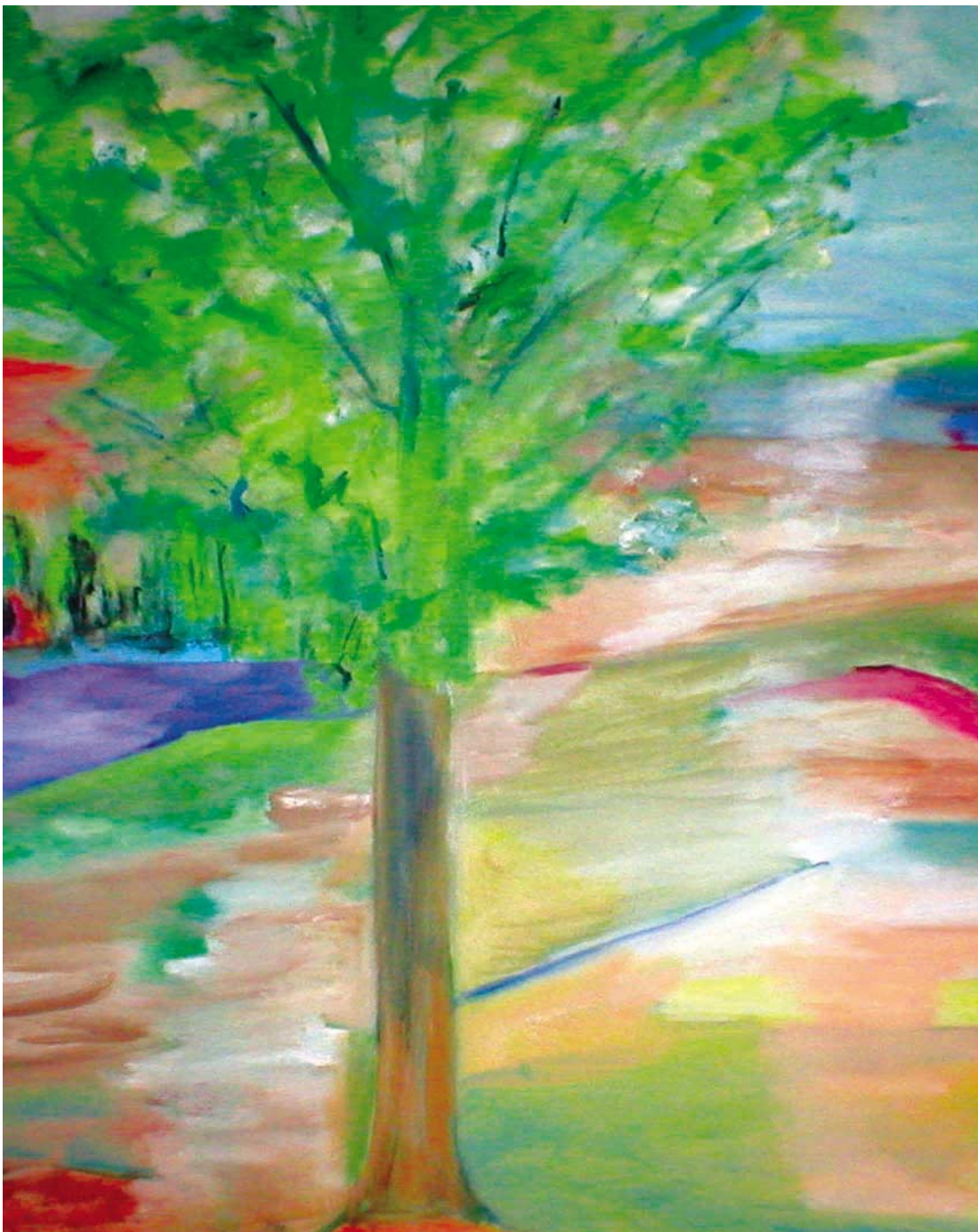


Social Entrepreneurship Finding the Path to Sustainability



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MAXIMUM SOCIAL IMPACT

Redefining the Bottom Line

**Entrepreneurial
Innovation**

Social Entrepreneurship:

1. The process of using entrepreneurial skills to create innovative approaches to social problems;
2. These ventures pursue the double bottom line of social impact and financial sustainability or profitability.

**Social
Mission**

Many observers believe social entrepreneurship holds the promise of more effectively addressing, if not solving, some of society's most intractable social problems. Still young, but growing dynamically, social entrepreneurship is broadly defined as the process of using entrepreneurial skills to create innovative approaches to solve social needs. Social entrepreneurs harness the passion of social activists and the skills of business leaders to create and scale innovative, high-impact social organizations.

Numerous trends point to the burgeoning need for socially oriented organizations, both for-profit and nonprofit, to capitalize on innovations that reduce inefficiencies and increase productivity. There has been a blurring of the business, governmental, and nonprofit sectors, as government outsourcing increases and businesses seek a larger piece of the social services pie. In response to this increasingly competitive landscape, nonprofits are working to become more efficient and effective by adapting business models to their organizational needs.

Trends in funding have also forced the social sector to adapt. Some in the philanthropic sector have adopted venture capital principles to become more highly engaged with their grantees and now

expect a higher level of effectiveness. The rise of venture philanthropy has forced nonprofits to develop performance-measurement tools and improve accountability within their organizations. Concurrently, scarce and often restricted philanthropic dollars have caused nonprofits to innovate new revenue-generating businesses to augment their budgets.

Social entrepreneurship comes in many different shapes and sizes. The for-profit model operates a business with a double bottom line—to provide social benefit while earning a financial return on investment. One of the oldest and most successful initiatives of this sort is the Grameen Bank, founded in Bangladesh in 1983 by Muhammad Yunus. With a 98 percent repayment rate, the bank focuses on micro-loans to poor working women and currently has more than 1,080 branches serving 2.1 million borrowers (94 percent of whom are women) in 37,000 villages throughout Bangladesh. Building on the success of its bank, Grameen has spun out a number of organizations, including nonprofits in the venture capital, information technology, and power industries as well as for-profit companies in textiles, telecommunications, and education.

The nonprofit model of social entre-

preneurship seeks to use innovative strategies to improve productivity and efficiencies. For example, Teach for America, a national corps of college graduates who commit two years to teaching in urban and rural public schools, formed a partnership with Wachovia Corporation in September 2002. Through the partnership, Teach for America gains financial support and management expertise for its national expansion campaign, infuses volunteers and funding into its local markets, and becomes the primary beneficiary of proceeds from the 2003 Wachovia Championship, a new event on the PGA Tour.

Finally, a growing trend among nonprofit organizations is to launch earned income strategies. One such example is Seedco, a nonprofit that works to build the capacities and effectiveness of community-based nonprofits and small businesses in targeted disadvantaged communities. In pursuit of a double bottom line, Seedco set up the EarnFair Alliance, a network of 10 neighborhood employment and training centers. EarnFair provides a significant source of funding to support the ongoing programmatic work of Seedco, while also providing job-training and staff-placement services to communities in need. ■

The Cathedral Within

The following is excerpted from *The Cathedral Within: Transforming Your Life by Giving Something Back* (Random House, 2001) by Bill Shore.

The cathedral of Milan is the second largest Gothic cathedral in the world. After more than five hundred years of construction from 1386 to 1887, the interior is as spare and simple as the façade is crowded and ornate. As I stand inside it at sunset, the near-empty space gradually grows darker. For each of us traveling alone, the solitude draws closer, like an overcoat being fastened one button at a time.

A few people pray in the quiet coolness and take confession. Others light candles. A circle of Asian tourists moves like a choreographed troupe. Schoolgirls in the last pew are sketching for art class. In the nave, several pairs of lovers take refuge. They whisper in voices only pillows have heard, relieved and grateful that the vast cathedral not only condones but demands intimacy. They are surrounded by stained glass so precious it was removed and hidden during World War II's bombing raids, the vivid colors unlike anything ever seen on canvas or screen.

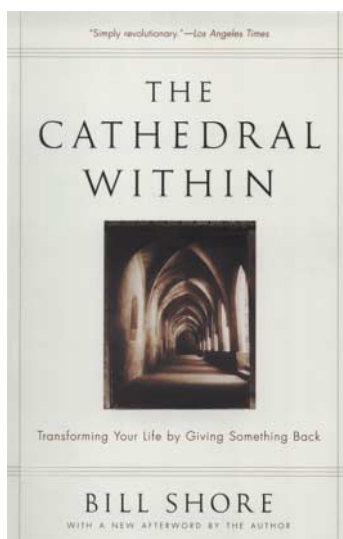
All day long, Milanese on their way to or from work or market pour in for prayer or reflection. I step outside and watch them stream across the Piazza del Duomo from side streets and subway stations. Many are regulars, so accustomed to the towering spires outside and the brilliant stained glass within that they no more look up than New Yorkers do walking by the Empire State Building.

Of at least one thing I'm certain: The builders of this cathedral did not consider inspiration and faith as byproducts or fringe benefits of their work. Rather, it was the core purpose, the essential, uncompromisable ingredient of the entire architecture and design. Every other consideration was secondary to this. One can't stand in the aisles, dwarfed by the thirty-six massive pillars, staring at the unfathomable vaults and buttresses, and not know this to be true.

A cathedral of this magnificence cannot be built without people believing in it so deeply and so truly that their belief becomes contagious. It had to have taken more than salesmanship and communications skills to convince citizens across five centuries to bring the vision of this cathedral to fruition. There had to have been an authenticity that resonated in the hearts of others.

The vast majority of those who worked on this (and every other) cathedral did so knowing they would not live to see the final, finished achievement. This didn't diminish their dedication or craftsmanship. The evidence suggests it enhanced it.

Cathedral building required sharing strength on a scale never seen before or perhaps since. When construction commenced on the Milan cathedral, craftsmen came from across Europe—stonecutters, sculptors, master



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NYU STERN: SOCIAL ENTREPRENEURSHIP

In spring 2003, The Berkley Center for Entrepreneurial Studies at NYU Stern launched a new course in social entrepreneurship. NYU Stern is proud to have adjunct professor Bill Shore teaching the course. A leading authority in the field, Professor Shore is the founder and executive director of Share Our Strength and the chairman of Community Wealth Ventures.

This course creates a vehicle for fulfilling students' interest in enhancing the social sector by utilizing their entrepreneurial and business skills. By building on the framework of the entrepreneurship curriculum at Stern, this course provides specialized training for students interested in gaining more sophisticated knowledge of how to create ventures with dual missions. The course is designed not only to educate students about the unique theories and practices of social entrepreneurs, but also to provide practical tools that foster new social venture creation.

Professor Shore utilizes class discussions, a business-planning exercise, and guest lecturers as his principal teaching methods. Guest lecturers have included Alan Khazei, founder and president of City Year; Jeff Swartz, CEO of Timberland; Charles King, founder and co-CEO of Housing Works; Wendy Kopp, founder and president of Teach for America; and Ed Skloot, president of the Surdna Foundation. The course has also been featured on CNNfn's "Market Call."

Stern students have expressed a great deal of interest in the social entrepreneurship class—the course was oversubscribed at registration, and the feedback from enrolled students is enthusiastic. Stern is now examining additional courses and other extracurricular opportunities to deepen students' knowledge of this dynamic field. ■

Three Financing Strategies for New Social Ventures



“There may come a day when social and environmental best practices are recognized as best business practices, period.”

Stephen Moody



“Venture philanthropists are more likely to support organizations that can demonstrate outcomes in a quantifiable way.”

Matt Klein



“Nonprofits that believe that an earned income venture will solve their immediate financial woes will be disappointed.”

Judith E. Schneider

Entrepreneurs who want to launch new social ventures are challenged on two fronts. First, the capital provided by the traditional sources of funding for nonprofits is increasingly difficult to obtain. As foundations, government agencies, and private donors tighten their belts, nonprofit organizations are finding that more and more of their human capital is dedicated to raising financial capital.

Second, social entrepreneurs do not have access to the capital markets that normally provide resources to new businesses. Either because they cannot distribute excess capital to their shareholders (if they are nonprofits) or because they are operating with an unproven model (returns on for-profit social ventures have not been adequately tracked), investors tend to shy away from dual-mission enterprises.

In order to overcome these obstacles, social ventures and their funders are finding new ways to finance operations. Social venture capitalists use the same strategies as any other venture capitalist in financing a start-up. However, in gauging a rate of return, these investors measure both social impact and financial success. Venture philanthropists—investors whose organizations award grant funding to nonprofits—are finding that they

can better leverage their contributions by working closely with the organizations they fund to develop long-term strategies for financial self-sufficiency. Increasingly, too, nonprofit organizations are using entrepreneurial strategies to create for-profit social enterprises and earned-income opportunities.

The following articles present a range of options for organizations looking to balance social goals with financial sustainability. We start with Stephen Moody’s examination of social venture capital. Moody is the principal venture analyst for the Special Equities Program of the Calvert Group, a mutual funds management firm focused on socially oriented enterprises. Our second piece, by Matt Klein, addresses venture philanthropy. Klein is the executive director of the Blue Ridge Foundation New York, a New York City-based venture philanthropy fund that finances enterprises that provide services to children and families in impoverished communities. In the final article, Judith E. Schneider provides an overview of earned-income strategies employed by nonprofits. Schneider is a managing director of Social Enterprise Advisors Inc., a consulting firm that partners with nonprofits to build social enterprises.

Social Venture Capital

By Stephen Moody, Calvert Group Ltd.

So-called “social venture” capital investment has much in common with the industry mainstream. Funds are formed with capital invested by other institutions. These institutional investors have numerous criteria by which they might decide to invest in a given fund, including profit potential, asset diversification, and strategic goals. In the case of investors in social venture funds, there might also be the added incentive of tax or other credits. Significantly, some pension funds and foundations are beginning to recognize a broader concept of fiduciary duty that includes social value, mission, and stewardship, along with financial return.

Venture and social venture investments target closely held companies that mature over a time horizon of anywhere from 18 months to 7 years, in some cases longer. Risks are managed, to some degree, through diversification and management assistance.

Where social venture funds differ most significantly from their mainstream peers is in the assessment of a venture’s social or environmental impact as an explicit investment criterion. Any fund is unique in terms of its investment strategy, management, and operational constraints. In general, though, social venture capitalists look at particular industries (life sciences, renewable energy, environmental technology, and education, for instance), avoid others, or may have an economic development agenda. Many fund managers also concern themselves with finding ways to help their investee companies enhance or maintain social value in their business models or culture, as management deals with the complexity and the inevitable compromises of satisfying various stakeholders. Further, most social venture capitalists are grappling with ways to measure and report social value and impact at the individual company level and across their portfolios.

Over the past 10 years, Calvert Group’s venture arm has invested in more than 50 young companies and peer funds in the social venture space. The program is a complement to the firm’s overall commitment to companies and funds that have both a strong social and financial agenda. The Calvert venture program pursues a broad “sustainability” investment theme along with financial goals. When looking at a potential investment, the first questions we ask are: How does this company’s product or service address an unmet social or environmental need? What will be the impact of the company’s product or service on future generations?

These questions can often be answered intuitively. For example, the value is apparent in a small company that develops a cheap, fast, and accurate diagnostic for tuberculosis. In other situations, the social assessment is more complex. We spend some time thinking about unintended consequences that a product might have, or an issue like the spotty environmental record of a company’s strategic partner and potential acquirer. In general, we find that a company’s future as a socially responsible enterprise largely depends on the bearing and ability of management. While *pro forma* metrics and audit tools are

important and need to be further developed, they may not be appropriate for every company at every stage of its life cycle.

Beyond the social value questions and research, our due diligence proceeds much as it does at any fund. We vet management, tweak financial models, look for sources of competitive advantage, examine the viability of the business model, the product, and the market. We also investigate the potential for strategic partnerships and co-investment by other funds, and determine likely exit scenarios. Our investments are small by venture standards, but there are a lot of them, and there is a great deal of diversity in terms of geography, stage, industry, and investment structure.

Social venturing is not easy work. No company or fund is perfect. Even the most thorough due diligence and analysis may not anticipate abrupt changes in the competitive landscape, market shocks, management meltdown, or a product that simply doesn’t work the way it is supposed to or costs more than anyone projected. Additional funds almost always need to be raised and new investors or buyers convinced. There are major transitions to negotiate between the research and development phase of a company and the launch and sale of its product.

Social venture funds face additional challenges. Their portfolio companies may not have as deep a pool of capital to draw from, their markets may be more niche-oriented, or “bleeding edge,” and the exit options may not be as clear. Challenges to the funds themselves are interrelated and have much to do with the youthfulness of social venturing as an institutional endeavor. As a group, social venture funds will need time to develop track records and an appropriate set of benchmarks. The best-known mainstream venture funds—those that have been around for many years and have invested through multiple market cycles—are able to measure their overall performance over a series of funds. They typically also have massive amounts of capital under management. If social venture funds are able to stick it out and deliver desired returns and value for their investors, they may be able slowly to grow in size and number, ultimately improving fund economics and creating broader networks and resources for social entrepreneurship.

With the maturation of socially responsible investment activity on the part of mutual funds and other asset managers investing in large, publicly traded companies, social venture capital funds may ultimately coach some of the farm teams that become major-league, socially responsible corporations of the future. Large corporations and the industries they steward have tremendous impact on our lives and those of future generations. There may come a day when social and environmental best practices are recognized as best business practices, period. Companies that mind their resource use, minimize externalities, treat their employees well, and are good citizens tend to be better companies. Perhaps social venture capital can help them from the start. But then again, sometimes small is beautiful. ■

Venture Philanthropy

By Matt Klein, Blue Ridge Foundation New York

Over the past several years, “venture philanthropy”—the practice of enhancing philanthropic work with concepts drawn from venture capital experience—has been a prominent topic among some in the social sector, especially donors with business backgrounds, foundation officials, and nonprofit leaders who follow trends in the funding community.

While the term can apply to a range of activities, venture philanthropies typically share the following important characteristics: (1) they provide both financial resources and management assistance that for-profit executives have come to rely upon; (2) they feature active partnerships between the grant-maker and the grantee rather than just a funding relationship; (3) their grants cover a longer time period, usually more than three years; (4) they focus primarily on building the organizational capacity of nonprofits, rather than on the development of new programs; and (5) they help nonprofits track outcomes and use this information as a basis for assessing the progress of their investments.

These activities are now often referred to as “high-engagement philanthropy.” The term “venture philanthropy” took on a negative connotation due to its association with dot-coms—indeed, several new foundations have disappeared along with the Internet wealth of their founders. The field also suffered from its adherents’ reputation for arrogance, especially among long-time foundation officials who resented rhetoric implying that strategic grant-making—grant-making that is concerned with measurable outcomes, accountability, and good management—was somehow invented by venture philanthropists. Some also questioned the notion that people in the for-profit business world know how to effect social change better than nonprofit practitioners.

For nonprofit entrepreneurs, debates among foundation professionals are less important than understanding how to access the money and management support promised by venture philanthropist funders. The venture philanthropy field, though growing, remains small. While individual institutions utilize their own criteria to govern funding decisions, a successful pitch must demonstrate the applicant’s quality and compatibility with the foundation’s interests and practices.

Like any other funding institution, venture-oriented philanthropists are highly selective in disbursing their funds. They are looking for quality investments and use the same criteria as any other financial backer to measure potential investments. Leadership, for instance, is critical. The concept that “people fund people” is as valid in the venture philanthropy world as it is in other sectors. Nonprofits funded by venture philanthropists tend to have impressive leadership teams with excellent credentials and substantial experience in their area of focus.

Innovation and influence are also key considerations. Venture philanthropists are concerned with leveraging their dollars and

often want to see an expansive impact from their funding activities. Often, this translates into funding organizations that become standard-bearers in their field, either by showing some innovation that influences others or through their own rapid growth.

Another quality that venture philanthropists value is accountability. Venture philanthropists are more likely to support organizations that can demonstrate outcomes in a quantifiable way. Some, however, fear that overemphasizing measurable criteria may adversely affect social-change strategies, such as organizing and advocacy, whose impact may be difficult to quantify. Nevertheless, applicants to venture philanthropy funds do well for themselves when they can persuasively articulate their successes.

Another consideration for both applicants and funders is compatibility. Many venture philanthropy funds focus on particular stages of nonprofit development. Groups such as the Echoing Green Foundation, the Draper Richards Foundation, and the Blue Ridge Foundation New York support start-ups, whereas Venture Philanthropy Partners, New Profit Inc., and the Edna McConnell Clark Foundation, to name a few, concentrate on helping more-established organizations scale up their activities.

Like traditional foundations, venture philanthropies often limit support to certain kinds of charitable activities. Some funds have a broader focus but concentrate on a specific geographic area. For example, the Robin Hood Foundation, a pioneer in coupling management assistance with financial support, targets poverty-related issues in New York City.

The quality and compatibility criteria, however they are specifically applied by individual foundations, are important to venture philanthropists because of the symbiotic relationship they have with their grantees. Venture philanthropists aim to build the capacity of the organizations they support, and, as such, their own management and strategic abilities are reflected in the achievements—or failings—of their portfolios.

The next phase in venture philanthropy should see a number of interesting developments. More attention will be paid to exit strategies as venture philanthropists learn from their first-generation investments how best to ensure that these organizations are well positioned to sustain their work. Donors, particularly those interested in scale, will increasingly focus on advocacy as they seek government support and grapple with the need for systemic change. This trend is likely to produce new metrics for measuring the effectiveness of advocacy and organizing campaigns. And those interested in business education should expect that strong student demand will drive an increase in academic courses and campus activities related to venture philanthropy, social enterprise, and similar areas that offer students more opportunities to apply their MBA training for positive social change. ■

Strategies for Earned Income

By Judith E. Schneider, Social Enterprise Advisors Inc.

While social enterprises are a potential source of revenue for many nonprofits, they are not for everyone. Launching and operating a revenue-generating business takes a great deal of work. Social enterprises cover the same broad spectrum as for-profit businesses. They include manufacturers, distributors, retailers, consultants, asset managers, micro-lenders, bakers, caterers, and food-service providers. The list goes on, but here are some of the best strategies for generating revenues and some examples of social enterprises that have done so successfully.

Constituency-based enterprises, for instance, are earned income ventures founded by nonprofit organizations for the combined purpose of creating jobs and/or training opportunities for their constituencies and generating income that can be reinvested into the nonprofit to further its social impact. Many of the social enterprises launched in the social services sector fall in this category. A good example is Greyston Bakery of Yonkers, N.Y. Founded by the Greyston Foundation, the bakery produces, for wholesale and retail distribution, baked goods and desserts. It employs 55 people, almost all of whom are formerly homeless persons, substance abusers, or convicts. Revenues in the last fiscal year were \$4.3 million. Profits are reinvested by the foundation into its charitable activities.

Founded in 1994 with only \$18,000, TROSA (which stands for Triangle Residential Options for Substance Abusers) is another example of a constituency-based enterprise. It is budgeted to generate \$6 million in this fiscal year and realize a surplus of approximately \$800,000. The main source of its revenue is a moving company that employs rehabilitating substance-abuse clients, as well as TROSA graduates. Other enterprises include a picture-framing business, a construction company, a real-estate management firm, and a temporary-staffing company. Profits are used to finance the expenses of TROSA residents, who receive room and board, medical treatment, clothing, and all other necessities during their two-year program stay.

By contrast, program-based enterprises are ventures that are a natural extension of the program-related activities of social service nonprofits. Perhaps the best-known example is the Y.W.C.A. The individual chapters sponsor programs to improve the lives of women, girls, and their families in their communities. Physical fitness is a part of the mission, and the chapters offer fitness classes for a fee to their members.

Consulting is also a popular way to generate revenues. Using hard-earned experience, nonprofits can teach newcomers the ropes. Seattle-based Pioneer Human Services, which developed ventures to provide employment and training to its constituency (substance-dependent people and convicts, among others), operates Pioneer Consulting to advise other nonprofits on building similar businesses. A strong brand and track record bring in potential clients.

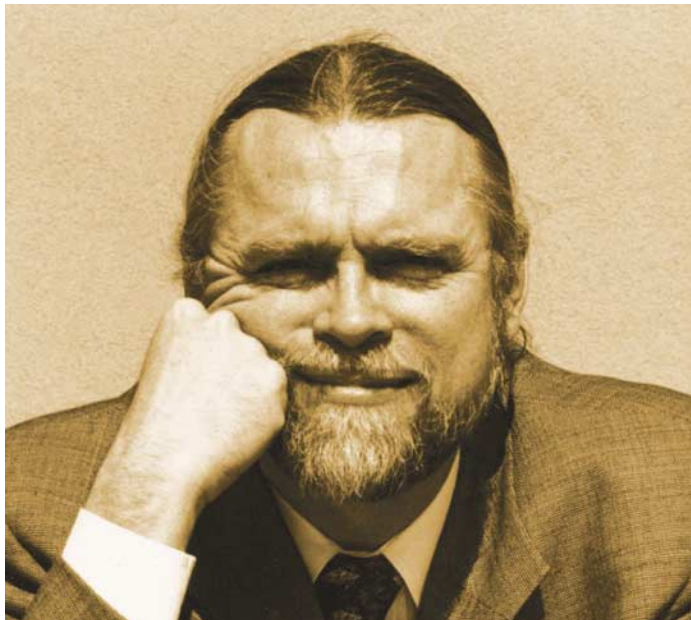
Another option, cause-related marketing, is a strategy whereby a nonprofit organization allows a for-profit business to use its name/logo to increase sales, with a portion of the proceeds donated back to the nonprofit. Ford Motor Co., for instance, sponsors the Susan G. Komen Breast Cancer Foundation's Race for the Cure. Ford pays for public-service announcements on breast cancer and has its dealers and employees participate in the Race for the Cure event at the local level.

Some nonprofits capitalize on their real estate assets by renting out their space for a fee. The Metropolitan Museum of Art realizes significant revenue by renting out a portion of its museum for parties and benefits. For high-profile locations, there is a burgeoning market among feature filmmakers.

A successful earned income strategy depends on three key factors: experienced management, sufficient start-up capital, and a long-term time horizon. Experience has shown that successful social enterprises typically have one or more executives from the enterprise's industry in senior management and/or a working alliance with a private-sector company in that industry. For example, Covenant House New York operates Ezekiel's Café in the West Village as part of its culinary arts program. The café and catering business generate income while training at-risk youth in culinary arts and food preparation. Covenant House hired an experienced restaurateur to be the chef and educational coordinator and has other industry professionals involved in the program. Not only has the program garnered jobs in the restaurant industry for its clients, Ezekiel's Café has become recognized for its high-quality food and catering service.

Funding the launch of a social enterprise is always an issue. Most nonprofits do not have the internal resources to self-finance a new venture. They need to secure capital from outside funders. There is a growing number of social investors and traditional funders interested in financing mission-based—i.e., socially oriented—ventures. However, competition for these funds is intense. Since these funding sources evaluate a venture on many of the same criteria that a venture capitalist uses to assess a for-profit venture, a well-conceived, quality business plan that details the venture's strategy to achieve both financial and social returns increases the venture's chances of obtaining funds.

Whatever strategy is employed for earned income revenue, social enterprises must be realistic about the time it takes to plan and launch a venture. A carefully conceived venture can take one or more years to launch. Furthermore, meaningful income is unlikely to develop for months or even years after the venture is operational. Therefore, nonprofits that believe that an earned income venture will solve their immediate financial woes will be disappointed. Building a social enterprise requires patience and the acceptance by all that it is a long-term undertaking. ■



Charles King

Man with a Mission

By Sarah Kroon Chiles

Charles King is the founder and co-president of Housing Works, a community-based organization in New York City that provides advocacy, housing, health care, employment, and a variety of other services for homeless and formerly homeless men, women, and children who are living with AIDS and HIV. Founded in 1990, Housing Works is now the largest community-based AIDS service organization in the United States.

This year Housing Works is projected to have operating revenues in excess of \$30 million, about 80 percent of which is derived from earned income. More important, last year Housing Works worked with more than 27,000 people in its AIDS-prevention outreach programs and provided direct services to more than 5,000 people living with AIDS and HIV and their family members. Housing Works also organized a number of critical advocacy efforts on the city, state, and federal levels.

King, who trained as both a minister and a lawyer before founding Housing Works, also serves as the chair of the Social Enterprise Alliance. Its mission is to build stronger, more effective nonprofit organizations by mobilizing a community of practitioners and investors to advance earned income strategies.

As a guest lecturer for NYU Stern's social entrepreneurship course, King described to students the challenges and rewards of running a social enterprise, stressing the advantages of building a financially self-sufficient organization. *Innovation Review* recently followed up to find out more about Housing Works and how it got involved in the world of business.

IR: What prompted you to start Housing Works?

KING: Jane Shubert, one of our original founders, realized there wasn't a meaningful response by government to the issue of homelessness and AIDS. She organized the housing committee of Act Up in August 1988 to address this need. At the time there

were 4,000 homeless people living with AIDS in New York City. I graduated from law school in 1989 and came to work for Jane at the Coalition for the Homeless, where I worked on litigation and did community organizing.

Basically, our genesis was in response to what we felt was an overwhelming dearth of support for people suffering from homelessness and AIDS. At the time, the city government felt that it would be completely overwhelmed if it acknowledged AIDS in the homeless community. Both government and the nonprofit sector treated the homeless and AIDS communities as two separate problems. With one or two exceptions, AIDS organizations didn't want anything to do with homeless people, and homeless organizations didn't want to have anything to do with people with AIDS. Nobody wanted to deal with the fact that the majority of homeless people with AIDS were chemically dependent and actively using drugs.

We estimated 60 percent of homeless men were infected with AIDS, many of whom did not even know it. The shelter was a horrible incubator for infectious disease and extreme harassment of people with AIDS. We decided to found Housing Works specifically as a place of last resort for people with AIDS and HIV whom other groups refused to assist.

IR: When and how did Housing Works develop its earned income strategy?

KING: What happened was, we were trying to improve our job-training program, at the insistence of our clients. Basically, prospective funders told us, why spend money on training them to work if they are going to die anyway? It was things like the lack of funding for this program that made us realize we were going to have to be more entrepreneurial if we were going to provide necessary services for our clientele.

Now, I would love to say that our initial effort at business entrepreneurship was my idea, but it wasn't. We had a major donor, a couple who had made a commitment to organize a benefit that would net over a million dollars. They were surprised to find a lack of support among their friends for an AIDS benefit. In their frustration, they began looking for other ways to fulfill their pledge. Then one day I got a call from the donor. She said, I want you to start a thrift shop. It was an idea I couldn't imagine.

IR: It is very interesting that the idea came from a donor. Is that usual, and how did it come about?

KING: Actually, it was incredibly unusual. This couple had in the past engaged in far more mainstream causes. The idea for the thrift shop was an enlightened approach to social entrepreneurship. It turned out to be very successful. They contributed \$125,000, and we raised another \$25,000 in capital to open our first store. I wrote a business plan that basically projected sales of \$25,000 within three months. We had \$25,000 in sales in two weeks. Needless to say, I was ecstatic. Our next move was to figure out how to expand.

IR: So you continue to operate the store, as well as three other thrift shops in New York City. What other lines of business is Housing Works in?

KING: We also run a popular used-book store and café in SoHo, where we house 17,000 books and music selections. We founded the Food Services Corp. in 1997 to provide meals to our clients and have since expanded to offer catering services to corporate and nonprofit customers. Last year we spun off our operations department to launch Gotham Assets, which provides property-development and management services to Housing Works and outside clients. Very recently, we established a consulting practice to provide lobbying and organizing services. We also just started a financial management firm, in conjunction with several other nonprofits, to assist groups with managing their finances.

IR: These business lines make your organization sound like a conglomerate. What is the corporate structure of Housing Works?

KING: We have always separately incorporated our various entities. Housing Works is the parent to some 12 to 15 subsidiary corporations. All of our corporations are 501(c) 3 or (c) 4, and each has its own board of directors to keep it focused on its own bottom line—in other words, to make money for the stakeholders. The subsidiaries have some advantages, such as our tax status, but we also have huge disadvantages in areas such as capital formation.

IR: Many of your businesses employ your clients. Is this a core part of your mission, in addition to being profitable?

KING: We operate revenue-generating businesses. Our thrift stores and bookstore/café generate the largest share of our revenue. In order of priority, they exist to raise money, to provide education about Housing Works, and to provide employment opportunities for our clients.

IR: What are some of the management challenges of running businesses as part of a nonprofit?

KING: I think a big problem for most nonprofits trying to pursue earned income is the cultural struggle with their employees, clients, and boards of directors. We have been very fortunate at Housing Works to have a board of directors that thinks of entrepreneurship as a way of being able to provide services to incredibly marginalized people. In terms of the management problems we experience, they are the same problems anyone has in starting a business. One of the things that we often try to share with other groups is that you're in the same boat as a lot of for-profit businesses, and you need to deal with it in the same way. In most businesses, the first purpose is to make money. If you

don't make money, you can't do anything; if you do, you can do anything. I think the best advice for nonprofits is that in order to be successful, you must start with a fundamental mind-set that says making money is good. We are very proud to be making our own way.

IR: How do you see the future of the nonprofit sector in general and the rise of social enterprise more specifically?

KING: I believe there is a huge problem in the current power dynamic between the government, the for-profit, and the nonprofit sectors. The nonprofit sector is the weakest player in this game, and yet it is the nonprofit sector that all too often develops the valuable programs that communities need, such as looking after people who are marginalized, protecting the environment, and fighting for social justice. I see earned income as the vehicle for organizations that wish to serve unpopular people and causes to be able to meet their missions.

From a macro perspective, this trend challenges the power dynamic that presently exists. If nonprofits are standing on their own two feet, it is a whole lot easier to stand up to the government and tell them that what they are doing is wrong. Nonprofits are using a teaspoon to move a mountain while the other side has a bulldozer. We may feel good about what we are doing, but it doesn't help us move the mountain. Part of my fear is that those of us who believe in social enterprise will become self-satisfied that we've worked our way up to the teaspoon. Moving the mountain is all about accruing power, and in our social system, accruing power is all about accruing wealth. Social entrepreneurship gives us a way to achieve the wealth and power needed to change the system. ■

This year Housing Works is projected to have operating revenues in excess of \$30 million, about 80 percent of which is derived from earned income.

International Outlook

Social ventures are finding new ways to affect global change

By David Bornstein

Here are a few stories you won't see on the TV news. In India, an organization called Childline has provided emergency assistance to hundreds of thousands of street children in more than 40 cities. In Brazil, a company called STA Agroeletró delivered solar energy to thousands of people in rural areas who cannot afford access to electricity through conventional distribution systems. In South Africa, Tateni Home Care Services has provided care to thousands of AIDS patients and is changing the way the government health system responds to the crisis. In Hungary, an organization known as the Alliance Industrial Union has established a network of 21 assisted living and working centers for people with severe disabilities. In the United States, a Washington, D.C.-based organization called College Summit has helped thousands of low-income students enroll in college, and is working with the public schools in several cities to rebuild college guidance systems.

What do these organizations have in common?

1. Each was founded by an ordinary citizen—a social entrepreneur—who combines creativity, business savvy and a deep determination to meet a critical human need.
2. Each was established or built up during the past eight years.
3. Each represents a fundamentally new approach, or model, for solving a social problem.
4. In the cases of South Africa, Brazil and Hungary, each of these organizations would have been prohibited by the government as recently as the 1980s.

These five examples of social entrepreneurship offer a small glimpse into a remarkable global phenomenon that has occurred over the past three decades: the emergence of millions of new social-purpose organizations founded by citizen entrepreneurs. Twenty years ago, for example, Indonesia had only one independent environmental organization. Today, it has more than 2,000. In Bangladesh, most of the development work is handled by 20,000 non-governmental organizations; almost all were established after 1975. India has over a million citizen organizations. Slovakia has more than 12,000. Between 1988 and 1995, 100,000 citizen organizations opened shop in the former communist countries of Central Europe. In the United States, between 1989 and 1998, the number of public-service groups registered with the IRS jumped from 464,000 to 734,000, a 60 percent increase. Given the long history of social entrepreneurship in the United States, it comes as a surprise that 70 percent of registered groups are less than thirty years old.

What is driving these changes?

One explanation is that the authoritarian governments that once impeded social entrepreneurs have, with stunning speed, disappeared. As dictatorships and communist and apartheid regimes have

fallen, a new landscape of opportunity has opened up for citizens across the world. Democracy has brought the freedom to build, while economic and social forces have converged to make social entrepreneurship newly possible.

During the 1970s alone, for example, the number of universities worldwide more than doubled. In recent decades, the growth of a middle class in most countries has swelled the ranks of people who possess the financial means to tackle social problems effectively. In addition, the women's movement has gained a foothold across most of the world, weakening social constraints that have historically limited women's scope of action and expression. Declining racial barriers, such as for blacks in the United States, Brazil and South Africa and untouchables in India, have opened up new opportunities. Technology, of course, permits people, money and information to move quickly around the globe. All these things have contributed to the supply of potential social entrepreneurs.

Demand is up, too. Because of the communications revolution, millions of people have gained a wider and more detailed understanding of the world. Citizens everywhere have become acutely aware of environmental destruction, entrenched poverty, health catastrophes, human rights abuses, failing education systems and escalating violence. And those same people now possess powerful communication tools to coordinate efforts to attack those problems.

At the same time that concerns have mounted about global problems, so has the conviction that governments, beholden to concentrated special interests, are failing to solve them. Over the past two decades, while democracy has emerged triumphant around the globe, voter turnout has declined almost everywhere, including in the United States where it has hit near-historic lows. After decades of disappointing international aid and governmental policies, many have concluded that governments are not the most effective vehicles, and certainly are not the sole legitimate vehicles, for the delivery of many social goods.

In response, across the world, one finds social entrepreneurs working independently to demonstrate new approaches to social ills, developing and spreading new social or business models to create wealth, promote social well-being and restore the environment.

There is a personal side to this story. These people share the desires of people everywhere: to apply their talents in ways that bring security, recognition and fulfillment—and, of course, to have some fun. What has changed in recent years is that this emerging "citizen sector" now offers a broad avenue to satisfy those needs: to align what you care about, what you are good at, and what you enjoy doing—every day—and have real impact.

Not everyone is, or would want to be, a social entrepreneur, just as not everyone wants to start a business. But almost everyone today has the option to participate in this new sector. Because it is growing so fast and in so many directions, the opportunities are wide open for people with diverse interests and skills. Citizen organizations desperately need good managers, marketers, finance experts, public relations agents, computer programmers, salespeople, accountants, and so forth. And, increasingly, businesses need employees and managers who appreciate the social and environmental dimensions of their work and who can spot opportunities to collaborate with this fast-growing “other” entrepreneurial sector.

It is important to keep in mind how new these changes are. As recently as twenty years ago, in most parts of the world, social entrepreneurs encountered extraordinary political constraints and they could count on few supports or networks to turn to for financ-

ing, information or encouragement. But this is changing. Today, it is common for graduates of major U.S. universities to embark on careers as social entrepreneurs.

Their motivation is not that different from that of the millions of people who think about starting businesses every day. All entrepreneurs seek to build things that lend meaning to life; they seek to create value, whether it is financial, social or environmental. Increasingly, the entrepreneurial path is broadening in the citizen sector, and the incentives are improving. Given the social challenges the world is facing, and the recognition that is beginning to accrue to social entrepreneurs, it will not be long before social entrepreneurship becomes one of the standard career options that gets discussed at the dinner table.

Adapted from David Bornstein's forthcoming book, How to Change the World: Social Entrepreneurs and the Power of New Ideas (Oxford University Press, January 2004).

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masons, blacksmiths, and carpenters—and cooperated to an unprecedented degree. While nobles made large financial donations, contributions came from all citizens, sharing whatever their strengths happened to be. Weavers, bakers, butchers, tanners, millers, and fishermen took turns donating their services, without salary, as did physicians and apothecaries. It is said the vicar worked in the stone yard. Groups of young women dressed in white went through town and countryside collecting offerings.

I wrote this book to search for the spirit of the cathedral builders and use that spirit to make our lives and our country better. It is about capturing the spirit of the cathedral builders not through the experience of walking into a glorious cathedral, but through the experience of living, giving, and serving in a way that builds a cathedral within. It is about the extraordinary people in America who are doing this today. Following the basic principles that guided cathedral builders and committing their life's work to something larger than themselves, to something so large it may be unfinished, they've come to know the unique fulfillment of building a cathedral within. Most important, they are providing the leadership, lacking until

now, to make a lasting difference in the lives of our children.

This book shows the numerous examples of the fundamental principles responsible for the success of the cathedral builders. These principles are for you if you've ever wanted to create meaningful change in your community, or if you've ever been on the staff, board, or volunteer committee of a local nonprofit organization. They are for you if you've ever had an interest in mentoring, literacy, hunger, poverty, domestic violence, housing, AIDS, education, the environment, health care, or any other social issue. They are for you if you are starting or finishing college, business school or law school and don't want to choose between creating wealth and serving the public interest. They are for you if what you want to do next is “something that counts.”

There are at least five fundamental overarching principles that can give meaning and purpose to our lives, help our work endure, and make our communities stronger:

1. Devoting your life to a cause you will never see completed need not diminish your craftsmanship and dedication. Cathedral builders worked backwards from a grand vision and a detailed blueprint that, if followed, would produce the desired outcome.
2. Cathedral building requires the

sharing of strength, the contribution of not just artisans and experts, but of everyone in the community. Ambitious civic projects can't be achieved by government, business, or religious institutions alone. They require all of civic society.

3. The great cathedrals are built, literally, upon the foundations of earlier efforts. The effort to incorporate the work that came before is conscious and deliberate, and the cathedrals are stronger, more solid, and better built for it.

4. Cathedrals were sustained and maintained because they actually generated their own wealth and support. The main source of funding for their building or renovation was income from accumulated land and property. In this way, cathedrals did not just rely on donations, handouts, or redistributed wealth, but instead created new community wealth.

5. Cathedrals through their stained-glass panels, statues, and paintings were intentionally designed to convey stories and values to people who were otherwise illiterate. In this way, they taught important history, passed along best practices, and perpetuated a philosophy and culture that reflected their values.

Bill Shore is adjunct professor of social entrepreneurship at the NYU Stern School of Business.

Maximum Exposure

On April 25, The Berkley Center hosted the 4th Annual Maximum Exposure Business Plan Competition. The competition judges awarded \$50,000 in cash to the top two plans. The \$35,000 first prize went to Princeton Pharmaceutical Research, which presented a plan to provide high-quality, competitively priced contract research services to biotechnology and pharmaceutical companies. The Canine Experience, which seeks to create an upscale dog boutique focused exclusively on smaller breeds, garnered second place and a check for \$15,000.

This year marked the first time that the competition was open to NYU Stern alumni. Among the 16 teams competing in the semifinals, 9 were composed of students currently enrolled at Stern, 5 were composed entirely of Stern alumni, and 2 teams were a mix of Stern alumni and current students. Overall, nearly half of the 65 teams that entered the 2003 competition had some form of alumni participation.

Innovation Review congratulates the winners and pays special recognition to the judges.

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