

Sustainable Entrepreneurial Models: Understanding the Entrepreneurial Conundrum

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Abstract. Social Entrepreneurship as an area of research and practice has gained significant thrust in the last few decades. Social entrepreneurial initiatives are identified as a set of innovative approaches for dealing with complex social needs. With its unconventional approach to resolving social issues coupled with its emphasis on deriving benefits of collaboration among different groups, social entrepreneurial initiatives transcend traditional views on entrepreneurship to develop radical and new strategies for resolving existing social issues. However, the understanding of social entrepreneurship is still limited offering an opportunity for extended research in this domain. This paper attempts to provide an insight into the emergence of social entrepreneurship in developing nations as a radical and effective mechanism for dealing with social problems. The first part of the paper deals with the examination of the unique preconditions in developing countries influencing the emergence and development of social entrepreneurship. The second part of the paper discusses the key characteristics of social entrepreneurial initiatives as an outcome of the entrepreneurial conundrum in developing countries. This will be followed by a discussion on the underlying motivations of entrepreneurs in social entrepreneurial initiatives in developing countries.

Keywords: Entrepreneurial models, sustainable entrepreneurship, entrepreneurial conundrum.

1. Introduction

Over the last few decades, developing countries have witnessed a significant drift in policy making opening up their economies to the world. This has led to the emergence of complex political, economic and social challenges. The demand of social infrastructure has increased manifold coupled with the growing income disparity between rich and poor (Reis 1999). This paradigm shift from bureaucratic norms to social welfare state has initiated a transition of change oriented activities from government owned initiatives to social change initiatives undertaken by nonprofit sectors drawing on funds transferred mostly from philanthropic resources.

Recent social initiatives that have gained significant popularity have been the Microfinance initiative in Bangladesh which offered a novel approach to resolving a social issue. This initiative also demonstrates how the need for social change is often driven by the passion of a few individuals. Cannon (2000) describes these individuals as *social innovators* with the ability to create a radical centre for social change by leveraging traditional antithetical forces to bond for a common cause to promote, facilitate and invest in more effective approaches to promote, facilitate and invest in more effective approaches to social investment. The new generation of *social innovators*, driven by technology and innovation, offer novel approaches to solving existing social problems.

Catford (1998) highlights that the traditional welfare-state approaches are in decline globally, and in response new ways of creating healthy and sustainable communities are required. The decline of state driven welfare programs has been further impacted by limited funding and corresponding awareness of financial malpractices and corruption in developing countries. In view of the above coupled with the recent success of social entrepreneurial ventures to respond with new, creative and effective solutions to complex political and

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social problems, research and academic communities are intensifying their efforts to gain an understanding of how such entrepreneurial activities have offered new means realizing the potential of individuals and communities to support social change.

This paper offers an insight into the emergence of social entrepreneurship in developing nations as a radical and effective mechanism for dealing with social problems with a critical examination of the unique preconditions in developing countries influencing the emergence and development of social entrepreneurship. Further, a key characteristic of social entrepreneurial initiatives as an outcome of the entrepreneurial conundrum is discussed with a view to identify the key factors which prelude a sustainable social entrepreneurial venture.

2. Existing Research in Social Entrepreneurship

2.1. Social Entrepreneurship - Defined

The concept of *social entrepreneurship* has gained significant interest of the academic and research community over the last few decades especially due to its ability to leverage on existing resources to uncover dormant intrinsic values through collaboration. With these inherent complexities, defining social entrepreneurship and its conceptual boundaries has been a challenge for the research community. While the underlying concepts involved in social entrepreneurship are not new, academic literature often associates the term with a rather broad range of activities and initiatives. This has also led to a lack of consensus in the definition of the topic.

Gendron (1996) defines social entrepreneurs as agents of change to improve the performance capacity of a society. Henton et al. (1997) refers to social entrepreneurs as *civic entrepreneurs* defined as a new generation of leaders who establish powerful productive linkages at the intersection of business, government, education and community. Thompson et al. (2000) describes social entrepreneurs as individuals who realize that there is an opportunity to satisfy some unmet need that the state welfare system will not or cannot meet, and who gather together the necessary resources and use these to 'make a difference'. While there is a consensus on the failure of public systems to deliver social services, the presence of the required expertise and market based skills in social entrepreneurial ventures to deliver efficient social services still remains an issue of contention (Reis 1999).

Recent literature also identifies for-profit businesses channeling their earnings back into social service problems as well as non-profit organisations adopting private sector management techniques in order to optimally utilize existing resources (McLeod 1997). Boschee (1998) distinguishes between for-profit activities which serve to offset organizations costs, and social purpose ventures, whose primary purpose is to make a profit which can then be used for non-profit ventures. He further defines social entrepreneurs as non-profit executives who pay increased attention to market forces without losing sight of their underlying economic motive of a venture. Thus, this category of definitions represent social entrepreneurship more broadly, and argue that social entrepreneurship can occur within the public, private or non-profit sectors as a hybrid structure driven by both for-profit and non-profit motivations. These definitions also focus on the problem solving nature of the entrepreneurial activities. Further, this definition demonstrates the evolving nature of social entrepreneurship which can take a variety of forms, including innovative not-for-profit ventures, social purpose business ventures (Dees 1998).

Henton et al. (1997) argues a civic entrepreneurs operate in a time of dramatic change with the ability to identify opportunities and mobilize others in the community to work toward their collective well-being, essentially acting as a catalyst for social change processes. It is the innovativeness of the approach that essentially defines this conceptualization of social entrepreneurship. Thus the degree of innovation may be used as a mechanism to separate social entrepreneurial activities and civic activities. Dees (1998) defines that just as not every new business venture qualifies as 'entrepreneurial,' not every social venture qualifies as socially entrepreneurial.

Thompson et al. (2000) has distinguished between entrepreneurial activities with the aim to achieve social benefits which are either driven by traditional approaches to problem solving or those driven by creativity and innovative approaches to problem solving. In essence, the presence of a novel and innovative approach to resolving a social problem is the focal distinguishing factor to identify social entrepreneurial

activities. However, community initiatives wherein extremely committed and enterprising individuals draw benefits based on collaboration are not entrepreneurial in nature since they essentially repeat what has happened successfully elsewhere.

Fowler (2000) introduces three broad categories of socially entrepreneurial activities. The first category refers to entrepreneurial activities designed to generate positive social outcomes through the creation of horizontal, vertical, forward and backward economic linkages termed as 'integrated social entrepreneurship'. The Microfinance Initiative (Grameen Bank) of Bangladesh is represented as an example of integrated social entrepreneurship. The second category of social entrepreneurial activities uses 're-interpretation' to utilize existing non-profit capacity to reduce costs for the organization, or increase and/or diversify the organization's income streams. The third type of social entrepreneurial activities involve non-profit organizations adding a for-profit enterprise division whose profits can be used to offset the costs of the organization's non-profit social mission. Fowler further highlights the complexities of economic activities that produce simultaneous social benefits. De Leeuw (1999) also elicits the complex environmental conditions for social entrepreneurs to simultaneously fulfill social and economic goals.

There is also a growing interest among the research community to identify the various skills and roles required for social entrepreneurial activities. Thompson et al. (2000) argues that social entrepreneurial leaders act as critical catalysts for entrepreneurial initiatives while managers deal with overseeing optimal implementation of projects. Thompson et al. further distinguishes between 'enactors' (entrepreneurs) and 'enablers' (professional managers). De Leeuw (1999) highlights that social entrepreneurs are more likely to be found in the role of 'change agents' than 'change managers'. Henton et al. (1997) argues that a one-size-fits-all approach to social entrepreneurship is not viable and that a project must be divided into a series of phases wherein each phase requires a different set of skills and different individuals with appropriate skills may need to be identified for different phases of the entrepreneurial venture. However, while varying definitions of social entrepreneurship exists, the key common emphasis of social entrepreneurship remains the inherent problem-solving nature of social entrepreneurship.

3. Sustainable Entrepreneurship in Developing Countries

3.1 The Entrepreneurial conundrum

Developing countries are faced with multiple challenges of poverty alleviation, lack of social infrastructure coupled with limited funding and poor and inefficient implementation of public service delivery systems. In view of these factors, there is an extremely unique set of market and environment conditions operating in developing countries which offer few entrepreneurial opportunities. In the absence of funding and policy support from governments, entrepreneurs in developing countries have to deal with the twin challenge of poor infrastructure and limited demand from the target market. This phenomenon represents a kind of paradox for entrepreneurs named the *Entrepreneurial conundrum*, a rare phenomenon existent in developing nations wherein the target market for the entrepreneur has little motivation to spend causing a stagnation of the demand of the entire target community. In economic terms the target market suffers from an inherent stagnant economy with limited or no demand. This reduced demand is typically due to the inherent fear of uncertainty in future sources of income. In the absence of a regular source of income coupled with unpredictable economic, social, political and environmental conditions, the target population internally safeguards against future exigencies by controlling their expenditure. However, the situation is generally further aggravated through the presence of informal credit or banking systems which often involve exploitative lending and credit facilities such that the target population is often caught in a vicious circle of poverty. The presences of such conditions act as a deterrent for the entrepreneur and often require a novel approach from the entrepreneur to recognize and utilize the hidden potential of the target market for the establishment of a social venture.

3.2 Sustainable Social entrepreneurship – Creating Internal and External Fit

One of the impacts of the entrepreneurial conundrum is Demand Stagnation which coupled with limited sources of income of the target population require that the social entrepreneur must create a mechanism to resolve the underlying cause of demand stagnation. To simply state, the aim of the social initiative may be

represented in the form of a virtuous circle wherein demand for products can be visualized as an outcome of the virtuous circle owing to the effects of the social initiative which makes the target population more comfortable in sparing their existing income owing to presence of future sources of income. Thus, a key characteristic of social entrepreneurial ventures in developing countries under the entrepreneurial conundrum requires that the entrepreneur also ensure income generation opportunities for uncovering the demand potential of the target market. This requires that the entrepreneur must not only determine the internal fit of the products or services in the community but also generate equivalent social capital in the form of income generation strategies representing the external fit of the initiative with the community. Therefore, external and internal fit become an imperative part of the entrepreneur's strategy while taking up a social entrepreneurial venture to ensure sustainable value creation.

3.3. Underlying motivations of Social Entrepreneurial Ventures

In the free market economy, the profit motive is the ultimate purpose of a commercial enterprise. Many critics argue that profit motive apparently allows no room for the interests of the customer, the employee, the society or the environment, unless those interests happen to align with what the profit motive dictates. Social entrepreneurial initiatives differ from traditional entrepreneurial initiatives in terms of this profit motive orientation. They are often oriented towards resolution of a social problem involving a target group, or society or the environment as a whole. The key focus of such initiatives then becomes to create social capital. Economic profit is a by-product of the social capital creation orientation of the entrepreneurial venture. Thus, one may argue that entrepreneurial ventures driven social motives can in fact lead to sustainable economic capital creation while the vice versa may not be true. This is due to the virtuous cycle created in response to the entrepreneurial conundrum which creates a reinforcing feedback loop causing social as well as economic capital creation.

4. Conclusions and Recommendations

4.1 Conclusions and Recommendations

Social entrepreneurship is increasingly being recognized as an indispensable tool for consolidating the market based economic system adopted by transition economies. Despite this, little is known about the factors that influence the entrepreneurs' decision to become entrepreneurially active in these countries. Academic research has recently demonstrated that differences in entrepreneurship levels are in-part explained by the varied impact across territories of entrepreneurial role models (Lafuente et al., 2007 and Vaillant and Lafuente, 2007). However, there is little understanding on the preconditions of the emergence and development of social entrepreneurial initiatives. Further, there is also an urgent need for developing countries to recognize the need for supporting policy guidelines. De Leeuw (1999) argues that the role of social entrepreneurs in setting policy agendas has been largely ignored. Further, Thompson et al. (2000) also highlight the lack of detailed, rigorous empirical case studies on social entrepreneurship, noting the need for this type of work to support further research in this area, including research on how to best support social entrepreneurs and how to build individual and institutional capacity for social entrepreneurship.

This paper examined the concept of social entrepreneurship with a view to understanding the unique challenges faced by entrepreneurs in developing countries. It also introduced the concept of entrepreneurial conundrum, a unique challenge which the social entrepreneur must encounter to establish the social entrepreneurial venture and lastly, the paper aimed to understand the underlying motivations of social entrepreneurs.

4.2 Research Limitations and Scope for future work

As is the case in many emerging fields of research, there are significant gaps in the literature currently available on social entrepreneurship. These gaps represent opportunities for researchers to conduct both conceptual as well as empirical studies to further understand the key components associated with social entrepreneurship. This paper also draws its insight through informal interviews with entrepreneurs in the field as well as an examination into recent social entrepreneurial initiatives. Thus from a macro level, the

study is still theoretical in nature and can benefit with an empirical evaluation of existing social initiatives. However, it is noteworthy that the understanding of social entrepreneurship is still dominated by practitioners rather than researchers which may prove potentially valuable to link practice-related issues with larger bodies of existing theoretical frameworks especially related to creating social capital.

To summarize, the field of social entrepreneurship has been inadequately explored especially in terms of understanding the underlying motivations of entrepreneurs as well as the complex social, environmental and economic conditions for operation for entrepreneurs. This paper is one such attempt to understand the unique and complex environmental conditions social entrepreneurs face in developing countries as step towards the better identification of social entrepreneur incentives and the underlying factors that ensure sustainable creation of social capital for the economy.

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