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Social Entrepreneurship

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Contents

7

Navigating Social and Institutional Barriers to Markets: How Social Entrepreneurs Identify and Evaluate Opportunities

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Introduction

Entrepreneurship research can be broadly placed into three categories: that which examines the people (entrepreneurs); that which examines the process and that which examines the entrepreneurial or business opportunities. This chapter specifically looks at social entrepreneurial opportunities and the process of identifying and evaluating these types of opportunities. I address three important questions:

- What makes social entrepreneurial opportunities different from other types of opportunities?
- What makes social entrepreneurship special?
- How do social entrepreneurs find social entrepreneurial opportunities?

The phenomenon of social entrepreneurship

For the purposes of this chapter, I define social entrepreneurship (SE) as a *process* (Shane and Venkataraman, 2000) that includes: the identification of a specific social problem and a specific solution (or set of solutions) to address it; the evaluation of the social impact, the business model and the sustainability of the venture; and the creation of a social mission-oriented *for-profit* or a business-oriented *nonprofit* entity that pursues the double (or triple) bottom line. This approach to defining SE allows for future research directions and for clearer distinctions from 'traditional' entrepreneurship.

Recently, there has been an explosion of interest in the phenomenon of *SE*. It is an attractive area for practitioners, policy makers, the media and business schools because it addresses several issues in society (Dees, 1998; Thompson, 2002; Alvord, Brown and Letts, 2004; Brainard and Siplon, 2004). SE is a uniting concept that demonstrates the usefulness of business principles in achieving social goals. The term SE is an umbrella term that includes social enterprises, social venture capital, and social purpose organizations. It is a term that is being used all around the world to describe the people, the ventures and the activities that innovate for social good. Social entrepreneurs who span these sectorial boundaries are particularly adept at innovation.

Social entrepreneurship has the potential to bring an interdisciplinary array of actors together leading to various boundary-spanning research and practical activities. The result of such boundary-spanning is the rearrangement and recombination of the existing organizational forms and roles. This hybridization of organizational forms and roles follows the law of requisite variety: difficult problems require innovative solutions. Social entrepreneurs are engaged in creating these innovative solutions.

Although SE is a global phenomenon, it has not happened in all of these places for the same reason. In developed nations, SE is on the rise because of the decline of the welfare state. Vital gaps in the social safety net and changes in the institutional environment have led to social entrepreneurial opportunities. As I report in this chapter, the ability to fill these gaps with innovative solutions is a phenomenon worthy of study. In less-developed, developing and emerging economies, SE arises out of a combination of distrust of the NGO community, apathy within the private sector, and the impotence of the government to provide services to the people. For example, in Soweto, South Africa, social entrepreneur Mdala Mentoor created *Soweto Mountain of Hope* in response to the dire conditions of poverty that existed in his community. His organization generated funds from the products and artwork developed onsite and from the businesses they are incubating. In both of these examples, those that pursue social entrepreneurial opportunities are using the same process to achieve their goals. I will discuss this process later in the chapter.

Initiating a research agenda in SE

Much of the media attention related to SE focuses on the exceptionalism of individual social entrepreneurs. While I agree that these actors are important, I believe that the process of SE is underexplored. It also concerns me that a focus on the actors alone will lead some to believe that the achievements of social entrepreneurs can only be made by an elite. Academic research must go further and demystify how SE takes place. To date, however, there has been little academic research conducted in this area. My own literature review of academic journals and working papers posted at universities revealed only 15 papers that directly addressed SE research issues.

The point here is that we need more than journalistic accounts of the phenomenon of SE. I propose that academic research exploring the phenomenon of SE can take two paths. One path is to analyze SE in the light of current explanations of organizational life. Alternatively, scholars may take a grounded theory approach and see what new theories might come out of an in-depth understanding of the phenomenon.

This chapter begins with a discussion of two relevant theoretical approaches to the phenomenon of SE: the Austrian approach and entry barriers. I then present a framework for understanding entry into *social sector markets* and demonstrate its relevance to SE. I discuss how this framework explains the first two steps in the SE process (identification and evaluation) and the navigation process that takes place. In the second half of this chapter, I apply the framework to an analysis of six social venture case studies and demonstrate its usefulness for future research on social entrepreneurs. Finally, I present three themes that arise out of a second analysis of the data, and the implications of these themes for research and practice.

Theoretical background

The Austrian approach to the economics of entrepreneurship is particularly useful for defining two important aspects of SE: 1) social sector markets; and 2) social entrepreneurial opportunities.

The Austrian approach emerges from a strong critique of neoclassical economics (Kirzner, 1997). In this critique, proponents of the Austrian school argue that the neoclassical approach cannot accommodate entrepreneurship into its theories of equilibrium. Following the Austrian theorists, Kirzner (1997) and Hayek (1945), I believe that markets are more often in disequilibrium than in equilibrium. Disequilibria in the economic, social and institutional environment lead to entrepreneurial opportunity. Alert entrepreneurs will discover these opportunities more readily than those who are not alert. Shane (2000: 450) summarizes the Austrian approach in three points:

1. People cannot recognize all opportunities,
2. Information about opportunities determines who becomes an entrepreneur,
3. The process depends on factors other than a person's ability and willingness to take action.

This tradition of entrepreneurship is relevant to the analysis of SE and social sector markets where it is clear that equilibrium conditions do not exist. In fact, SE may exist because of a desire by some highly motivated individuals to address the issues of disequilibria in the areas of wealth, income, employment, human capital, and social capital. Often, social entrepreneurs are working in parts of society that are impacted by transitions and inequalities in the economy. For this reason, the Austrian approach is relevant to defining both the social entrepreneurial opportunity and the social sector market.

Social entrepreneurial opportunities and markets

Entrepreneurship theorists have placed much emphasis on the existence of definable opportunities that entrepreneurs pursue (Shane and Venkataraman, 2000). The pursuit of business opportunity presupposes the identification and discovery of an opportunity and a subsequent evaluation that may (or may not) lead to the pursuit or exploitation of that opportunity. These are critical links for any research program related to foundings, new venture creation, new products and strategy.

Only recently have scholars struggled to define opportunity in a technical fashion. Singh (2001: 11) generically defines it as:

> …a feasible, profit-seeking, potential venture that provides an innovative new product or service to the market, improves on an existing product/service, or imitates a profitable product/service in a less-than-saturated market.

Under this definition, opportunities exist in markets whether an entrepreneur or manager recognizes them or not. This is consistent with Kirzner (1997) and his fellow Austrian economists. They consider everyone a potential entrepreneur because there are potential opportunities everywhere. If we accept this definition of who can be an entrepreneur then it follows that we should also accept the premise that opportunities are everywhere. Is there something special about social entrepreneurial opportunities that makes them different from other opportunities? I argue here that social entrepreneurial opportunities are a special case of opportunities. They are a special case because they are embedded in a social sector market. The social sector is known by various names – the third sector, the independent sector and the citizen sector (Bornstein, 2004). It is the part of the economy that provides all of the social services and products in any community and has direct benefit to society. Those benefits can be strictly social or strictly environmental or both. Governmental agencies, nongovernmental organizations, private companies, and private citizens all participate in this sector of our global economy.

Social sector markets have two defining characteristics. First, they are social in nature: in other words, the context of these markets has a significant impact on greater society. Second, they are highly influenced by both formal – and informal – social and institutional factors. Often, social sector markets are geographical areas (neighborhoods, communities, regions, or states) where a particular social problem or issue is prominent. As a result, social sector markets are challenging because they typically arise from situations where the formal and the informal economy are tightly coupled.

The markets and communities where social entrepreneurs operate are certainly representative of this type of market. Portes (1994) and others have explored the intricacies of the informal market. The formal economy is supposed to be regulated, predictable and able to smoothly transact in a near-pure market. The informal economy is not regulated, irregular and more prone to the idiosyncrasies of personal relationships. Because of this tight coupling and the ebb and flow of economic and social conditions, social sector markets pose an enormous challenge to the potential entrepreneur or business manager. Social entrepreneurs may predict that their services have a high impact on the lives of residents in a poverty stricken area, but soon become disillusioned when their venture is isolated within the community and customers/clients do not come to receive their services. This type of situation speaks to the need for both creativity in identifying opportunities, and innovative business practices in executing a social venture plan. Fully understanding social sector markets is a critical step toward understanding SE. The characteristics of these types of markets are the source of the entry barriers to social sector markets and are important for this discussion.

Social and institutional entry barriers to social sector markets

Entry barriers are the other side of the opportunity coin. Entry barriers represent some of the criteria entrepreneurs use to evaluate business opportunities once they are discovered. The perception of these entry barriers will influence the entry decision. After several years of researching business entry and nonentry into inner city markets I have concluded that SE opportunities are best analyzed in the context of the social and institutional factors that help to create them. I call these factors social and institutional entry barriers. I argue in this section that social entrepreneurs understand how to navigate these barriers in the SE process.

The concept of barriers to entry is well-documented in the literature of economics and business. As early as 1907, economist John Bates Clark wrote about keeping 'potential competition' at bay. Bain (1956) coined the term 'barriers to new competition' in the seminal work on the subject. Scherer (1980), Porter (1980) and others have clearly stated the importance of five barriers to entry in business strategy: capital requirements, cost advantages, switching costs, distribution access and proprietary assets. These barriers are tangible and generally address the issues of economies of scale and scope. Overcoming these barriers is the key to survival.

The implication of this work instructs firms to create and deploy mechanisms of deterrence that would prevent competitors from entering their markets. Researchers from various perspectives have considered the efficacy of such entry barriers in small business economics and entrepreneurship (Casson, 1982; Acs and Audretsch, 1988; Acs, 1999), strategic management and industrial economics (Porter, 1980; Harrigan, 1981; Schmalensee, 1981; Wagner, 1994; Klepper and Simons, 2000) and organizational theory (Tucker, Singh and Meinhard, 1990; Hannan, Carroll, Dundon and Torres, 1995; Carroll, Bigelow, Siedel and Tsai, 1996). Porter (1980) presented a typology of entry barriers that has become the backbone of strategic management theory. Today, when we teach business strategy and entrepreneurship in business schools, we explain that entry barriers serve two functions. First, an entry barrier deters the entrepreneur from entering new markets. Put simply, if the barriers are 'too high', a firm cannot (or will not) enter the market. Second, we describe entry barriers as something that should be erected behind the entrepreneur to protect her from competitors seeking to enter the same market. These have been explained as the major investments, learnings and innovations that are made, found and implemented within the firm and that are difficult to imitate outside of the firm. These types of barriers to entry, however, do not explain the breadth of challenges and opportunities afforded to firms seeking to enter social network markets.

To advance this argument I propose that entry barriers fall into three categories. I refer to the traditional entry barriers described by Bain (1956) and Porter (1980) as *economic barriers*. Economic barriers are related to market structure (that is, the concept of structure-conduct-performance in Scherer, 1980). I refer to the second type of entry barriers as *social entry barriers*. Social entry barriers such as the lack of networks of resources and access to an appropriate workforce are related to the social structure of the market. The third type of entry barriers I refer to as *institutional entry barriers* (that is, norms, values and order) and these are related to the institutional structure of the market.

Before I further describe these types of barriers, it is important to note that this framework for entry barriers shares Granovetter's (1985; 1992; 1999) conclusion that all economic action takes place within a social and institutional structure. SE, in particular, lends itself to this approach because of the goal to solve complex social problems.

Types of Entry Barriers

Economic entry barriers

Economic entry barriers are those defined by Harrigan (1981) as investments in a business that build up its technology, resources, and competitive advantage to a level where it is difficult for others to compete. In this case, the deterrent is financial (economic) in nature. Examples of economic entry barriers include cost advantages, product differentiation, capital requirements, customer switching costs, technology investment and research and development investment.

Social entry barriers

Social entry barriers prevent an entrepreneur from using the social network of relationships that exist within a market to her advantage. These interfirm, employee-employer, formal economy-informal economy and other firm-to-resource relationships are embedded in the social structure of the market. There are at least five categories of social networks that may present barriers to firm entry: business owners, business organizations, civic organizations, political infrastructure and attractive labor markets.

Information is communicated and resources are delivered through these networks. The lack of access to these social networks can be a significant deterrent to market entry, especially for new ventures. It is well-documented that access to trust networks (Uzzi, 1997), information, market knowledge, and other resources can enhance the survival of new ventures (Burt, 1992; Ingram and Simons, 2000). The lack of such access may prove to be fatal for the firm steered into an unfamiliar market. When an entrepreneur is making the entry decision, and she does not have access to the network of actors in the target market, this poses a significant entry barrier.

Table 7.1 Examples of social entry barriers in social sector markets

Social entry barriers	Examples
Lack of access to local networks of business owners and other social ventures	• Memberships in local business owners organization • Access to informal trust networks
Lack of access to local networks of business organizations and resources	• Relationships with local business development organizations • Relationships with local banking institutions
Lack of access to local networks of community-based and social organizations	• Relationships with faith-based or community development organizations
Lack of access to political infrastructure	• Relationships with local political figures
Lack of access to pool of labor and talent	• Relationships with workforce development organizations

Institutional entry barriers

Institutional entry barriers prevent an entrepreneur from knowing or accommodating the rules, norms and values that contribute to the culture, order and practices of a market. They occur at multiple levels in a market and dictate the relationship between a firm and the consumer, and the firm and the community. These are related to the institutional structure of a market.

In describing the new institutionalism in economics, Ingram and Clay (2000) argue that institutions form the basis of order and help to smooth interactions among actors. These institutions can be public or private in their source and centralized or decentralized in their making. For the social sector market, the interdependence of the public (centralized and decentralized) and private-decentralized forms is of importance to strategy and entrepreneurship. My framework focuses upon these three forms of institutional entry barriers.

Formal (or public) institutional barriers

Governmental systems, laws, financial markets and lending institutions are codified and formalized institutional structures that smooth the transactions between actors. Formal institutional barriers may deter entry to a market if the market does not have the appropriate institutions to encourage entrepreneurial activity. For example, if the market opportunity is in a place where there is significant disorder and disregard for property rights, it may not be the most inviting market to enter. Some markets do not have active financial markets. For entrepreneurs engaged in commercial ventures, this could be disadvantageous for their firm. Some entrepreneurs will not consider these markets because they do not believe they can overcome the existing institutional barriers to create their social ventures.

Table 7.2 Examples of institutional entry barriers in social sector markets

Institutional entry barriers	Examples
Lack of knowledge of local norms, values and culture	• Knowledge of cultural holidays and celebrations
Lack of social order	• Significant criminal activity • Abandoned housing ('broken windows')
Lack of government/quasi-government 'attention' that creates an 'environment for business'	• Lack of significant business presence and low self-employment
Lack of active financial markets	• Redlining of neighborhoods • Inactive banking community

Cultural barriers

Cultural entry barriers are informal institutions. Language, slang, dress and etiquette are often critical to a firm's success in securing stakeholders' goodwill and trust. Cultural norms are the attitudes, beliefs, and expectations about behavior in a market. These forms of cultural capital (Bourdieu, 1984; Coleman, 1990) can take many forms: language, slang, dress, etiquette, legends, and even superstitions.

Cultural barriers have been addressed in the literature of international business (Karakaya and Stahl, 1989). The interactions between businesses and residents of a social sector market are full of unspoken norms and rules. These institutions are clearer to those who are embedded within the institutional structure (the culture) than to those outside of it. Understanding these institutions is critical for business success. The lack of mutual understanding may pose a serious entry barrier to the entrepreneur.

Social and institutional entry barriers and the identification and evaluation of SE opportunities

Previous research on opportunity recognition has argued for the importance of prior knowledge in recognizing opportunities (Shane, 2000). While I agree that prior knowledge is important I have also found in my own work that an additional factor influences the recognition of opportunities: perception of entry barriers (Robinson, 2004). Personal experiences and intentional searches form the basis of the entrepreneur's *perception* of any opportunity. I have found that opportunity identification is influenced by the entrepreneur's *perception* of what is required to pursue the opportunity. The entrepreneur asks herself strategic questions: what are the benefits of going after this opportunity for me and for others? Do I have the resources to take advantage of this opportunity? What are the risks? Are there any barriers to my pursuing this opportunity? As they ask these questions, entrepreneurs are influenced by their perceptions about the opportunity and then perform their own risk calculus to choose between the alternatives (Kahneman and Tversky, 1979).

Casson (1982) argues that experience will greatly influence how an opportunity is perceived. It follows that the entrepreneur's experience will also influence how an entry barrier is perceived. For any entrepreneur, experience has two dimensions: business and social. Business experience relates to experience in managing, owning or being employed in business. Social experience is life experience gained through family groups, educational systems or other social units. Relevant experience in either category can be valuable for entrepreneurs. Either category can enhance an entrepreneur's ability to identify and overcome social, economic, and institutional entry barriers. Nonrelevant experience may limit one's ability to see and understand barriers to entry or business opportunities. In other words, entrepreneurs with limited inner city experience may have a blind spot for the social and institutional barriers to entry. Social and institutional barriers to markets obscure entrepreneurial opportunities to those in unfamiliar markets: where most people would see barriers, some people see opportunity.

In the SE context, the social and institutional barriers are of highest importance because they are usually the factors that are driving the social problem the entrepreneur is attempting to solve. To this point I have argued that entry barriers influence all parts of entrepreneurship (as depicted in Figure 7.1).

Using this framework, we can better understand three things about SE. First, SE opportunities are different from other types of opportunities because they are highly influenced by the social and institutional structures in a market/community. Second, SE is not only a process by which social problems are solved using entrepreneurial strategies but it is also a process of navigating social and institutional barriers to the markets/communities they want to impact. Social entrepreneurs are successful because they are able to *execute* and *navigate*. The ability to do both well is part of what makes social entrepreneurs and SE so special.

Third, social entrepreneurs find opportunities in areas and under circumstances that they understand. I argue that an interaction takes place between the personal experiences and/or work experiences of the social entrepreneur and the characteristics of the market/community she is attempting to enter. This navigation process is one that is not understood by entrepreneurship scholars but is clearly an essential step toward the establishment of the venture.

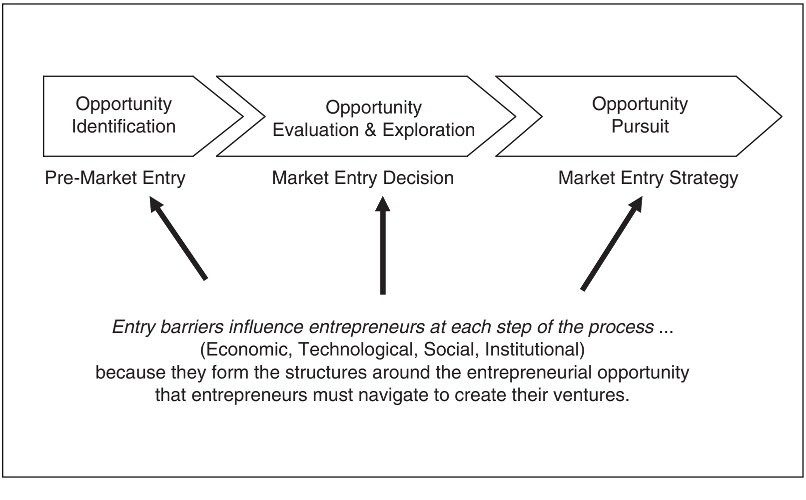

Figure 7.1 Opportunities orientation in entrepreneurship

Figure 7.2 attempts to summarize these arguments. The navigation of social and institutional barriers takes place in both the cognitive and the strategic dimensions. In the cognitive dimension, social and institutional barriers, as described above, may obscure opportunities from entrepreneurs who do not have the relevant experience and prior knowledge for a particular opportunity. They may also obscure the opportunity from entrepreneurs because the perception of the barriers leads to the conclusion that there is no opportunity.

Both types of navigation are important aspects of the SE process. Cognitive navigation of entry barriers is the key to identifying and evaluating social entrepreneurial opportunities. Strategic navigation of social and institutional barriers is important when pursuing an opportunity.[1] An entrepreneur must be able to navigate among the social and institutional factors present in a market/community to be successful in her venture. As with any navigational process, it is not perfect. There is often a need for mid-course corrections. Social entrepreneurs may start and sputter throughout the navigation process but this is part of the social entrepreneurial process where social entrepreneurs can add enormous value. They are adept at navigating the complexities of social sector markets to achieve their objectives and goals.

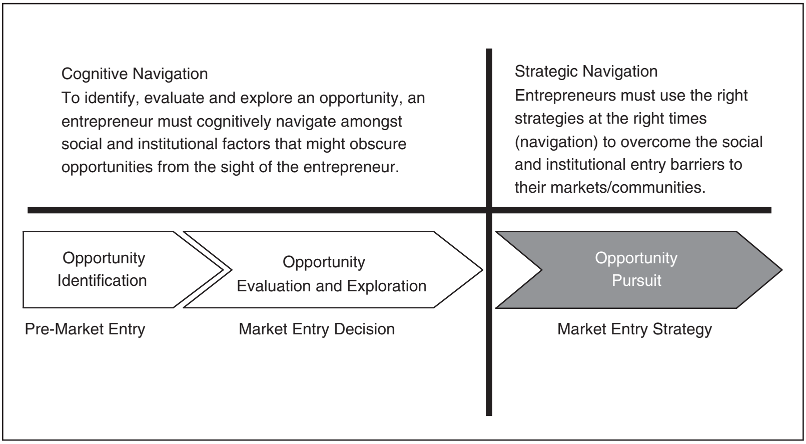

Figure 7.2 Navigating social and institutional entry barriers

Data and methods

It is important for any new research to do qualitative work that begins to make sense of the complexities that are inherent in underexplored phenomena (Eisenhardt, 1989; Yin, 2003). SE, as an area of study, is underexplored. To this end, I have used a case study approach to explore the social entrepreneurial process.

Data were collected from six early stage social ventures that were affiliated with the Berkley Center for Entrepreneurial Studies of New York University's Stern School of Business. These six ventures were part of a larger study of early stage social entrepreneurial ventures being conducted with a grant from the Satter Social Venture Fund of the Berkley Center for Entrepreneurial Studies.

Before settling on these six ventures, I first reviewed the business plans of 20 social ventures and 40 two-to-three page social venture concepts for simple comparison. There was some overlap between the set of 40 venture concepts and the 20 venture plans. From these ventures and venture concepts I chose six ventures to conduct in-depth case studies using a semi-structured interview protocol. Founders or cofounders of these six ventures were interviewed and the interview covered the founding of the venture, the background and experience of the founder/cofounder, the organization of the venture and financial aspects. I made several observations of these ventures during a six-month period from October 2004 to April 2005. During these six months, three of the ventures were in a business plan competition for social ventures of which I am a faculty advisor. The other three are ventures I had known prior to the six-month observation period and I used this opportunity to gather data directly from the cofounders.

Following recommendations from Yin (2003), these six ventures are representative of various social and institutional contexts, stages of development, industry sectors and types of founders. In reporting the observations and themes, I have used pseudonyms to disguise the names of each of the ventures.

I followed the circular qualitative data analysis process recommended by Miles and Huberman (1994): data collection, data reduction, and data display. After reducing and/or displaying the data, I drew inferences or conclusions about the data that was collected with respect to the theoretical framework presented earlier in this chapter. I noted where the data was consistent with the framework and where it was not. My final step in the analysis process resulted in three themes that were consistent across all six case studies. I report here a summary of the findings from the data analysis process from the six case studies.

Findings

Tables 7.3 and 7.4 summarize the details about the six social ventures that I studied in-depth.

Table 7.3 Case details of social entrepreneurs in an inner city context

	Foster care	**Community arts**	**Education and training**
Stage	Seed	Startup – 1 year	Startup – 2 years
Context of opportunity	Inner City	Inner City	Inner City
Background of social entrepreneurs	Family history of foster care	Activist and artist, educator	Former school teacher and social worker
Problem to solve	Inefficiencies and ineffective foster care system	Community arts education	Urban education programs and consulting
Examples of barriers	Social – connections to support organizations	Social – access to laundry suppliers and services	Social – connections to community-based organizations
	Institutional – political will to change system	Institutional – cultural differences	Institutional – inertia in the educational system
Organizational form	For-profit	Nonprofit	For-profit

Table 7.4 Case details of social entrepreneurs <u>not</u> in an inner city context

	Medical translation	**Eco-design**	**Eco-tour**
Stage	Startup – 1 year (with funding)	Seed	Seed
Context of opportunity	A major US metropolitan area	A major US metropolitan area	East Asia and Pacific islands
Background of social entrepreneurs	Medical professionals and public health	Ecofriendly, interior designers	International affairs, adventure tour participant

Table 7.4 Case details of social entrepreneurs not in an inner city context – *continued*

	Medical translation	Eco-design	Eco-tour
Problem to solve	English translation for doctors' offices (HIPPA)	Environmentally friendly interior design	Ecotours and ecopreservation
Examples of barriers	Social – network of doctors' offices	Social – access to distributors/ suppliers and deal flow	Social – community/family networks in country
	Institutional – regulatory issues, cultural differences	Institutional – development of a local market for environmentally friendly interior design and furniture	Institutional – international business environment, cultural differences
Organizational form	For-profit	For-profit	For-profit

A brief description of the social venture case studies

Six social ventures were studied in-depth to explore the issues of identification and evaluation of the social entrepreneurial opportunities. The pseudonyms chosen for these six ventures are as follows: *Foster Care, Community Arts, Urban Education and Training, Medical Translation, Eco-design, and Eco-tour*. These pseudonyms will be used throughout the rest of this chapter.

Foster Care is a venture that provides a new model of foster care services for urban youths aged 12–18 years. This population has been the most difficult to service and is often the most problematic. The underlying premise of *Foster Care* is that the current system is broken and there is a need for an alternative system that equips the children to be active and productive citizens. At the time of my last observation, *Foster Care* was in the seed stage and attempting to revise its business plan to present to potential funders and partners.

Community Arts is a venture whose mission is to bring visual arts to the people of inner city neighborhoods through arts education, art shows, and artist-in-residence programs. The cofounders believe that it is important to have a place where art can be accessible to the people and have developed an exciting, innovative and sustainable way to accomplish their goal. Their choice of a revenue-generating business model for their community arts venture has gained support from a national SE seed fund. As of my last observation, the founders were preparing their operational plan and seeking startup funds for the venture.

Urban Education and Training is a venture that is more than two years old. The cofounders started the venture to provide consulting services to urban school districts, youth agencies and community organizations in the area of youth development. Their specialty is teacher training and the development and implementation of youth development programs. At the time of my last observation, they had five employees and had recently moved into new office space in the inner city area of one of the largest urban areas on the east coast of the US.

Medical Translation was the recipient of social venture seed money and venture funding. It provides real time translation services for doctors' offices and medical facilities which have patients with limited English language proficiency. At the time of my last observation, the founders were pursuing their first contracts with the largest hospitals in a major US city.

Eco-design is an environmentally conscious interior decorating and design company that stresses the principles of the triple bottom line. They provide a unique service for clients who want a true green building environment and consult with developers and individuals interested in lifestyles of health and sustainability. At the time of my last observation, *Eco-design* had received seed funding from a local social venture fund.

Eco-tour is an ecotourism company that aims to provide small scale ecotour services to its customers while providing responsible ecostewardship to fragile environmental areas in Southeast Asia. As a part of their philosophy, the cofounders insist upon hiring local tour guides, assistants and services and have implemented a local youth program to impact the next generation of local citizens. At the time of my last observation, these social entrepreneurs were competing in a social venture competition and were seeking startup capital to begin operations.

The background of the social entrepreneurs

The social entrepreneurs studied were connected to their ventures through their professional and/or personal experiences. It was evident from both the interviews, and the business plans and venture descriptions, that each of the entrepreneurs had experiences which served as an important resource in the development of their venture. For example, the cofounders of the *Community Arts* venture were involved in community organizations for many years before starting their venture. One of the cofounders describes herself as coming from 'a long family history of social change'; she has worked on projects related to HIV/AIDS, arts, and education. The second founder was in corporate marketing before cofounding the venture but her real 'love' was art. Prior to working on this social venture, she had been volunteering with many different types of community-oriented organizations and was seeking a way to combine her love of art with a desire to serve as a 'community change agent'.

These responses are similar across all six case ventures as evident in Tables 7.3 and 7.4. It is easy to see the relationship between the social entrepreneurs and the ventures they created. This does not mean that the social entrepreneurs were trained specifically to do their social ventures, however the interviews revealed experiences that were related to the problem or issue they wanted to solve with their social venture.

The context of opportunity

I reviewed 40 social ventures prior to selecting six for in-depth exploration. I purposely selected three ventures that focused on inner city markets/communities and three that did not. I believed that this categorization would be an important source of variation for the study and was important to expanding the previous inner city business research to another context. This was the only criteria that I used in the selection of the cases.

Inner city markets are unique because they usually contain communities and neighborhoods where poverty rates are high, educational attainment is low, and unemployment is high. In many instances they also have higher concentrations of immigrants and racial/ethnic minorities. This context is vastly different from contexts that are not focused on disadvantaged geographical areas in the US.

The ventures that were coded as inner city (*Foster Care, Community Arts*, and *Urban Education and Training*) are ventures that focus their efforts and their energies on inner city areas where the problems they are trying to address are the most severe. The other three ventures (*Eco-design, Eco-tour*, and *Medical Translation*) did not focus solely on inner city areas. In two of the cases, the venture addressed environmental issues. The environmental issues they chose to address were not in inner city areas. In the third case, the services were being provided in various communities and neighborhoods. These communities and neighborhoods varied in income, education and employment levels. By coding for inner city or noninner city context, I was able to account for the influence (if any) of the context on the development of the social venture.

The existence of barriers to entry

In response to the question about the founding of the social venture, each of the subjects described the social and institutional factors that were unique to their social sector market opportunity. I frame these challenges using language I presented earlier in the paper. Each of the founders described social and institutional factors that challenged them as they entered the market. Tables 7.3 and 7.4 present examples of the barriers they described.

For example, the *Eco-tour* venture faced both formal and informal institutional barriers from legal constraints and cultural norms. These factors were considered early and certainly influenced the decision to pursue SE. In the case of *Urban Education and Training*, the founders described severe challenges in dealing with the bureaucracy of the educational system in the urban school districts they were working in. Additionally, they found it challenging to collaborate with the various community-based organizations in these areas.

Organizational form

In the US, social ventures can elect to be legally organized as a 'for-profit' company or a 'nonprofit' organization. The implications of either of these choices may place another type of variation into this study. There are two differences between the for-profit and nonprofit entities. Nonprofit companies cannot pay any dividends to board members because they are not 'shareholders' of the company. There is no mechanism for building personal wealth through a nonprofit organization and all profits from year to year must be reinvested in the organization. As a result of this legal structure, nonprofit organizations have tax-exempt status under federal and state law. They do not have to pay any income or sales tax and can accept donations and contributions from individuals, corporations, foundations and other nonprofit organizations. The contributing organizations are given incentives to donate funds and resources to these organizations because the contributors are given significant tax alleviation for doing so. In the age of SE, the decision to be a for-profit or a nonprofit company is an important one because of the message it sends to potential stakeholders and funders. As these six social ventures developed, the 'for-profit or nonprofit?' question was one that they took under careful consideration. Some were concerned that their possible funding sources only wanted to fund nonprofit organizations. Other founders saw the for-profit choice as central to their SE believing that the choice to be a for-profit social venture signaled to the environment that they were 'serious' about organizing their venture with efficient business processes.

In this study, five of the six social ventures were for-profit companies with social missions. While I don't believe that these six ventures are representative of the proportion of new social ventures who choose for-profit organizational forms over nonprofit forms of organization, I do believe they are illustrative of the changing trend in the US. It is not unusual to see social ventures that are for-profit companies.

An additional observation should be noted at this point. All of the ventures made it clear that their organizations had a mission but there was a difference in how the for-profit and nonprofit companies described themselves. When I reviewed the business plans and the literature of the for-profit social ventures, they were specific about how their *services* were the mechanism of change. As clients purchased their services, these social ventures were adding value or solving problems. However, *Community Arts,* the only nonprofit social venture in this study, was focusing on entrepreneurship as a means towards greater sustainability of its venture.

Themes

After reviewing the interviews, business plans, and any other information available on these ventures (websites, brochures, and so on) for common patterns, three themes emerged from the analysis of this qualitative data:

Theme #1: Successful social entrepreneurs will identify opportunities in social and institutional contexts they believe they understand.
Theme #2: Successful social entrepreneurs will consider social and institutional factors when evaluating opportunities to create social ventures.
Theme #3: During the process of exploring new social venture opportunities, successful social entrepreneurs will directly address social and institutional barriers to markets/communities.

In the discussion section of this chapter, I present each of these themes in detail and describe how these themes can be interpreted.

Discussion

The process of developing a social venture follows the process of every entrepreneurial venture. The purpose of this chapter is to explore the early stages of social ventures and to understand what might influence the identification, discovery, and evaluation of social entrepreneurial opportunities. The data collected and explored in this chapter points toward three themes that require further research.

Identification and discovery

Theme #1: Successful social entrepreneurs will identify opportunities in social and institutional contexts they believe they understand

In each of the six ventures I observed, it was clear that the social entrepreneurs: 1) had relevant experience or a deep and long standing interest in the areas they eventually created a venture in, and; 2) used this knowledge to navigate the social and institutional contexts of their ventures. This is an interesting finding because it is a slight departure from previous studies of traditional entrepreneurship.

In studies of entrepreneurship we find evidence that entrepreneurs pursue opportunities that are related to their experience and also those unrelated to their experience. Shane (2000) has made a good case for the prior knowledge perspective but there is also evidence from serial entrepreneurship that successful entrepreneurs do not always have experience in the industry or business they go into (Ronstadt, 1988; McGrath and MacMillian, 2000). From this set of case studies, the prior knowledge logic seems to be at work. Social entrepreneurs create ventures where they see a need that they can clearly identify.

This theme fits the theoretical framework that I presented in Figure 7.1. Social sector markets are complex and only entrepreneurs who have prior experience and knowledge about these types of markets will see, and subsequently act upon, these opportunities. Without the specific knowledge about the problem area and issue context, a potential social entrepreneur may not identify or discover the social entrepreneurial opportunity seen before her. She may only see the problem and this becomes just as real an entry barrier to this market as any access to capital storyline. Social and institutional barriers are certainly at play in social sector markets and influence the all important first step in the social entrepreneurial process: identification.

There is one caveat to this discussion. I cannot be certain that the social entrepreneurs were not engaging in some post hoc analysis. I was careful to ask general and open ended questions about the founding of the venture and the background of the founders so as to elicit narratives instead of direct answers to my questions. This allowed the subjects ample leeway to make connections between themselves and their venture. When asked about the founding of their ventures, most of the subjects were forthcoming about how they became interested or engaged with the issues or social problems they were trying to solve. I believe that the research approach and line of questioning reasonably ruled out any tendency to cater to the interviewer in these six cases.

Evaluation

Theme #2: Successful social entrepreneurs will consider social and institutional factors when evaluating opportunities to create social ventures

When considering the possibility of creating a social venture, the social entrepreneurs who were interviewed for this study described a process of evaluating various social and institutional factors in the markets in addition to the economic and financial aspects of their ideas. In the course of their narratives, many of the entrepreneurs described how the problem they were trying to solve was connected to social and institutional factors. These factors were similar to the social and institutional barriers I presented in the first half of this chapter. By simply taking into consideration these social and institutional aspects of the opportunity, the subjects have diverged from traditional entrepreneurship. Most discussions of evaluating market opportunities do not address the social and institutional factors that give rise to the opportunity. Yet, the subjects in this study specifically addressed them during their evaluation of the business idea (that is, before the business plan).

Medical Translation came into being when a US federal law for medical privacy was enacted in 2002. One aspect of this new law was a provision that required medical offices and hospitals to have qualified medical translation for their patients who are not proficient English speakers. The founders of *Medical Translation* recounted that their idea became a reality when they finally took a patented technology and applied it to the social problem of language translation in medical offices as they saw the laws changing. The opportunity was evaluated as a good one because they saw the convergence of the social (large immigrant population) and institutional (changes in the law) factors as the source of a unique social sector market opportunity they could address. The cofounders of *Urban Education and Training* were already addressing the complex issues around urban youth in their respective jobs as a high school teacher and social worker before they created their venture. They turned their frustration into a social venture. From their perspective the social and institutional issues that make youth development and empowerment so difficult provided the perfect opportunity for them to make a difference and to make a living.

As a final example, I return to the cofounders of *Community Arts*. In this excerpt of my interview with them, it is clear that they thought through the complex social and institutional factors related to their specific social entrepreneurial opportunity.

> I: How did the idea begin? How did the organization come into form?
> #1: So, the idea for …[*Community Arts*] was about trying to make art more accessible on every level… so trying to make art accessible, in particular, to black communities and communities within underserved communities… trying to think of why people weren't going to museums, why weren't people interested in what already was there. We realized it was that there were a number of issues of access and a number of barriers: one of them being financial, another being physical and geographic, and another being conceptual in the terms of what the actual experience was like to go look at art. And so… even if we came up with a solution for how to change the way art is experienced it would matter where, right?
>
> So it was about thinking about where people are already… that is a familiar space, an accessible space in and of itself, and feels like a space that we owned; that whatever is in that space is something we owned by extension… limiting the amount of financial burden that has been added by having that experience.

Social entrepreneurs are able to see through the complexity of social problems to the entrepreneurial opportunity. This is consistent with the framework presented in Figure 7.2 in this chapter because it demonstrates that social entrepreneurs practice a form of cognitive navigation of the social and institutional factors while developing and evaluating their ideas.

Addressing the barriers

Theme #3: During the process of exploring new social venture opportunities, successful social entrepreneurs will directly address social and institutional barriers to markets/communities

This was also apparent in the business plans of these social ventures. A draft of *Foster Care's* business plan specifically identified the social and institutional factors leading to the problems in the current foster care system and what they would do differently. The *Eco-design* business plan tells readers that their mission and goals are:

1. To create beautiful interiors that support better health and productivity for users while increasing client profitability,
2. To shift attitudes towards environmentally preferred materials usage, and
3. To set industry standards for environmentally-conscious and profitable interior design methods.

When the founders of *Eco-design* identify the social and institutional factors that make their solution possible, they write:

> There are multiple trends and factors that make healthful, cost-efficient commercial interiors an attractive and growing market:
>
> *Consumer Preference for Green Home Products*
>
> Many mainstream retailers are offering products that are gentler on the environment. These include ethically sourced woods such as in xxx furniture, nonpetroleum ingredients such as in xxx detergents, and recyclable carpets such as that found at xxx Hardware stores …
>
> *Government Emphasis for Green Buildings and Interiors*
>
> There is a growing emphasis for healthful buildings from the government. Tax credits and other incentives are part of broader green building assistance programs offered by a growing number of state and local governments across the country.
>
> Certain green buildings are eligible to receive tax breaks under the Green Building Tax Credit program. Also, a growing number of states provide green tax credits for Leadership in Energy and Environmental Design (LEED) certified buildings and are encouraging all new construction to be green.
>
> *Building Industry Preference for Green Buildings and Interiors*
>
> Industry executives experienced or familiar with green buildings are becoming aware of the financial advantages, aside from tax benefits. Roughly 66% of executives at organizations involved with green buildings have reported that their projects have generated a higher return on investment (ROI) than other buildings.

This theme was consistent across all six ventures. As discussed in the theoretical framework in Figure 7.2, these factors are important to framing the social entrepreneurial opportunity. The cognitive navigation of social and institutional barriers is an essential aspect of SE. Where most people see difficult problems and complex issues, social entrepreneurs seem to be able to see solutions and opportunities.

Conclusion

A central question I attempt to answer through my research is how a sociological view of markets (that is, organization theory) can enhance the business strategy of entrepreneurs and managers. Because of the focus in business schools on industrial markets and large firms in the strategy literature, we have overlooked some key elements of the market entry story. If we are to believe that markets are social structures then it follows that social and institutional barriers to these markets will be just as salient as economic barriers to markets. I have previously argued that social and institutional forces play a significant role in the entry and nonentry of firms to new and unfamiliar markets. I call these barriers to market entry, social and institutional barriers to entry and have argued here that these barriers are important right from the beginning of the entrepreneurial process. I used this theoretical perspective as a starting point for my exploration of SE in this chapter. My purpose in exploring SE using this framework was to consider how these social and institutional factors have relevance for the understanding of SE. Interestingly, the framework seems to fit for SE as well as it fitted the inner city entrepreneurship context it was originally theorized for. The reason for this convergence was not clear to me until I reviewed the qualitative data in preparation for writing this chapter. Now I realize how closely inner city entrepreneurship is related to SE and vice versa. The types of markets that each engage have the same features. Both social sector markets and inner city markets are highly influenced by social and institutional factors. In fact, these factors are the structures that form the barriers to entry to these markets while simultaneously giving rise to the market opportunities that those with experience in these specific markets can pursue. Social entrepreneurship and the research that should follow it, should force us to look at markets in a completely different light. This is important work for those who are willing to engage in it.

Note

1. Since this is not the subject of this chapter, I will not use space here to expand on it further.

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