

The Economics of Social Entrepreneurship

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Abstract

The emerging field of social entrepreneurship seeks to address social challenges in environments where traditional public sector institutions are weak or absent. With its explicit focus on solving problems, social entrepreneurship is inherently interdisciplinary. A well designed undergraduate course in social entrepreneurship can enhance traditional economics course offerings by integrating frameworks and pedagogies from both public policy and human-centered design.

1 Introduction

According to my colleague [Curt Welling](#), the increased attention to social entrepreneurship in recent years is due to the confluence of six trends: large and growing social problems, increasing awareness of these problems, the failure of governments to address these problems, the limits of philanthropy to address these problems at scale, the rise of stakeholder capitalism, and the growth of funding available for socially responsible investments. These trends show no real sign of abating, and thus social entrepreneurship is here to stay. This presents a wonderful opportunity to augment our traditional economics curricula.

The idea for a course in social entrepreneurship came to me in the summer of 2012, when I was in the eighth year (of an eventual fifteen) of my service as the Director of the Nelson A.

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Rockefeller Center at Dartmouth College. [Rocky](#), as the center is known on campus, is an interdisciplinary social science center with an emphasis on public policy applications. I had been wrestling with a question to which social entrepreneurship provides a possible answer, “How can we address public policy challenges when traditional public sector institutions are weak or absent?” To students who have come of age in this era of hyper-partisanship, the idea that the federal government can be relied upon to assess a social problem, conceive of possible solutions, weigh the costs and benefits of alternative solutions, achieve consensus on the solution to pursue, incrementally raise revenue to fund that solution through an appropriate tax, and implement that solution effectively seems like a fantasy. Our students will have to conduct public policy differently in their adult lives. We must therefore develop their capacity to design and implement public policy differently. This course is a step in that direction.

2 Defining Social Entrepreneurship

For the purposes of the course, we define a social enterprise as an organization whose activities have social benefits that are high relative to their private benefits, or that raise the purchasing power of the poor (through net income generation or price reductions); and that is sustained predominantly without explicit, ongoing third-party funding. A social entrepreneur is the founder of such an enterprise. The first element defines “social” as having positive externalities or as improving the wellbeing of those in poverty. The second element requires such enterprises to be economically viable as for-profit entities.

Critically, this definition does not require that the enterprise makes a threshold impact on the underlying social problem or changes the equilibrium that allows the social problem to persist. This is in contrast to other definitions in the literature, most notably Martin and Osberg (2007). Equilibrium change is too ambitious for a one-term undergraduate course. However, the Martin and Osberg (2007) definition, as with earlier definitions like Dees (1998), is less committed to the second element of the class definition regarding profitability. In an economics course, and as a means of distinguishing social entrepreneurship from the non-profit sector, this element is essential.

A question that immediately follows the definition is, “What distinguishes social entrepreneurship from ‘regular’ entrepreneurship?” Principally, the difference is the presumption that the beneficiaries can pay for the value that they receive. They might be too diffuse, as in environmental challenges. They might not have the resources, the defining feature of poverty. Santos (2012) argues that the key distinction is a predominant focus on value creation as opposed to value capture. Value creation is the net gain to society of devoting resources to the venture. Value capture is the share of that net gain that is appropriated by the enterprise itself. Creation is happening at the system level, while capture is happening at the enterprise level. A social entrepreneur seeks to create as much value as possible while capturing only what is required to sustain the venture. For a commercial entrepreneur, value capture may be the exclusive focus.

3 Course Design

A first course in social entrepreneurship should apply the concepts from Principles of Economics as soon as possible and encourage creativity and design, as a complement to traditional modes of economic analysis focused on deductive reasoning and hypothesis testing. The course has three main learning objectives. First, students must understand the nature and causes of poverty, in both domestic and international contexts, as well as the emergence of social entrepreneurship as a means of addressing poverty.¹ Second, students learn about the process of social innovation and the ways that social entrepreneurs have transformed those innovations into poverty-relieving initiatives. Third, as a means of experiential learning, students build on the first two objectives to identify a manageable aspect of the larger problem of poverty and to propose, refine, and pitch a venture to address that aspect.

Students bring a range of backgrounds to the course. At Dartmouth, it can serve as an elective in the [Economics Major or Minor](#), as a “Policy Methods Course” for the [Public Policy Minor](#), or as a “Design Elective” in the [Human-Centered Design Minor](#). Since two of the assignments are group projects, it is helpful to have this range of backgrounds so that students

¹While the course definition encompasses both environmental concerns and poverty, I focus on poverty, including its many ramifications for health, housing, education, and transportation.

can learn to form teams with complementary skill sets around common interests. The course is designed so that Principles of Economics is a necessary and sufficient prerequisite.

3.1 Background Knowledge

I do not base the course on a textbook, preferring instead to curate a reading list of articles and shorter texts and design assignments around them.² The course readings include sources that give background knowledge on both poverty and the emerging field of social entrepreneurship, as well as frameworks to help understand business models that students might utilize in designing a social venture.

The first year I taught the class coincided with the 50th anniversary of the War on Poverty. The Council of Economic Advisers (2014)'s *Economic Report of the President* that year included a chapter, [The War on Poverty 50 Years Later: A Progress Report](#). It is important to give students the history of anti-poverty policy, and this chapter does so in a way that emphasizes careful measurement of poverty and the growing relevance of non-cash transfers and the earned income tax credit. To complement the quantitative research by economists, I also assign more qualitative studies by sociologists. Edin and Shaefer (2015) deliver insights on the plight of those in extreme poverty, particularly in their struggles to secure stable employment and living situations. It also highlights the impact of making cash welfare more limited, and support more tied to employment, in the [welfare reform](#) of 1996.³

We begin our analysis of the emergence of social entrepreneurship with Muhammad Yunus, whose pioneering work in microfinance in Bangladesh helped launch and define the field and who was honored with the 2006 Nobel Peace Prize. Of his many books and articles, I assign Yunus (2010), which puts forth the construct of a social business and describes several examples. A social business is “a profit-making company owned by poor people, either directly or through a trust that is dedicated to a predefined social cause,” like

²Having examined several textbooks, I can recommend Kickul and Lyons (2020) as a comprehensive reference for students and a good place to start. The [Stanford Social Innovation Review](#) (SSIR) is considered the field's journal. My syllabus has 7 articles from the SSIR, mostly on frameworks for thinking about social entrepreneurship. The latest syllabus from the course is available at my [website](#).

³Its research methodology of the authors embedding themselves in low-income communities is also used to good effect by Desmond (2016) on the problem of eviction and Servon (2017) on problems in financial services.

[Grameen Bank](#), or “a non-loss, non-dividend company devoted to solving a social problem and owned by investors who reinvest all profits in expanding and improving the business,” like [Grameen Danone](#). I characterize a social business as one way to combine a productive activity with a philanthropic activity, in order to help the students evaluate Yunus’s assertion of its optimality relative to other combinations. A social business is an example of corporate social responsibility (CSR), defined by Kitzmueller and Shimshack (2012) in their review of the economics literature on CSR, as corporate provision of public goods or reduction of negative externalities beyond what is required by law.

3.2 Frameworks

The course introduces students to three essential frameworks for the description of a social challenge and the design and development of ventures to address such a challenge. They enable students to identify business elements that create value and to move from an idea to a venture efficiently. The two main assessments in the course, other than the exam, are designed around these frameworks.

The first framework is that of the [Startup Experience](#), which is used as a template for a Poverty Research Assignment in which students develop a problem statement related to a social challenge. The framework begins with the identification of a social challenge and the sub-challenges that comprise it. For example, if the social challenge is childhood obesity, the sub-challenges might be that kids have unhealthy diets and that they exercise too little. The next step in the framework is to identify users – people whose choices affect the existence or severity of the sub-challenges. This might be the kids, their parents, schools, food vendors, etc. Further, the assignment requires the students to identify what factors cause users to make those choices relative to choices that would have greater social value. Focusing in on one such choice environment, the assignment concludes with a problem statement of the form, “How might we help [user] solve [problem]?” For example, how might we help families in the school lunch program access nutritious meals during weekends and summers when schools are closed?

With a problem identified, the course introduces the second framework, the [business model canvas](#) of Osterwalder and Pigneur (2010). The canvas is a tool to parsimoniously

describe the way a business, whether existing or prospective, creates and captures value. The canvas begins with customer segments who are served by the business and the value proposition to each segment. These two elements are connected by the channels through which the value proposition is delivered and the customer relationships the business must establish. Underpinning the value proposition are the key resources, activities, and partners the business uses to offer that value. These elements taken together generate the revenues and costs that determine whether the business is financially viable. Osterwalder and Pigneur (2010) use this framework to identify business model patterns in companies with which students are familiar, and we use it to consider patterns that may be useful in social ventures. We specifically examine business models based on databases and platforms, cross-subsidization, the sharing or collaborative economy, and donated inputs or outputs.

For their final project, students then use this framework to develop a business model to address the problem statement identified in the Poverty Research Assignment. Through ideation techniques that are the core of human-centered design, we devote class time and office hours to finding and improving solutions to their identified problem. The Business Model Assignment is a description of all the elements of both the Startup Experience templates and the Business Model Canvas. Students produce this assignment in both written and video formats, with the latter shared with the class on the last day of the term.

At this early stage of development, there will be many critical assumptions. The final piece of the written Business Model Assignment is to engage with the third framework, the Lean Startup methodology in Ries (2011). At the heart of the methodology is Validated Learning, defined as the “the process of demonstrating empirically that a team has discovered valuable truths about a startup’s present and future business prospects.” Validated Learning is acquired via the Build-Measure-Learn feedback loop, in which the entrepreneur posits a hypothesis about an important aspect of the nascent venture, builds a Minimum Viable Product to test that hypothesis, and uses the results of that test to refine the venture or change strategy.⁴ Students identify their “leap of faith assumptions” and write a grant proposal for funding to test those assumptions using the Lean Startup methodology.

⁴Blank (2013) provides an excellent introduction and overview of the methodology, and there are many applications to the social sector elsewhere in the literature.

4 Lessons Learned

In addition to the feedback and guidance noted above, there are several lessons that I have drawn from my years of teaching the course. The first is in what interests students and whether such interests form the basis for good student projects. Food deserts and food insecurity loom large in their minds and are accessible topics. Students want to do work on education, but value capture is a challenge. Improving labor force participation, particularly for single mothers, is often a good fit, precisely because value capture out of incremental earnings is straightforward. Childcare – at almost no cost, in formal settings – is perceived by this generation as an entitlement. Projects are feasible if they can be bundled with expanded labor force participation. Students have a desire to extend ridesharing opportunities to areas where transportation obstacles are common, like medical appointments and employment.

After the course, students go in three main directions. First, they realize during their projects that there is some questionable assertion of fact or causality on which the venture depends and that more research is needed on that assertion. I am happy to advise independent studies of former students. Second, they seek internships in the public or non-profit sectors to learn more about the challenge they attempted to address, working alongside those who are fully engaged in addressing the challenge. Third, they realize that what appeals most is the idea of working a startup environment, and they seek internships in new ventures.

It was initially a surprise to me that, although there have been some exceptions, students generally do not immediately pursue the businesses models they design in the course. It was nonetheless gratifying to see social ventures spring up by alumni during COVID, including [GiveEssential](#) by two students from Winter 2020 and [VoteSaver](#) by two students from Winter 2017. In both cases, the students credited the course as having prepared them to launch these ventures.

In 2018, Dartmouth launched the [Magnuson Center for Entrepreneurship](#). Such a center is a useful, co-curricular complement to the work of the course. Students benefit from the center's visits by entrepreneurs, the startup weekends, and the very labor intensive advising and coaching of ventures under development. The existence of the center allows the course to focus on enabling students to acquire subject matter expertise, a useful toolkit for

experimenting, and a mindset for action.

Dartmouth also has a [Center for Social Impact](#), which has a tagline of “Where Passion Becomes Action.” Beyond campus, organizations like the [Clinton Global Initiative University](#) and [Ashoka](#) work to support and mobilize both innovators and activists. I stress to my students that the course is about research, analysis, and design. The home for activism is elsewhere. Done well, this course provides an opportunity to marry passion and expertise. At the end of each term, when we have just enjoyed video presentations from perhaps a dozen business models, I ask the students to envision a world in which all of these ventures exist and the social challenges they address are being actively confronted. And then I encourage and support them as they go create that world.

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