
- Efficiency in the social sector capital markets

Observing the accelerating trend of blurring of the boundaries between the public, private, and social sectors, Dees and Anderson call upon academics and thoughtful practitioners to seek to understand better what may lie ahead for the field of social entrepreneurship. "If we do not deepen our knowledge of these kinds of approaches, we are likely to fumble around in the dark, making more mistakes than necessary. Success will depend on a better understanding of how to effectively combine elements from the business world and the social sector, and how to recognize the limits and risks. This arena is where we should focus



most of our limited time and resources. Doing so will not only serve both schools of thought and academia well; more importantly, it will be of great value to society." (p. 61)

## The Process of Social Entrepreneurship: Creating Worthy Opportunities

All acts of entrepreneurship start with the recognition of an attractive opportunity (Stevenson and Gumpert, 1985). All entrepreneurs, whether business or social entrepreneurs, must uncover or create new opportunities through a dynamic design process of exploration, innovation, experimentation, and resource mobilization (Dees, 2007). The difference for the social entrepreneur is an opportunity worthy of serious pursuit must have sufficient potential for positive social impact in order to justify the investment of time, money, and energy required to pursue it seriously. Social entrepreneurs must have the same commitment and determination as a business entrepreneur, plus a deep passion for the social cause, minus an expectation of significant financial gains.

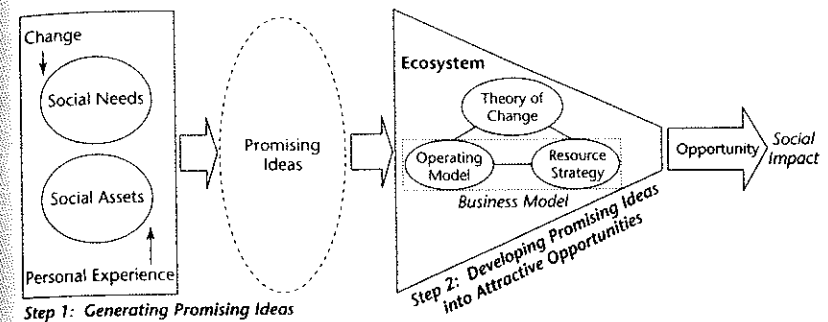
Drawing extensively upon the work of Guclu, Dees, and Anderson (2002), in the following pages we will discuss a useful process framework that social entrepreneurs may use to guide the discovery or creation of such an opportunity. This process is illustrated in Figure 11.2.

### Step 1: Generate Promising Ideas

For entrepreneurs, whether business entrepreneurs or social entrepreneurs, the entrepreneurial journey begins with a promising idea. Although ideas commonly have their roots in personal experience, in identifying, exploring, and developing promising ideas, the social entrepreneur may also draw upon his or her understanding of social needs, social assets, and relevant changes in society.

**Personal Experience.** Personal experience often motivates, inspires, or informs the idea generation process. Not surprising, many successful new venture ideas arise from the entrepreneur's education, work experience, and hobbies (Vesper, 1979). It is important to note that relevant experience does not have to be in the same field in which the new venture would operate. Sometimes experience and knowledge of practices in other fields can help the social entrepreneur see new ways of doing things.

FIGURE 11.2. The Opportunity Creation Process



Source: Adapted from Guclu, Dees, and Anderson, 2002.

Dissatisfaction with the status quo often spurs entrepreneurial creativity, prompting social entrepreneurs to look for new approaches to problems and frustrations they have encountered personally, witnessed among family or friends, or seen on the job. Some social entrepreneurs point to a "moment of obligation" a time when they were confronted by a problem or issue and realized that they had to take action, whereas other social entrepreneurs undertake an intentional, systematic search for a problem to address.

**Social Needs.** Sound entrepreneurial ideas respond to genuine needs. For business ventures, these are unmet or poorly met consumer needs. Likewise, social entrepreneurs would be wise to look beyond their personal preferences in the search for promising ideas, basing them on an understanding of social needs, gaps between socially desirable conditions and the existing reality. They rest on some vision of a better world and are grounded in personal values. These values can provide a sense of moral imperative that may serve as a powerful motivator for social entrepreneurs and their ideas. Calling to mind the famous quote from Robert Kennedy, social entrepreneurs are unwilling to settle for the status quo; instead, they "dream of things that never were, and ask why not?"

Although the impetus for some ventures can be traced back to an accidental discovery or serendipitous occurrence, an exciting development in the field of social entrepreneurship has been the increasing incorporation of the principles and practices of *human-centered design* to identify needs and wants experienced by

stakeholders and to co-create appropriate solutions that are desirable, feasible, and viable given the local context. These interactive methods of needs-finding emphasize contact, observation, and empathy with end-users to develop insights that will lead to more effective solutions. In particular, the design firm IDEO and the Hasso Plattner Institute of Design at Stanford University (also known as the "d.school") have been leading proponents of this approach that has been embraced by organizations as large as UNICEF and as small as local, grassroots initiatives.

**Social Assets.** Understanding the tangible and intangible assets in a community—local knowledge, social networks, cultural norms, and other resources—can lead to the development of promising ideas. Although it is important to ground ideas for new ventures in a plausible diagnosis of social needs, there is a danger of over-emphasizing the negative. Some argue that the social sector concentrates too much on needs and that better ideas emerge out of an appreciative focus on assets. The latter presents the community in a new light and may inspire creative new ideas that would not be visible if social entrepreneurs looked only at needs or "problems."

**Change.** It is common to think of entrepreneurs as creating change, but entrepreneurs are often inspired by the changes all around them. Peter Drucker has argued entrepreneurs "always search for change, respond to it and exploit it as an opportunity" (Drucker, 1985). In framing their ideas, social entrepreneurs may be stimulated by changing demographics, values, cultures, technologies, industry structures, economies, knowledge, public policies, and preferences. These changes can create new needs, new assets, or both, opening up new possibilities and prompting social entrepreneurs to generate promising new ideas.

**Step 1 Summary.** Personal experience, social needs, social assets, and change can stimulate promising ideas, but only if the social entrepreneur also adopts an opportunity-oriented mindset, actively looking for new possibilities to have significant positive social impact. Successful social entrepreneurs embody this "how can" attitude, particularly in the idea generation phase, as they ask themselves and the communities in which they seek to engage:

- How can we draw upon our personal experiences in seeking to achieve broad social impact?
- How can we address a particular social need or make the most of existing social assets to improve society?

- How can we capitalize on recent changes to seize new opportunities for social impact?
- How can we frame the root problems or underlying issues in a way that could lead to solutions that are desirable, feasible, and viable?
- What have others already done to attempt to address these issues, and what can we learn from those efforts?

Effective social entrepreneurs carry this orientation into the opportunity development process, engaging in continuous innovation, adaptation, analysis, and learning along the way.

### Step 2: Develop Promising Ideas into Attractive Opportunities

The second step for the aspiring social entrepreneur is to convert an initially appealing idea into a worthwhile opportunity, combining rigorous analysis with creative adjustment as the social entrepreneur tests and refines the ideas through a mixture of research, innovation, and action. The chances of success are significantly increased if the envisioned social venture idea is grounded in a set of plausible, testable hypotheses about the underlying *theory of change* and a plausible *business model*, consisting of an effective operating model describing the activities, structures and systems required by the theory of change, and a viable strategy for attracting the necessary human and financial resources required by the operating model. The most attractive opportunities have strong theories of change and business models that fit with the ecosystem, or operating environment, and the personal characteristics of the social entrepreneur.

**Theory of Change.** As we have seen, social entrepreneurs are driven by a desire to achieve results—to create social value for their primary constituents or beneficiaries, society, and the world. Underlying any promising new social venture is a carefully conceived and testable hypothesis about how the venture will achieve its intended social impact. Expressing the cause-and-effect logic by which the venture's operating model connects inputs, activities, and outputs to generate desired outcomes, this "theory of change"—also known as a "development hypothesis" in the field of international development, and variously referred to as a "social impact theory" or "theory of action"—is central to the venture's strategy and generally embodies the organization's mission and values (Guclu, Dees, and Anderson, 2002). The articulation of this theory linking action to results should include a "convincing statement of how program inputs will produce a sequence first of intermediate and then ultimate outcomes, . . . and

some indication of the bases, in experience, for expecting a cascade of results" (Szanton quoted by Grossman and Curran, 1990). By clearly defining the venture's intended outcomes and means for achieving them, the theory also provides a precise description of the ultimate social impacts for which the organization will hold itself accountable (Campbell and Haley, 2006).

A well-articulated theory of change should also identify the critical assumptions underlying the hypothesis. We can think of these assumptions as the necessary preconditions that should hold in order for the theory of change to lead to achieving the intended impact. Considered alongside the intermediate outcomes that will jointly cause the intended impact, these assumptions complete the "if/then" logic inherent in the theory of change. Whenever possible, critical assumptions should be identified and tested prior to launching a venture by comparing the theory of change to existing relevant knowledge in the field or by doing new research and analysis. Despite their need and bias for action, social entrepreneurs should structure their actions carefully in such a way that they can test as many critical assumptions as feasible before making major, irreversible investments (McGrath and MacMillan, 1995).

To aid in developing and refining his or her theory of change, the social entrepreneur may wish to create a simple logic model that clearly identifies the specific resources or "inputs" required, the major activities of the venture, the "outputs" produced by those activities, and the "outcomes" resulting from the activities. Another useful tool is the "outcomes framework"—an inductive logic tree that illustrates the hypothesis implicit in the theory of change, the causal logic among the intermediate outcomes and ultimate intended impact, and any critical assumptions that should hold in order for the theory of change to lead to achieving the intended impact. When paired with carefully defined and objective performance measures for each intended output and outcome, logic models and outcome frameworks can become valuable tools for planning, communications, and management and should be reviewed and updated regularly.

Defining and refining a theory of change is a dynamic process that blends creativity and out-of-the-box thinking with concrete analysis and assessment of results. Social entrepreneurs should regularly test and, if necessary, revise their theory of change to assure they are pursuing a worthwhile opportunity and are on track to achieving their ultimate intended impact. Since social impact is so hard to measure and many social entrepreneurs aim for long-term, sustainable lasting impact, the testing process can take significant amounts of time. Having a clearly articulated theory of change and performance measures helps make the testing process more systematic and timely.

**Business Model.** In addition to a compelling theory of change, every worthwhile opportunity needs to be supported by a plausible business model. Every venture—whether commercial or social—has an implicit business model that indicates how the venture creates, distributes, and captures value. In many cases, social entrepreneurs are most creative and add the greatest value in the design of their business model—they employ a wide range of options for structuring their ventures, acquiring capital, pricing their services, paying their workers, and coming to terms with suppliers—all in the pursuit of creating and maximizing social value.

For the social entrepreneurial venture, the business model includes two key elements:

1. An *operating model* that includes internal organizational structure, activities, and external partnerships that are crucial for creating the organization's intended impact
2. A *resource strategy* that defines where and on what terms the organization will acquire needed resources (financial and human capital, facilities, equipment, supplies, technology, and other tangible or intangible resources)

These two elements of the business model work closely together to bring the theory of change to life. In this sense, the business model is essentially the conduit through which a social entrepreneur converts inputs into outcomes. It determines the organization's financial and talent needs, the extent and nature of dependence on different resource providers, and the efficiency with which resources are converted into impact, which factors into the social return on investment.

Regardless of how effective an innovation is at achieving impact, the business model must be "sustainable" over the period of time required to achieve widespread, lasting impact. If the business model is not capable of being scaled or replicated, widespread impact will be impossible to achieve. If the business model is not aligned with the mission and intended impact of an organization, the organization may be sustained and it may scale, but its ultimate impact will be undermined. This can even be a problem for for-profit social ventures that discover their mission impact would be better served through activities and costs that cannot be adequately covered by their revenues.

**Operating Model.** A fundamental component of the business model, the operating model describes how the theory of change will be implemented in practice.

FIGURE 11.3. The Simplified Social Value Chain



Source: Guclu, Dees, and Anderson, 2002. Used with permission.

It is a combination of specific activities, structures, and support systems that are designed to work together to bring about the intended impact.

In developing an operating model, the first step is to trace a chain of activity from inputs to outcomes, identifying every step that is necessary in between. These direct productive activities will usually need to be supported by administrative functions, such as accounting, human resources, fundraising, and so on. When all of these elements are put together, the result looks similar to the “value chain” in a business (see Figure 11.3), a concept introduced by strategist Michael Porter (1985) as a tool for analyzing potential sources of competitive advantage for a firm.

This framework can be used to identify the major activities through which a social entrepreneurial venture can create or enhance social value. Social entrepreneurs may create social value at any of the steps in this process. For example, microfinance institutions such as Grameen Bank create social value by making loans to people who otherwise would not have access to the capital they need. Perhaps Muhammad Yunus’s most important innovation was to eliminate the requirement of assets as collateral for loans, an insurmountable barrier to the poor; instead Yunus created peer-lending groups, small groups of women borrowers from the same village who meet regularly, support each other, and share responsibility for repayment of loans made to anyone in the group, thus pooling risk and increasing return.

Fair trade organizations such as Ten Thousand Villages create social value in how and from whom they purchase the goods they sell. Other social ventures, such as Greyston Bakery and Homeboy Industries, create value through employing disadvantaged populations. Some, such as Triangle Residential Opportunities for Substance Abusers (TROSAs) engage their beneficiaries in earned revenue ventures as a form of rehabilitative therapy and to foster job skills needed for reintegration in the community, thus increasing likely social impact. With hospice care, the social value is inherent in the design of the value or service. Through their distribution chains, both KickStart and VisionSpring harness the powerful incentives of small business ownership to sell foot-operated

water pumps and deliver eye care services and products in rural villages in developing countries.

Once the social entrepreneur has identified all key activities in the value chain, she must make structural decisions, such as choosing a form of incorporation and defining the division of labor and coordination of activities. Social entrepreneurs may choose to incorporate their venture as a nonprofit organization, a for-profit social venture, or a hybrid that may combine two or more corporate entities; this decision may be based on a number of factors, including the desired sources of capital. A for-profit form of incorporation (proprietorships, partnerships, corporations, limited liability companies, and cooperatives) will be necessary if the social entrepreneur seeks to tap into private capital markets for investment funds, whether at or below market rate of return (Dees and Anderson, 2003).

The major labor division question concerns what the new venture should do and control versus what could be left to affiliates, partners, suppliers, contractors, or providers of complementary services. This decision should be driven largely by the importance of the activity, the presence or lack of competencies and efficiencies within the organization, and the value of maintaining control over it.

Finally, social entrepreneurs should consider the support systems that may need to be in place to assure effective and efficient social value creation, including systems for monitoring organizational performance and assessing outcomes, as well as intangible support systems such as the organization’s culture.

With these pieces in place, the operating model should allow social entrepreneurs to trace a plausible and specific causal path through a chain of activities, structures, and support systems to the intended social impact. As with the theory of change, any proposed operating model will rest on assumptions that may be tested before anyone can say that the operating model is likely to be effective.

**Resource Strategy.** Whether in business or in the social sector, an operating model cannot begin to create value unless it is aligned with and supported by a viable resource strategy. At the most fundamental resource level, the social entrepreneur needs *people* (including their skills, knowledge, contacts, credentials, passions, and reputations) and *things* (including everything from office space to patents). Unlike business entrepreneurs, in the social sector, entrepreneurs may acquire both people and things with or without using money.

In developing a resource strategy, social entrepreneurs must first identify resource requirements; these may be deduced from the proposed operating

model, along with performance and growth objectives. Resource needs cannot be determined without a specific operating model in mind that converts the resources into the capabilities necessary to create the intended social impact efficiently and effectively. Of course, as the idea is refined and tested, the original operating model may need to be adjusted to fit the realities of resource mobilization.

Next, social entrepreneurs must determine how best to mobilize the resources required through one or more of the following options: *building partnerships or alliances*, *attracting donations*, and *paying for the resources*.

Although some partnerships may be desirable as part of the operating model, others are driven more by resource considerations. When resources are scarce or hard to mobilize, as is often the case during the start-up stage, it may be wise to build resource-based partnerships with others that have (perhaps underutilized) resources of the kind required. However, social entrepreneurs should carefully consider benefits, costs, and risks of any partnership, particularly if it is not ideal from the operations point of view.

Social entrepreneurs may also attempt to acquire resources through volunteers and in-kind donations, which can reduce the cash needed to achieve social impact. Some organizations, such as Habitat for Humanity, rely heavily on volunteers and in-kind donations for core activities. Other social entrepreneurs have decided that operational effectiveness requires paying for key resources. For example, whereas most youth mentoring organizations typically rely on volunteers, Friends of the Children, winner of the Purpose Prize for 2009, has challenged that model, arguing that the use of paid mentors for at-risk kids leads to better social outcomes.

Even for those things that are purchased, social entrepreneurs can sometimes offer below-market compensation or seek discounts. For example, many organizations have been able to attract and retain high-quality workers with below-business-market wages, perhaps due to the personal satisfaction that people get from working for a cause that is deeply meaningful to them. Also, social ventures may qualify for discounted prices on equipment, supplies, services, professional fees, and so on, although the pool of available resources may be limited and the quality of services provided at reduced cost may be lower than desirable.

Finally, when considering the acquisition of costly equipment and facilities, social entrepreneurs must also decide whether they will purchase outright or whether they will simply rent or lease. When risk is high, renting or leasing is typically the optimal option.

Based on these decisions, social entrepreneurs should estimate the cash needs for their ventures and begin to identify plausible sources of funding. Although many social entrepreneurs would love for their ventures to be "self-sufficient," charging customers enough to cover all the operating costs (as occurs in the private sector) is often not optimal from the point of view of creating social impact. Although third-party payers (such as government agencies or corporations) may be found to cover costs, in many domains in which social entrepreneurs operate, revenues gained from service fees and contracts will fall short of what is needed to have the desired impact. In these cases, the resource strategy must include a plausible fundraising plan. However, social entrepreneurs must be vigilant about selecting cash income streams that do not pull the venture away from its core mission.

In summary, the social entrepreneur should craft the resource strategy based on assumptions about resource requirements and methods of meeting them, asking questions such as:

- How many staff and volunteers will be necessary for successful service delivery?
- Can the venture attract and retain staff with the requisite skills at the proposed levels of compensation? Can it recruit, train, and effectively manage the required volunteers?
- Will projected in-kind donations come with too many strings attached or have serious operating costs?
- Who may pay for the venture's activities? Who may be willing to donate to subsidize it? Will revenue sources be aligned with the mission?

Although some of the assumptions embedded in the model may be highly plausible based on past experience, social entrepreneurs should carefully identify those uncertain assumptions to which the resource strategy is most sensitive and make sure they are tested and adjusted as the venture rolls out. The various dimensions of nonprofit finance and resource development are addressed by the chapters in Part Four of this volume, and the chapters in Part Five address the challenges of recruiting, retaining, and motivating both staff and volunteers.

As with the rest of the process of social entrepreneurship, developing an attractive resource strategy requires creativity, especially given the intense competition for funding in the social sector. In some instances, an innovative resource strategy might even drive, or significantly impact, the social venture's operating model. However, a resourceful approach does not undermine the effectiveness of the business model and ultimate social impact of the venture. In fact, the most attractive resource strategies actually enhance social impact.

FIGURE 11.4. The Social Enterprise Spectrum

	Purely Charitable	Mixed motives Balance of mission and market Social and economic value	Purely Commercial
<b>Motives, Methods, and Goals</b>	Appeal to goodwill Mission-driven Social value creation	Mixed motives Balance of mission and market Social and economic value	Appeal to self-interest Market-driven Economic value creation
<b>Key Stakeholders</b>			
<b>Targeted Customers</b>	Pay nothing	Subsidized rates, and/or mix of full payers and those who pay nothing	Pay full market rates
<b>Capital Providers</b>	Donations and Grants	Below-market capital and/or mix of donations and market rate capital	Market rate capital
<b>Work Force</b>	Volunteers	Below-market wages and/or mix of volunteers and fully paid staff	Market rate compensation
<b>Suppliers</b>	Make in-kind donations	Special discounts and/or mix of in-kind and full price	Charge full market prices

Source: Dees and Anderson, 2006.

**Business Model Summary.** There are numerous ways by which a social entrepreneur may create social value. In designing a social venture, the social entrepreneur has a wide range of options for structuring their ventures, acquiring capital, pricing their services, paying their workers, and coming to terms with suppliers. In exploring these various options, it may be helpful to consider the Social Enterprise Spectrum illustrated in Figure 11.4 (Dees 1996, 2001).

This spectrum describes the full range of options available to social entrepreneurs, from purely philanthropic to purely commercial, with many variations in between. Philanthropic methods are involved anytime an organization falls short of the far right side on at least one dimension of the spectrum, indicating some form of subsidy or sacrifice. Excluding purely philanthropic or purely commercial ventures is not a major sacrifice in scope because very few social-purpose organizations exist at either extreme (Dees and Anderson, 2006).

Ultimately, the selection of a business model should be made upon careful reflection on the following questions:

- Does the business model use resources efficiently and effectively?
- Will it attract sufficient resources to achieve the intended social impact?

- How well does it fit with the ecosystems in which you want to operate?
- Is it sufficiently robust and scalable?
- Are the incentives in the business model aligned with your theory of change?

It is important to note that no single business model is best for all social entrepreneurs in all settings. Potential trade-offs and risks have to be assessed on a case-by-case basis, and the operating model may need to be adjusted accordingly. However, designing an effective business model is an essential part of the creative learning process of crafting, testing, and refining the hypotheses and assumptions inherent in the social entrepreneur's theory of change. This process of learning and refinement should continue well after the launch of the venture as the social entrepreneur gains experience and as the venture is affected by changes in the ecosystem in which it operates.

### Ecosystem (or Operating Environment)

Drawing on the science of biology, scholars of strategy and management have begun to study and apply ecosystems theory to reveal lessons for business and entrepreneurship. So, too, social entrepreneurs hoping to create significant and sustainable social impact should also develop an understanding of, and may endeavor to alter, the broad environment in which they operate. This is true especially if they seek to leverage complex systems of interacting players in rapidly evolving political, economic, physical, and cultural environments. Indeed, changes in these conditions may determine whether and when a window of opportunity is open or closed to the social entrepreneur.

**Ecosystem Players.** Just as biological ecosystems are made up of complex webs of interrelated organisms, social ecosystems operate in much the same way. Social entrepreneurs get help from some individuals and organizations, give help to others, fend off threats from others, and compete with still others. To assist social entrepreneurs in identifying and mapping all of the relevant ecosystem players and the roles that they play, Bloom and Dees (2008) recommend dividing the players into six roles:

- **Resource providers**, including providers of financial, human, knowledge, networking, and technological resources, and any brokers or intermediaries that channel these resources to those who want them. Resource providers may include third-party payers, donors, volunteers, and workers, anyone who must voluntarily participate in the venture in order for it to be successful.



Social entrepreneurs must have a plausible value proposition for each group of resource provider.

- *Competitors*, including organizations that compete with the social entrepreneur's organization for resources as well as those that compete to serve the same beneficiaries.
- *Complementary organizations and allies*, including organizations or individuals who facilitate a social entrepreneur's ability to create impact, such as partners who perform critical steps in the social entrepreneur's theory of change, individuals and organizations supporting the same cause, and those providing important complementary services.
- *Beneficiaries and customers*, including clients, patients, customers, and others who benefit from social entrepreneurs' activities, whether or not the ultimate beneficiaries interact directly with the organization.
- *Opponents and problem makers*, including organizations and individuals who contribute to the problems social entrepreneurs are addressing, undermine the ability of the organizations to achieve and sustain their intended impact, or oppose their efforts politically.
- *Affected or influential bystanders*, including players who have no direct impact now, but who are affected by the social entrepreneur's efforts—especially those who could be harmed if the social entrepreneur succeeds and those who can be turned into allies or resource providers if convinced of the benefits of the social entrepreneur's efforts—or those who could influence her success, either positively or negative, such as members of the media.

Bloom and Dees note that these categories of ecosystem players are dynamic and not mutually exclusive (2008). Organizations may play more than one role or may switch over time; paradoxically, the same organization can be both an ally (for example, when it comes to advocating for legislation to serve the same cause) yet also a competitor (for example, when vying for limited funding). As in for-profit industries, new players may enter the ecosystem at any time, posing new threats or presenting opportunities for the social entrepreneur and her venture to benefit.

**Environmental Conditions.** Biological ecosystems are made up not only of other organisms, but also of environmental conditions (such as soil, weather, sunlight, and water) that have a significant impact on the type of organisms that can exist, as well as on their relationships with one another. So, too, with social ecosystems, although organizations and people can, in turn, influence the environmental conditions and bring about change within the social ecosystems of which they are a part. To aid social entrepreneurs in identifying relevant changes or trends that

can influence their ability to create and sustain the intended social impact, Bloom and Dees (2008) identify four sets of environmental conditions that should be considered by the social entrepreneur:

- *Politics and administrative structures*, including rules and regulations—and the processes and procedures for adopting, enforcing, and reforming these rules—along with the political dynamics of the jurisdictions in which social entrepreneurs operate, including potential sources of public support or resistance.
- *Economics and markets*, including the overall economic health of the regions in which social entrepreneurs operate and seek resources, as well as the region's distribution of wealth and income, economic prospects, levels of entrepreneurial activity, and relevant markets.
- *Geography and infrastructure*, including not only the physical terrain and location, but also the infrastructure that social entrepreneurs count on for transportation, communication, and other operating needs.
- *Culture and social fabric*, including the norms and values, important subgroups, social networks, and demographic trends of the people living in the area. For example, many microfinance institutions and global health initiatives target women in hopes of achieving greater social and economic impact for the women and their families. However, local cultural norms about the role of women in the economy may pose significant challenges and present promising opportunities for the social entrepreneur.

**Mapping the Ecosystem.** Although the relevant features of the ecosystem will vary from venture to venture and will depend on the specifics of the venture idea, including the theory of change and the business model, most social entrepreneurs will make crucial assumptions about their markets, the industry structure, the political environment, and the culture. In studying and making assumptions about the ecosystem in which they operate, social entrepreneurs may choose to construct a simplified ecosystem map illustrating the key ecosystem players and environmental conditions, noting key relationships and trends, and anticipating potential changes that may positively or negatively affect their ability to achieve the desired social impact. Mapping the ecosystem in this way is a dynamic process that may yield significant strategic insights (Bloom and Dees, 2008).

In summary, an ecosystems framework can help social entrepreneurs in many ways, including:

- Imparting a deeper understanding of an organization's theory of change by making the environmental conditions and relationships on which the

organization depends more visible, possibly leading to a revision of that theory

- Mapping the resource flows into and within the ecosystem, revealing constraints, bottlenecks, and underused sources, perhaps suggesting alternative resource strategies for the organization
- Identifying new operating partnerships, perhaps with complementary organizations, that fall short of systemic change but that promise to enhance the social entrepreneurs' impact by increasing the coordination of otherwise independent players
- Determining the minimum critical environmental conditions required for an organization's operating model to be successful and using that information to guide the social entrepreneur's efforts to take the model into new areas
- Developing different operating models for different ecosystems, or a more robust operating model that works in a variety of different ecosystems (Bloom and Dees, 2008, p. 53)

As social entrepreneurs flesh out the three core elements of their opportunities, they will inevitably make assumptions about their ecosystem or operating environment. The potential success of the venture depends largely on whether the assumptions accurately represent the context. Thus, a promising opportunity must fit with the characteristics of its environment. However, in the social sector as in the business world, windows of opportunity may close as quickly as they open.

**Windows of Opportunity.** Since ecosystems are dynamic, it is also helpful for social entrepreneurs to be sensitive to the window of opportunity, the time frame in which conditions are expected to be favorable for pursuing a given opportunity. In studying the conditions necessary for social entrepreneurship, respected nonprofit scholar Paul Light has asserted that such windows of opportunity are rare, cannot be predicted, tend to occur in great punctuations when the demand for change reaches a tipping point, emerge when entry costs are low, open and close quickly, favor competition over collaboration, and appear to the special few (Light, 2008, p. 203).

Social entrepreneurs may have better chances of success if they can take advantage of windows that are opening and that will stay open long enough for the venture to have its intended impact. Changes in the ecosystem or other external conditions may increase or decrease receptivity to new ideas, or may affect the viability of a proposed business model, thus opening or closing the window of opportunity. Such changes include the growth or decline of the social need

being addressed, the number of people affected by the need, the visibility of the need and expected media coverage, perceptions of urgency or relative importance by key resource providers, levels of satisfaction with existing approaches, technological changes, changes in public policy, and popular trends or fashions in relevant fields (Guclu, Dees, and Anderson, 2002).

**Personal Fit.** As social entrepreneurs develop their ideas into worthwhile opportunities, they also have to be sensitive to personal fit. Even if they have identified an attractive opportunity, it may not be a good opportunity for them when assessed in relation to other options. Before seeking to launch a social venture, aspiring social entrepreneurs should conduct an honest self-assessment, asking themselves:

- Do I have the time, energy, fortitude, commitment, and determination required to coordinate ambitious social impact goals with scarce income sources and to satisfy excess need for services with an over-stretched staff and limited time?
- Do I have healthy support systems and strong personal and professional networks that can help me forestall and/or handle the burnout that not infrequently accompanies launching and managing an entrepreneurial venture?<sup>3</sup>
- Do I have the skills, expertise, credibility, credentials, contacts, and assets needed to launch this venture? Can I attract a strong team to help compensate for any critical shortcomings?
- Is this the right time in my life to pursue this kind of opportunity? Are there career and family or other personal considerations that must be taken into account?

New ventures of any sort are tremendously demanding. Social ventures are even more so. Ultimately, aspiring social entrepreneurs would be wise to pursue only opportunities that fit their personal commitment, qualifications, income requirements, and stage in life, embarking on their entrepreneurial journey with full awareness of the risks involved.

**Step 2 Summary.** In order to determine whether a promising idea can be transformed into an opportunity worthy of serious pursuit, it is essential for the social entrepreneur to articulate a compelling theory of change and a plausible business model. Developing a plausible business model requires designing an effective operating model and crafting a viable resource strategy. These pieces must fit together, and the assumptions embedded in them must be credible

given the environment in which the social entrepreneur intends to operate. Finally, the requirements of the venture must fit the commitment, qualifications, and life stage of the entrepreneur considering it. When all these elements are feasible and aligned, the chances for success are relatively high and those involved can make a more informed estimate of the potential for social impact.

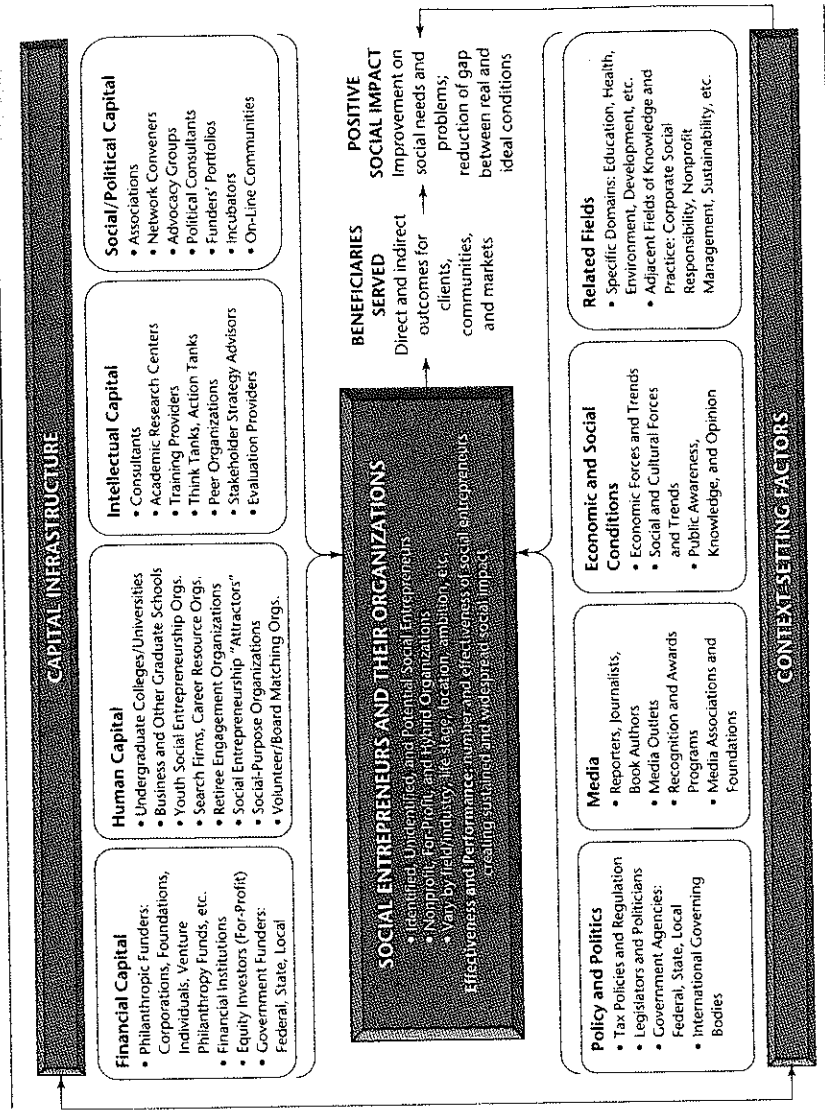
### Strengthening the "Ecosystem" of Social Entrepreneurship

With the support of the Skoll Foundation, the Center for the Advancement of Social Entrepreneurship (CASE) at Duke University launched a groundbreaking project to identify opportunities for further building the field of social entrepreneurship, both as a field of practice and as a field of inquiry, knowledge, and learning related to that practice. The CASE team conducted in-depth interviews with eighty-five social entrepreneurs, funders, academics, consultants, journalists and authors, and others knowledgeable about the field. As a result of this study, CASE recommended a set of critical initiatives for strengthening the ecosystem in which the practice of social entrepreneurship takes place (CASE at Duke, 2008). By the term *ecosystem* at the field-wide level, we refer to the key resource providers and environmental factors that affect the ability of social entrepreneurs to achieve their intended social impacts.

To inform its research, CASE developed a simplified framework to describe the key elements of this ecosystem. Figure 11.5 presents this framework, illustrating the richness and complexity of the environment in which social entrepreneurs operate and the various determinants of their effectiveness.

The elements of the ecosystem are presented in two broad categories. The first category consists of the resources, or types of "capital," social entrepreneurs depend on to do their work, including financial capital, human capital, intellectual capital, and social/political capital. Although social entrepreneurs can, to some extent, develop these forms of capital through their operations, most social entrepreneurs rely on outside organizations to help them get or build the capital they need. Note that these subcategories are broadly defined, including capital creators, providers, and related intermediaries. The second broad category includes the context-setting factors, or external conditions, that could support or undermine the practice of social entrepreneurship. These conditions are divided into four subcategories: policy and politics, media, economic and social conditions, and related fields. These factors tend to have their influence indirectly, and they are highly diverse. Each of these factors has the potential to affect social entrepreneurs, various players in the capital infrastructure, and the other context-setting factors.

FIGURE 11.5. Ecosystem of Social Entrepreneurship



Source: Center for the Advancement of Social Entrepreneurship, Duke University, 2008. Reprinted with permission.

## Finding Key Leverage Points in the Ecosystem

During the CASE field-building study, nearly all interviewees identified inefficiencies and obstacles in the ecosystem and discussed how these might be remedied so that the potential of social entrepreneurship may be more fully realized. While all agreed that serious challenges exist for those who want to improve the ecosystem, most interviewees felt optimistic that these challenges could be met with creative solutions, dedicated attention, and increased collaboration. Based largely on suggestions made by participants in the field research, the CASE team identified five potential leverage points that are particularly crucial to address in order for the field to advance, and offered suggestions for moving forward on each of them.

### Making Financial Markets More Efficient and Responsive

In almost every interview for the CASE field-building study, participants identified the financial markets as a critical challenge for the field, agreeing that social sector capital markets are deficient in many ways. Funding is insufficient, especially to achieve scale, and the funding that is available often does not flow to its best uses (that is, the highest social return relative to the risk). Funders often do not know which use will produce the greatest benefits, and they seem to make their decisions based on factors that are not clearly related to performance. The financial markets for social ventures are full of inefficiencies. The search costs—the time and energy it takes to make the right match between social entrepreneurs and financiers—are high. The financial products, services, and terms of engagement often do not fit the needs of social entrepreneurs at different stages of development, or they impose burdensome conditions on the social entrepreneurs. Overall, social financial markets tend to be fragmented (often around different causes or interests), disjointed (different funders with different standards and requirements), and relatively small (compared to mainstream capital markets).

Those who want to strengthen the ecosystem for social entrepreneurs should consider doing or supporting the following:

- Develop specialized financial intermediaries who have the expertise to make sound funding decisions and the marketing skill to attract funding
- Create new financial “instruments” or “deal structures” designed to address the different kinds of business models and different stages of development

- Support high-quality, independent “analysts” to assess social ventures and provide platforms to distribute their reports to funders who would find them useful
- Experiment with more collaborative funding models in which major funders invest in each other’s “deals,” sharing the risks and the lessons
- Work toward common grant applications, requests for proposals, and reporting requirements for foundation funding
- Establish standardized tools for social entrepreneurs to track the information that would be relevant to funders
- Organize online information marketplaces to make it easier for social entrepreneurs and suitable funders to find each other more easily

### Refining and Standardizing Performance Measurement Tools

Reliable, timely, and cost-effective measures of social value are crucial for demonstrating success, providing better information to the financial markets, and informing the strategic decisions of social entrepreneurs. Yet, social value is notoriously difficult to measure and to attribute to a specific intervention and many of the most important ways in which social entrepreneurs can make the world a better place are long-term, intangible, qualitative, not easily reduced to any single common metric. Funders, who have a crucial role in developing suitable systems and standards, and others seeking to drive progress in this area, may consider the following suggestions:

- Make social entrepreneurs aware of the different tools currently available, as well as the pros and cons of each.
- Encourage use of and continued experimentation with impact-oriented performance measures by social entrepreneurs, making sure to include qualitative elements as well as signs, symptoms, and indicators of intangible and long-term impact.
- Favor measurement systems that produce information that is valued by and useful to social entrepreneurs (usually including process measures as well as outcome measures for learning purposes).
- Distinguish what is publicly reported from what is available for internal, managerial use.
- Reward candor, learning, and informed strategic adjustments, not just raw outcome performance.
- Avoid the situation in which different funders impose significantly different and demanding measurement methodologies on a single organization.

- Use intermediaries to design and implement external reporting standards in a way that provides the information that capital providers want in forms that are meaningful and engaging.
- Make the values and assumptions behind any measurement scheme transparent and open to challenge.
- Recognize that judgment is required and make sure performance data are accompanied by information that helps users make sensible judgments and comparisons.

### Helping Social Entrepreneurs Find Effective Pathways to Scale

In the CASE field research, nearly all interviewees seemed to agree that success for this field requires that social entrepreneurs ultimately achieve significant “scale” relative to the magnitude of the problems they are tackling. The successful spread of innovations and the growth of social ventures in the past indicates that it is possible to achieve considerable impact, even in this flawed ecosystem. Proponents need to help social entrepreneurs find viable paths to scale and widespread impact.

Those who wish to improve the ability of social entrepreneurs to scale may want to:

- Identify and document successful paths to achieving scale in an imperfect world, analyzing success stories and drawing on the best strategic thinking.
- Encourage innovation in the scaling process and capture the lessons from the experiments.
- Recognize that no one path fits all social ventures—each strategy needs to be designed for the circumstances at hand.
- Provide social entrepreneurs and their teams with knowledge about different scaling strategies, frameworks for designing their own, and opportunities for learning with and from others struggling with the same issues.
- Capture and share lessons learned along the way.
- Refrain from overemphasizing the need to scale quickly, which may result in premature efforts to scale.
- Acknowledge that not every “successful” local innovation or venture is scalable or worthy of scaling.
- Acknowledge that the role of the founding social entrepreneur may change through the scaling process and that other talented individuals may be needed to play a leading role.

### Building New Talent Pipelines

In the business world, it is widely recognized that talent is the key to success. Venture capitalists know the importance of investing in high performing management teams. Business leaders see themselves in a “battle for talent.” Human capital is no less important for the success of social entrepreneurs. The ecosystem needs new talent pipelines and development programs to prepare social entrepreneurs and their teams for the challenges of sustainability, scale, and the creation of new equilibria. Those who want to strengthen this part of the ecosystem should consider the following:

- Invest in programs that increase “hybrid” management and leadership skills, particularly those that address the needs of social entrepreneurs to scale their impact and sustain their ventures.
- Support team-building efforts and educational programs that work with teams, rather than just individuals.
- Facilitate peer learning, not only among social entrepreneurs, but also among members of the senior teams working with the social entrepreneurs.
- Explore emerging talent pools such as those embarking on second careers.
- Experiment with new approaches to draw on motivated talent from the business sector, adapt it to the needs of social entrepreneurs, and use it to develop internal capabilities.
- Find ways to reward talented people who work in this field, through reasonable compensation and attractive (but rarely offered) benefits, such as pensions, health care, insurance, training, and paid sabbaticals.
- Encourage suitable undergraduate and graduate programs (in business, public policy, education, social work, public health, environment, and engineering schools, or others) to offer tracks that make it possible for students to develop hybrid skills.

### Providing Better Guidance on Effective Business Models

Social entrepreneurs will be successful only if their innovations are supported by sufficiently sustainable, scalable, and aligned business models. Greater attention to business model design could also force social entrepreneurs to think about how to mobilize the talent and knowledge they need on favorable and sustainable terms, perhaps through partnerships. Proponents of social entrepreneurship who want to strengthen the field should consider taking the

following steps to strengthen social entrepreneurs' ability to develop robust and effective business models:

- Recognize that no single business model will work for all social entrepreneurs and that models drawn from the world of business may not be appropriate.
- Support research efforts to develop better knowledge of alternative business models for social entrepreneurs and to frame some design principles.
- Encourage experimentation with different business models, capturing the lessons from the experiments.
- Provide strategic assistance to social entrepreneurs who have attractive innovations but business models that limit their potential in serious ways.
- Develop funding schemes for foundations and social investors that encourage resource-smart business model redesign and help recipients make the transition to the new business models.

These five issues—financial markets, performance measurement, scaling strategies, talent development, and business models—emerged as priorities as the CASE team analyzed the data from interviews and conversations. Addressing these issues could go a long way toward strengthening the ecosystem, assuring greater success of social entrepreneurs, and building the field.

#### **Ecosystem Summary: Providing Support with Discipline**

It is essential to create a supportive ecosystem for social entrepreneurs if the field is to thrive. By contrast, business entrepreneurs benefit from a very supportive ecosystem, particularly in the United States. Yet there is an important difference between business entrepreneurship and social entrepreneurship that should not be neglected—business entrepreneurs face significant market discipline from both customer markets and financial markets. Customers determine whether the good or service provided creates more value for them than it costs to produce. Investors determine whether the venture is likely to provide sufficient returns to justify their investments. For social entrepreneurs, the ultimate test is social impact, and that value is not guaranteed by market discipline. We need other mechanisms.

If the ecosystem is to do its job of enhancing chances of success for the field as a whole, we must mimic this kind of market discipline, using the best measures and judgments available at the time. We need to create a healthy, vibrant ecosystem that supports innovative social entrepreneurs, but with appropriate

discipline to assure that capital is directed to its best uses. Without some devices to filter out the underperformers, scarce forms of capital and other support will be spread among those who put it to good use and those who do not. Fortunately, a number of innovative and exciting efforts are under way to address these issues. Many in this field cautiously hope that the coming years will bring about significant advances in the development of the field of social entrepreneurship. These advances could have a beneficial impact on the social sector as a whole.

## **Conclusion**

"New concepts are introduced all the time. Some never catch on. Others experience great popularity for a period, but then decline and are viewed as passing fads. A few concepts have staying power and sustained impact. In rare cases, a new concept serves as a foundation for a whole new field of practice and knowledge. Social entrepreneurship has the potential to be one of those rare field-creating concepts" (CASE at Duke, 2008, p. v).

As elaborated in this chapter, social entrepreneurship is about crafting innovative and sustainable solutions to social problems. Fundamentally, effective social entrepreneurship is a learning process that combines a valid theory of change with a supportive business model. Social entrepreneurs are innovative, resourceful, and results-oriented. They draw upon the best thinking in both the business and nonprofit worlds to develop strategies that maximize their social impact. These entrepreneurial leaders operate across a broad spectrum of organizations: large and small; new and old; nonprofit, for-profit, and hybrid.

We are at an undeniably exciting time for the field of social entrepreneurship. Having experienced dramatic growth in recent years, social entrepreneurship has attracted strong interest from policymakers, philanthropists, aid agencies, and academics, despite the fact that it is still being developed and researched. However, many thoughtful observers, including advocates, are concerned that the recent momentum could fade or be undermined before a solid foundation is laid for the future of this emerging field. As described earlier, success for the field will require a healthy institutional and social environment to support the practice. We refer to this as the "ecosystem of social entrepreneurship." Indeed, a vibrant ecosystem that supports innovative social entrepreneurs, but with appropriate discipline to assure that capital is directed to its best uses, could have a beneficial impact on the social sector as a whole.



## Notes

1. We accept as the definition of corporate social entrepreneurship "the process of extending the firm's domain of competence and corresponding opportunity set through innovative leveraging of resources, both within and outside its direct control, aimed at the simultaneous creation of economic and social value" (Austin, Leonard, Reficco, and Wei-Skillern, 2006).
2. For the purpose of this chapter, we have adopted the definition of "social enterprise" advanced by Kim Alter: "a socially oriented venture (nonprofit/for-profit or hybrid) created to solve a social problem or market failure through entrepreneurial private sector approaches that increase effectiveness and sustainability while ultimately creating social benefit or change" (Alter, 2005).
3. For an insightful discussion on building strong support networks, see Gergen and Vanourek, 2008, pp. 111–128. The authors draw upon extensive interviews of successful business entrepreneurs and social entrepreneurs.

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