United Nations Research Institute for Social Development

Paradoxes of Social Entrepreneurship

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Draft paper prepared for the UNRISD Conference

Potential and Limits of Social and Solidarity Economy

6–8 May 2013, Geneva, Switzerland

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Abstract[1]

Social entrepreneurship ideal combines three principles in one place. I.e. social responsibility, non-profitability based economic solvency and long-term sustainability, especially during the crisis time. These three principles offer three relevant paradoxes namely accountability paradox, excludability paradox and resiliency paradox, at least at the conceptual level. These paradoxes arise in context of the modus operandi of social entrepreneurships. A clear understanding on these paradoxes is very important to advance the agenda of social and solidarity economy in general and social entrepreneurship in particular. Current paper analyses the three systemic paradoxes of the social entrepreneurship and offers some suggestions to address them. The paper argues that social entrepreneurship is a very important concept that should be understood objectively and scrutinized critically as a subsystem of new capitalism.

[1] The views expressed in this paper are those of the authors and are not necessarily those of the United Nations.

Introduction: defining social entrepreneurship

Social entrepreneurship is a type of entrepreneurship that is fundamentally distinct than other traditional profit-making entrepreneurships (e.g., Dees 1998; Emerson and Twerksy 1996; Thake and Zadek 1997). The existence of social entrepreneurships can be tracked back to the early ninetieth century (Bornstein 2004) while current understanding is somehow different from most of the earliest forms of social entrepreneurships, even from some of the famous social enterprises that currently exist. These differences can be understood properly once the social entrepreneurship ideals are put within the context as it started evolving as one of the pillars of social and solidarity economy. Contextualisation of the concept would also be instrumental for my paper as this will set the ground for further discussions. It will also relieve the audience from searching through numerous concepts of social entrepreneurships that are floating around since the concept is still evolving. Therefore, the paper will set-out the assumption, traits and other dynamics related to social entrepreneurships without necessarily referring to any of the definitions that exist, and try to understand the relation between social entrepreneurships, development and welfare to the society, with refereeing to the contextual concepts of it.

The context

The new understanding of social entrepreneurship started in the beginning of the last decade (Bornstein 2012) as part to the discussion of a solidarity economy as it was widely evident that the existing financial capitalism failed to address some of the very important social problems societies facing across the globe. The ideas for social entrepreneurships were to do business as well as to retain some of the very basic principles of human rights, environmental protection, and also to address some of the failures of markets. The reason for the new evolvement of the concept was highly related to the development of a capitalistic system under Structural Adjustment Programmes during the 1980s and 1990s, by which the countries undertook reforms in their financial and real sectors through privatization, deregulation and fiscal adjustments. These measures were believed to deliver development through tricked down mechanisms, which didn't work as promised. Governments were largely curbed out from the market making social policies residual in nature and as a result, income gaps between rich and poor widened historical high. Social safety nets advised by the proponents were fall short in addressing social problems and there was an understanding that proactive social policies are essential to address market failures. Relative successes of NGOs in delivering social services in the absence of governments also opened up the discussion of social business as that can benefit from the successes of the not-for-profit sectors. Over the last three decades, NGOs and voluntary sector became one of very efficient and cost-effective ways to provide some of the social services, especially in the developing countries where governments were inefficient, expensive and weak (Ulleberg 2009). So a revolution of the not-for-profit voluntary sector has been seen that provide some social goods across the globe, particularly in the global south.

However, the discussion on social entrepreneurships got momentum after the financial crisis triggered in the middle of the last decade. The recession provided three very important circumstances that helped the social entrepreneurships to become one of the major avenues for the search for a new and responsible capitalism: a) governments all over the world became financially weaker than they were before the crisis in terms of their fiscal capacity, and sovereign debts; b) traditional entrepreneurs, including some of the most reputed financial institutions lost their credibility and some of them went bankrupt; c) proactive social policies became the main issues to be included in the capitalistic system to ensure equity within the system in the wake of some massive protests, including Occupy Wall Street movements in the US revealing the fact that only 1 per cent of the world's population owns the 99 per cent of worlds' wealth. In this context, social entrepreneurships seem to satisfy all parties affected by the financial crisis in the following ways:

1. Social entrepreneurships give the governments some good reasons for rolling back from their responsibilities to provide social goods. Given the fact that most of the governments are simply unable to expand any services because of their financial constraints, social entrepreneurs give the governments a leeway to quit. In this case, social entrepreneurs exploit the experiences of not-for-profit sectors as they have been performing very well in delivering social goods in terms of efficiency, coverage and effectiveness.

2. Social entrepreneurs give the traditional entrepreneurs a chance to regain their reputation with some kind of partnerships with these not-for-profit sectors in the areas of social business.

3. Social entrepreneurs give the capitalist system another chance to succeed and make them more resilient to the crisis while including some of the very important aspects related to equity and social justice.

Social entrepreneurship thus seems the obvious outcome to address the pitfalls of the prevailing capitalist system as it is the win-win-win situation for the governments, non-profit-sectors, and business communities affected to different degrees through the financial crisis. Schumpeterian innovation is the key here that allows social entrepreneurships to do social businesses in a different way, governments to give-away some of its responsibilities, lets the not-for-profit sector to expand even rapid, and gives the business enterprises an opportunity to engage with the not-for-profit sector to regain their reputation. That is what we mean by social entrepreneurships as we mention the concept within the context of social and solidarity economy and in the post-2015 development agenda.

The contextual definition

In line with the discussions in the previous section, social entrepreneurships solve social problems (Austin, Stevenson, & Wei-Skillern, 2006; Dees 2001) in a financially sustained manner (ILO 2011) and thus, reduce government burden during the economic crisis. They are neither business enterprises (as they don't make a profit) nor charities (as they don't depend on grants and donations for their delivery of social goods and services). They are also distinct from the Corporate Social Responsibility realm even though their works relate to social responsibilities. The social entrepreneurship ideal combines three principles in one place. I.e. social responsibility; non-profitability based economic solvency and long-term sustainability especially during the crisis time. The overarching principle is that they do business differently than the other traditional enterprises through Schumpeterian innovations.

Three paradoxes of social entrepreneurships

Social entrepreneurship is considered as one of the important pillars for the social and solidarity economy (ILO 2011). It combines three principles in one place. I.e. social responsibility; non-profitability based economic solvency and long-term sustainability, especially during the crisis time. These three principles offer three relevant paradoxes for social entrepreneurships ideal, at least at the conceptual level.

First paradox: accountability paradox

Social enterprises respond to social problems and thus, deliver social goods that bring up the first paradox of the concept, i.e. accountability paradox. Traditionally, governments and public institutions deliver social and public goods, and the citizens make the governments accountable for their delivery of services. In a modern state, the citizens and the government have a social contract by which citizens pay taxes, and the government delivers social goods (Ortiz 2007). Governments are held accountable for their success and failure in providing social and public goods at the local, national, and global levels. Accountability paradox is built around the accountability and responsibility aspects of social services provided by social entrepreneurs who replace government institutions in delivering those services.

What social problems?

As social entrepreneurships in conceptually aims to solve social problems, the first question comes in mind is what kind of social problems? If the social problems are related to national security and other sovereignty related issues, the social entrepreneurs are not the right institutions to address these problems- that's for sure. Social entrepreneurs may come forward to social problems like education, health, housing and other social services that the existing market or government arrangements fail to respond to. However, from the conceptual domain, it is not clear on what particular type of failures social enterprises aims to handle. If it is the market failure, then social entrepreneurs are welcome to innovate ways to solve that particular market inefficiency as governments are constrained by financial abilities. Many of the proponents of social and solidarity economy will argue that the governments should play a truly active role as the current system lacks an effective equity principle for development, however, given the fiscal weaknesses, most of the governments would not be able to expand their services to address market failures and would be very happy to see some social enterprises come into play. The social entrepreneurs who address market failures, in this context, are less problematic as some of these issues would go unaddressed any ways as governments are not simply in a position to correct these problems. Nevertheless, if social enterprises aim to address government failures, then it would be a very different discussion and need more caution in understanding the working of social entrepreneurships. It is, however, true that government and market failures are sometimes so heavily linked that it is very hard to differentiate between them. The lack of regulatory mechanisms for financial markets during the recent financial crisis is a government failure while that is severely induced by the operations of markets (Tanzi 2011).

The accountability paradox is especially critical in a context when policy makers and other stakeholders stress on the proactive role of government as they found social policies became residual policies in many countries- thanks to the Structural Adjustment Polices during last decades. Any further roll back of the governments from the social services is believed, to have disproportional impacts on marginalized and vulnerable people within the society. The recent economic crisis also called for a strong government role to overcome the market failure. There are numerous government failures in the developed and developing countries while the call now is to overcome these failures, not to retreat from the responsibilities of the governments.

Government failures often give way for charities and social entrepreneurs to come delivering social goods and services. In a social and solidarity economy, social entrepreneurs increasingly involve in providing social services in countries where governments are feeble due to their limited resources, weak governance structure and fragile political institutions. It is not surprising that the social entrepreneurs would deliver social goods and services more effectively than many governments in developing countries. Thus, governments in these countries may find an easy escape from their responsibilities of providing social goods and services to their citizens by the fact that the social enterprises deliver those services effectively. If this continues, over time, social enterprises would become the prime suppliers of goods and services instead of many governments in many developing countries. The paper argues that providing social goods through social enterprises would be a good starting point while prone to become paradoxical by which people may find no legitimate authority that accounts on them for any mishaps in providing social goods and services.

Given the fresh call for a proactive role of governments in the wake of the recent financial crisis, and the emergence of social entrepreneurships as a new narrative for responsible capitalism, I would like to limit my discussion on the interplay between government and social entrepreneurships while referring to government failures. I will concentrate on two possible scenarios of government failures and the operating of social entrepreneurships to assert some of the issues related to the accountability paradox of social entrepreneurships.

Scenario 1: weak governments and strong social entrepreneurships

All over the world, governments became financially weak in terms of their ability to provide social services regardless of their developmental status. This weakness of governments may serve as an opportunity for the social entrepreneurs to come forward to engage themselves in solving social problems.

In developing countries, there are already strong presences of NGOs that work on various social issues largely replacing governments from these services because of three advantages they enjoy vis-à-vis governments that are equally applicable to social entrepreneurships, at least at the conceptual level. These three factors are: a) operating cost for the social services provided by the NGOs are less than the government counterparts; b) the business model is more user-friendly and customer oriented than the government initiatives; and c) NGOs are either locally based or work with local groups that give them better access to customers than the governments. Unlike the governments, NGOs go to customers instead of waiting for them to come.

Social entrepreneurs would have same kinds of advantages as NGOs over governments. Given the success of NGOs in developing countries, we assume that the social entrepreneurs will become major suppliers of social services and eventually crowd-out governments from most of the social services. What would be the accountability framework in case government's crowd-out and leave social entrepreneurs to serve its people? If people are not happy with services provided by social entrepreneurs, what would be the mechanism to address that? It is evident and important to keep in mind that some of the projects undertaken by NGOs in developing countries proved unsustainable (Guardian 2012) in the long run while seemed useful at the beginning. In case of social entrepreneurships, what would be the mechanism to deal with this short-term and long-term dichotomy? It should be understood that only being social entrepreneurs does not guarantee that these entrepreneurs wouldn't seek for monopoly and engage in activities that might turn out to be socially bad.

Scenario 2: weak government with failed social entrepreneurships

The scenario 2 is even more problematic than the previous one when a social entrepreneurship fails, as like as many other entrepreneurships. If the entrepreneurships fail at the beginning, governments may have a chance to correct their failure. If the failure comes after the government has already crowded-out from the market, it becomes very hard for governments to come back and reengage themselves the social services. It would be very expensive, time-consuming and challenging in terms of efficiency, effectiveness and access as the governments were absent or less active in providing the services. Some developing countries were trying to re-establish some of their previous institutions that were dissolved during the Structural Adjustment Programmes and that seemed to be very difficult given the fact that the governments were absent from the market for so long.

In many cases, re-establishment is just simply impossible. If social