

## **Social Entrepreneurship: A Golden Opportunity for China to Show Global Leadership**

Based on a speech delivered by J. Gregory Dees on December 3, 2010 at the 10<sup>th</sup> Anniversary Celebration of 21<sup>st</sup> Century News Group in Beijing

Social entrepreneurship is as important to the health of a society as business entrepreneurship is to the health of an economy. The world is coming to recognize this as societies struggle to address persistent, evolving, and complex social problems. Yet, no society has created the optimal environment for this kind of creative social problem-solving to thrive and create maximum benefits.

Because China is a society in transition, it is well positioned to create a strong environment for social entrepreneurship. This will help China cross the bridge from rising prosperity towards more inclusive growth and greater harmony. The same drive, skills, and capabilities developed in the rapid economic expansion of the past three decades can now be turned toward the challenges of improving society.

**The Need for Societies to be Adaptive.** All societies face constant change—economic, demographic, political, technological, and so on, both internally and externally. Because the changes interact with each other in complex ways which are hard to predict, the policies created to deal with these changes frequently result in unintended consequences. When this is combined with the competing demands of different groups in a society and the scarce resources at government's command, it becomes clear that societies are bound to have problems, tensions, and challenges that cannot be fully addressed by government action alone. Other actors must be part of the solution.

If societies want to address the kinds of problems, challenges, and tensions likely to emerge in this rapidly changing world, they must be ready to adapt. This means being alert to trends, as well as being flexible in adjusting to the changes. Successful societies will empower innovators to experiment with responses to the changes, because it is hard to predict which innovation will work best. They will learn from these experiments and make decisions about the best path forward based on the knowledge gained from these experiments. Successful societies will also value resourcefulness, innovations that make good use of scarce resources. Also, societies that encourage collaboration will benefit because the best solutions often require crossing sector and disciplinary boundaries.

Social entrepreneurs have a key role to play in making societies more adaptive and resourceful. They serve as the learning laboratories for society. They bring private initiative, ingenuity, and investment into the realm of solving social problems. They serve as a helpful supplement to government action because they can often move faster than government and can engage in small experiments from which government policymakers can learn. They also supplement government

resources with private resources and business models that do not depend exclusively on government funds.

**What Is Social Entrepreneurship?** Social entrepreneurship is the application of entrepreneurial methods to solving social problems or improving social conditions. We get the idea of entrepreneurship from 18<sup>th</sup> century French economics, where it typically referred to actors in an economy who initiated new ventures. They were seen as particularly valuable because, as economist J. B. Say proposed, they shift “resources out of areas of lower and into areas of higher yield and productivity.” This means that they create more benefit with fewer resources. How do they accomplish that? Austrian economist, Joseph Schumpeter, writing in the first half of the 20<sup>th</sup> century shed light on that by observing that the function of entrepreneurs is to “reform or revolutionize the pattern of production.” They are innovators. They change the way we do things so that the new methods are superior to the old methods.

Towards the end of the 20<sup>th</sup> century management guru, Peter Drucker, pointed out, “The entrepreneur always searches for change, responds to it, and exploits it as an opportunity.” The same change that poses problems for society makes it possible for entrepreneurs to come up with innovations and to identify opportunities for action and improvement. Harvard Professor Howard Stevenson has written that entrepreneurs pursue opportunities “without regard to resources currently controlled.” He means that entrepreneurs start by envisioning the opportunity and they mobilize the resources to pursue it. They make the best of what they have in hand, but are not limited by it. They are skilled at attracting resources from others.

Social entrepreneurs exhibit all these same traits. They are opportunity-oriented, innovative, and resourceful, but they direct these virtues toward improving society instead of simply making money. Their primary goal is to improve social conditions, to move society closer toward our shared ideals of a just, inclusive, healthy, harmonious community. Some may combine making money with serving social objectives by running inclusive social enterprises. Others may engage in social entrepreneurship as NGO organizations. According to our definition, all social entrepreneurs 1) identify and relentlessly pursue opportunities to create sustainable solutions to social problems, 2) continuously innovate, adapt, and learn, 3) act boldly, not constrained by resources currently in hand, and 4) hold themselves accountable for achieving their intended social impact and using resources wisely.

**Examples Are Wide Ranging.** Let me mention a few examples to illustrate the definition and show that social entrepreneurship can address many kinds of social problems.

Many people are familiar with the story of Grameen Bank and Muhammad Yunus. Yunus won the Nobel Peace Prize in 2006 for his work in microfinance,

making small loans to poor people allowing them to build small businesses and move out of poverty.

In another example, two social entrepreneurs saw serious waste disposal problems in the crowded city of Dhaka in Bangladesh. They formed Waste Concern to collect organic waste, convert it into fertilizer to improve soil quality for Bangladeshi farmers, and employ the poor. Waste Concern has become an expert on solid waste management and recovery and has helped the city, the farmers, and the poor people who are now employed.

VisionSpring is a social venture that provides reading glasses to the poor at a very affordable price through convenient sales channels. Low cost glasses are manufactured in China and imported into India, El Salvador, Bangladesh, and other countries. They are then sold through vision entrepreneurs—poor people trained by VisionSpring to prescribe the correct strength of glasses—or through health promoters associated with partner organizations. This gift of sight allows people to participate in the economy by doing tasks that were difficult without clear sight.

Canyou Software is an example of a software company in China that was created by a man with disabilities and is run by people with disabilities, allowing this population to participate in the economic growth of the high tech economy.

The Latino Community Credit Union was created in Durham, North Carolina in the USA to provide banking services and financial education to immigrants who were not being served by the mainstream banks because of language and cultural barriers. This credit union became one of the fastest growing in the US while helping many poor immigrants develop better financial management and access loans to buy cars and houses.

Some examples of social entrepreneurship involve major corporations. One of the most striking in recent years is the creation of M-PESA (which means “mobile money” in Swahili). M-PESA was developed by Sagentia (now run by IBM Global Services) for Vodafone, one of the world’s largest telecom companies, and its Kenyan affiliate, Safaricom. M-PESA allows mobile phone users to deposit and withdraw money, transfer money, and pay bills via a network of retail outlets. It operates in Kenya, Tanzania, South Africa, and Afghanistan, with Kenya being the first and most successful so far. Many of the poor use this service as a low cost, convenient, safe way to manage their money. Assessments indicate that this system has a variety of positive effects in helping the poor.

In another example of major corporations engaging in social entrepreneurship, several corporations have partnered with Grameen and Muhammad Yunus to create social business ventures in Bangladesh. For example, BASF has agreed to create a plant in Bangladesh to produce long lasting insecticide impregnated bed nets to protect against insect-borne diseases and multi-micronutrient sachets to improve child nutrition. These will be sold to the poor at an affordable price and some will be sold through Grameen’s network of micro-entrepreneurs.

**How Social Entrepreneurs Help Society.** The adaptive society will be one that empowers social entrepreneurs to search for solutions to the social problems that arise from on-going changes in society. Social entrepreneurs can recognize the effects of changes and move quickly to respond. They can work together to coordinate responses, or they can work with government or the private sector to collaborate on an effective response. They are flexible. They can experiment with different approaches. We can learn from those that do not work well, and shift resources to those that do work well. Social entrepreneurs supplement government resources and ingenuity. By decentralizing social problem solving, a society allows for the development of different solutions tailored to different conditions in different locations or different groups. Nobel Prize winning economist Douglass North coined the term “adaptive efficiency” to capture “the ability of a society to acquire knowledge and learning, to induce innovation, to undertake risk and creative activity of all sorts, and to resolve problems and bottlenecks of the society through time.” According to Professor North, “Adaptive efficiency, therefore, consists of encouraging the development of decentralized decision-making processes that will allow societies to explore many alternative ways to solve problems.” Social entrepreneurs develop those alternative ways to solve problems.

It is important to note that this kind of problem solving is not the same as charity. Charity may be needed, but it alone is not a solution. Leading social entrepreneur and Nobel Peace Prize winner Muhammad Yunus says, “When we want to help the poor, we usually offer them charity. Most often we use charity to avoid recognizing the problem and finding a solution for it. Charity becomes a way to shrug off our responsibility. Charity is no solution to poverty.” Charity provides temporary relief of suffering. A solution provides a sustainable improvement in conditions. Social entrepreneurs are looking for sustainable improvements.

**The Need for a Supportive Environment.** As with business entrepreneurship, social entrepreneurship will not thrive without a supportive environment. If it is too hard for social entrepreneurs to create their ventures, attract the necessary financial and human resources, if they are not respected in society, and if they have nowhere to turn to develop their capacities to scale their impact, the society will not achieve the maximum benefit from their activities. They will be discouraged from even trying or will fail not because their ideas are wrong, but because they lack the support to give their ideas a good test.

Social entrepreneurs exist in an ecosystem. For that ecosystem to be strong it needs to have several elements in place.

**1) Supportive Public Policy.** Social entrepreneurs need legal forms of organization that are suitable for creating their ventures, and they need a process of forming these organizations that is not too costly or cumbersome. If it takes a long time or a great deal of money to form a new organization, then many social entrepreneurs may exhaust their funds before they even get started. They need favorable regulations and appropriate taxation that reflects their positive social

impact. China will have to review its laws and regulations and perhaps develop new ones.

2) **Financial Resources.** Social entrepreneurs need to be able to access financial resources in terms that are appropriate to organizations with a social mission. This means philanthropic resources, along with loans and investments that may not be expecting to receive the kind of return that would come from a purely moneymaking venture. These resources should be tied somehow to past social performance or reasonable expectations of future social performance. There needs to be a disciplined financial market. The wealth that has been generated in China over the past three decades can be channeled to support social ventures, but this needs to be done with wisdom and efficiency.

3) **Talent Pipelines.** Social entrepreneurs cannot be successful unless they can attract talented individuals to work with them as volunteers or as paid staff. This means that educational institutions need to prepare students for this kind of work, which requires skills from different disciplines and fields. Expertise in a social area such as education, health care, or environmental studies will not be enough. Skills in business, management, and social change need to be included in the mix. Some Chinese universities are already developing programs to prepare students for this work, but more will be needed.

4) **Cultural Understanding.** Social entrepreneurship needs to be widely understood and embraced in the culture as an important function in society. It needs to be valued so that talented people (young and old) will consider it as an option for their careers. It needs to be taken seriously and not treated simply as something nice to do. It is hard work that should be held in high esteem. This is where the media, such as 21<sup>st</sup> Century New Group can help.

5) **Capacity Building.** Institutions need to be in place to help social entrepreneurs build their capacities to do this work well. This includes educational programs and institutions, supported by solid research and publications. China can learn from work that has gone on in other parts of the world, but China will also have to develop structures for helping its social entrepreneurs develop their capacities to perform at high level.

**The Golden Opportunity for China.** Social entrepreneurship is an important tool for helping China move from prosperity for a few to a society characterized by inclusive growth, a healthy environment, and social harmony. During the past three decades, China has shown that it can build new capabilities and institutions rapidly. If this power can be directed toward creating the kinds of environment needed to stimulate and support social entrepreneurship, China could become a model for the world.

Many other countries are working to create a positive climate for social entrepreneurs, but they are working against a backdrop of old traditions. China is in a transitional period and, therefore, could be better positioned to create something new than many other countries. China does not need to simply copy what other countries have done. China can improve upon what other countries have done using

the new understanding of social entrepreneurship that has emerged in the past two decades.

I am optimistic about China's ability to take a leadership role in this area, despite the fact that this concept is relatively new to China. I base this on conversations I have had with different leaders in China from the world of media, the universities, the government, and business. I have seen in these meetings a desire and ability to move forward to support social innovation. I have been very encouraged by work that is being done at the China Center for Comparative Politics & Economics, Tsinghua University, Beijing Normal University, the China Social Entrepreneur Foundation, the Narada Foundation, the All China Youth Federation, and many others. I have had thoughtful conversations with officials in the Legislative Affairs Office. And, of course, I am highly impressed by the dedication of 21<sup>st</sup> Century New Group to this issue. This conference is a strong indication of the commitment of this visionary organization.

Positioning China to become a leader in social entrepreneurship will require the help of many players. Corporate leaders should look for opportunities to use their business skills, technological know-how, operating capacities, and financial resources to address social problems. Government leaders should remove barriers and create appropriate legal structures and regulations to empower social innovation and support research to capture the lessons learned. Philanthropists and investors should focus their resources in a disciplined way on supporting social entrepreneurs and on capturing the knowledge learned, so that their resources are used wisely in the future. University professors and leaders should educate students to be effective social entrepreneurs, and they should conduct research to draw out the lessons learned from the activities of social entrepreneurs. Scholars should also advise public and private leaders on policies and strategies for supporting social innovation. Universities should consider incubating new social ventures that emerge out of the work of their faculty and students. Finally, media leaders, such as 21<sup>st</sup> Century, should cover social entrepreneurship seriously (not just as "feel good" stories), just as they would business entrepreneurship. They should use their investigative reporting skills to help to identify the successes and draw lessons from the failures, highlight companies, NGOs, and individuals, who are engaged in this work.

Thank you for this opportunity to speak. I am eager to watch the progress of social innovation and entrepreneurship in China, and happy to help advance it in what ways I can.