

What Is a Social Entrepreneur, Really

David Castro 04 August 2010

In the middle of the night, I wake up thinking about this question.

Why is this on my mind, you might be wondering? As a recently baptized Ashoka Fellow, I find myself spending a lot of time lately explaining the meaning of the phrase *social entrepreneurship*. The sometimes confused looks on the faces of people listening tell me that they don't always get it.

Fueled by insomnia and searching for a better explanation, I fire up the Internet and, of course, check Wikipedia. It says this:

A [social entrepreneur](#) is someone who recognizes a social problem and uses [entrepreneurial principles](#) to organize, create, and manage a venture to make [social change](#).

Whereas a [business entrepreneur](#) typically measures performance in profit and return, a social entrepreneur focuses on creating social capital. Thus, the main aim of social entrepreneurship is to further social and environmental goals.

What next? I embark upon a nocturnal Net walkabout, traversing websites about social entrepreneurship from

organizations that think hard about it (e.g., Ashoka, Skoll). They all say something similar to Wikipedia, many focusing on the idea of generating innovative solutions to problems and often using words like *sustainable* and *systems*.

But my 2 a.m. brain is unsatisfied. Not that these definitions are wrong. But it feels to me that they lack something very important. What is missing? My sleepy brain hums for a while, thinking about business entrepreneurs.

If I were to ask people on the street to describe the mission of business entrepreneurs, I imagine that the vast majority would say something like, "making money." And their answers would inevitably include the concept of profit. To validate this notion I shoot over to Yahoo Answers (an Internet analog for bumping into people on the street) to check responses to the question "What is an entrepreneur?" There, as expected, I find numerous entries like this one:

Entrepreneur: the owner or manager of a business who by risk, initiative, and innovation attempts to make a profit.

Are business entrepreneurs fundamentally motivated by profit? It certainly appears so. But it seems to me that something deeper than profit animates the entrepreneur. A successful executive once told me that profit is "taking in more than you spend." Sounds simple. Of course, the

real question is: *How?* In the entrepreneur's mind, beneath the idea of profit is a more profound concept, the essence of which involves *creating value*.

Successful entrepreneurs understand the relationship between value and profit. What does it mean to create value? The general public thinks about creating value in very broad terms like "doing good," "making something useful" or "helping someone." But the entrepreneur sees value creation in a subtly different way. My gut tells me that something about the creation of value is what links business and social entrepreneurship.

Look out, here comes a whopping generalization. (Hey, my 2:05 a.m. brain deserves a little leeway, don't you think?) Within every successful entrepreneur is a systems thinker.

Successful entrepreneurs tend to think in circles. Where most people would see a linear transaction, effective entrepreneurs see loops of actions, patterns of activity that (the entrepreneur hopes) will repeat. The fundamental question in the entrepreneurial mind is: *How do I repeat this?*

Some examples. An entrepreneur making a cup of coffee thinks, *Where am I going to get the coffee, water and energy to make the next cup?* An entrepreneur building a house thinks, *Where am I going to get the materials, land and labor to build another house?* An entrepreneur writing

a book thinks, *How am I going to feed, clothe and house myself when I write my next book?* An entrepreneur doesn't just want to go to the mountain top. He or she wants to come back down alive and climb again the next day.

Entrepreneurs know that many people can do something once, but to repeat it again and again, to multiply it (to *scale*, as we like to say), requires a special talent. Entrepreneurs explore how patterns unfold to learn how a particular cycle can repeat and multiply. They know that efforts to repeat the story—to make the next cup, build the next house, write the next book, climb the next mountain—require the creation of value. Entrepreneurs understand that sustainability is not enough to allow an effort to scale.

A critical thought: *sustainability is not enough*. My 2:15 a.m. brain is now fully awake. To the non-entrepreneur, this thought might seem greedy and self-centered. We can admit that people involved in third-sector, social-serving organizations feel ambivalent about the drive to create a surplus. Philanthropies are supposed to lose money, right? Aren't they supposed to "give it away"? Altruism is about giving selflessly, right? So why shouldn't it be enough just to sustain something?

Here's why. The successful entrepreneur is quite pessimistic. This dark soul knows that the world is changing so rapidly, and inspires so much competition,

that everything must improve or perish. Listen, says the entrepreneur, today you make a great cup of coffee and tomorrow 100 people are next to you making one exactly like yours, or even better. So your coffee has to strive to be the best theirs, or else no one wants it. And when that happens, it can't repeat. When no one wants your coffee, your business is cooked. So you need extra resources to be able to innovate.

Also, entrepreneurs (powerful systems thinkers that they are) recognize that they themselves have to repeat their own efforts; they must have the internal energy to keep going. Entrepreneurs see clearly that what does not prosper must inevitably shrink and eventually cease. Their system needs surplus value to improve and grow. And of course, entrepreneurs recognize that surplus drives access to capital by creating return on investment. Surplus is the system's lifeblood.

So entrepreneurs understand that their cycles of activity must have a special nature. They must produce more value than they consume. Now if you have ever studied physics, you will notice that this sounds like some kind of medieval alchemy or magic. How can one produce more from something than goes into it? But this is the true meaning of profit. To make a profit is to complete a business cycle having acquired more resources than you had at the start. This experience plants a smile on the entrepreneur's face. Profit is the indisputable evidence that value has been *created*, rather than simply recycled.

When you make widgets in a way that earns more than you spend, you're a successful entrepreneur. When you break even or (nightmares!) lose money, you are working toward being an entrepreneur, but not there yet. OK, let's not mince words. When you lose money, you're a failing entrepreneur. You are destroying resources! Of course, there is nothing wrong with losing money if you learn as you lose, and if you eventually get the cycle to create surplus value. Success in business often arises from the ashes of failure, as we know from experience.

To really understand *social* entrepreneurship, we need to think more carefully about this cyclical process that creates value. The world is full of smart people. Some of these smart people create wonderful, innovative solutions to problems. But not all of the people who create such solutions can create circles that display this special feature of having more resources at the end of a cycle than at the beginning.

Well, says my indignant 2:30 a.m. brain, why does that matter? Why can't one just think up wonderful solutions to difficult problems so the whole world can enjoy them? The entrepreneur replies, "The world thinks that generating innovative solutions is very important. But it's not enough, because without the entrepreneur, those great ideas don't get implemented."

Why? Why isn't a great idea self-executing? Thoreau said, "Build a better mousetrap and the world will beat a path to

your door." No greater lie was ever told! Thoreau should have said, "Build a better mousetrap and find, or become, an entrepreneur, or else you'll die with that mousetrap sitting mouselessly in your kitchen drawer."

People who invent ideas to solve problems often believe that the work is done when the idea is finished. Can you hear them?

Look world, it's so simple! To accomplish [insert difficult task], you just [insert brilliant solution]. There. World, pay attention! Genius has spoken!

But the entrepreneur knows that it is never so simple. The challenge in the world is not creating brilliant ideas. The challenge is creating systems to implement those brilliant ideas, often shown to be significantly less brilliant when they confront real implementation. Knowing the smart thing to do is not the same as engineering a profitable system to do it. Without that system, without that magic recurring cycle that creates surplus value, no energy exists to realize the brilliant solution.

Entrepreneurs learn quickly that creating value is much easier when it is done to serve people who can contribute resources that the system needs to repeat and grow. Entrepreneurs see both investors and customers as integral parts of the systems they build. The customer with significant resources is able to trade resources for value created, and thus not only sustain but grow the

systems that the entrepreneur creates. Without customers who have the capability to trade fair value, successful business models wither and vanish, like crops cut off from sunlight or water. Business models are created to serve customers; they do not create the resources of the customers. There are no sunflowers or shopping malls in the middle of the Sahara. People who possess wealth usually know how to create value. For this reason they respect value creation by trading valuable resources for value received, allowing entrepreneur-built systems to keep humming beautifully. So entrepreneurs flock to serve those who can pay.

Against this backdrop, we confront the daunting task of the *social* entrepreneur, who has an especially difficult assignment: to create value in cycles that serve either people or causes lacking all but modest resources.

This activity seems to exist in two fundamental forms. The dominant path involves convincing wealthy people or organizations, those possessing surplus, to pay for goods or services provided to people or causes lacking resources, splitting off the customer payee from the customer beneficiary. This is the model of a traditional charity. Notice the inherent difficulty: selling something to one person and giving it to someone else.

The battle-tested entrepreneur sees transactions of this kind with a certain clarity of mind. What are these transactions *really* about? Who is really being served and

what is the value being created for them? What really happens in this model is that the entrepreneur creates an additional value, a return of sorts, for the wealthy people or organizations who contribute capital to the systems created.

This value created for the payers is different from the value consumed by the beneficiaries. The value created for those who pay is something we think of as social justice, social capital or simply as doing good by helping others. Of course, this process is essential to helping people who lack resources, but there really is nothing new about it. And it depends (sometimes unfortunately) on the whims of the people and organizations who own the resources, because they are the real clients whose resources make the systems hum.

This traditional model presents a strange process to the entrepreneur. Since the person consuming what the system creates is not the same as the person paying, critical regulating elements normally available in such a system are missing. People may consume something not very valuable just because it is free. Entrepreneurs also see clearly (with their pessimism on display) that no one wants to help someone else forever. People and organizations possessing surplus wealth help others when they want to, when there is nothing that they feel is more important to do. The process is very fickle. It turns out that social justice paid for by wealthy people and organizations is a luxury item of sorts. It can be shed, as

we have seen during the recession. So when an entrepreneur creates a system that depends on charitable feelings to operate, he or she knows all too well that these feelings are mercurial and they may disappear overnight if something better comes along, or if the environment changes and there isn't enough surplus wealth to pay for all the good that needs doing. So what is the alternative?

The alternative, the exciting frontier of social entrepreneurship, is to create systems that produce value so efficiently or with such novelty that they can effectively serve people who have extremely scarce resources.

Sometimes these new systems fundamentally change the underlying context in which those people or causes with scarce resources find themselves, so they can benefit in ways simply unimaginable from within the old systems.

So the genius of Muhammad Yunus' Grameen Bank in Bangladesh, for example, is not that it lends money to the poor. The real genius is that it knows *how to make a profit* serving the poor so that it can innovate and grow! In my own case, the work I do in higher education involves creating a more efficient delivery system showing that investing educational services in those who lack resources can yield returns to sustain and grow the work. When those learners join the productive economy, they create value, returning the investment by paying off their education loans and contributing to the tax base. This process creates wealth. As another example, think of the open-source movements like Wikipedia, brilliantly

employing the Internet to harness the enormous power of voluntary collaboration and exchange to organize knowledge. Social entrepreneurship at work!

So what is a social entrepreneur, really?

A social entrepreneur creates innovative reinforcing systems that serve people or causes lacking resources, thereby producing surplus value that the entrepreneur reinvests to grow and improve those systems. Or something like that.

My 2:45 a.m. brain is going back to sleep now.

David Castro is the President of I-LEAD and its Chief Executive Officer. In 1991, Mr. Castro joined the Philadelphia District Attorney's Office, where he assisted District Attorney Abraham in creating the Public Nuisance Task Force, and served as its first Chief. During his career in public service, David has served as the founding Executive Director of Pennsylvania Weed and Seed, the Executive Director of the Center for the Community Interest, and has been awarded Kellogg, Eisenhower, and Ashoka Fellowships in recognition of his innovative leadership and public service. Mr. Castro is a graduate of Haverford College and the University of Pennsylvania Law School.