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Emergence & Context of Social Entrepreneurship: A Global Scenario

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Abstract

The Social Entrepreneurship around the world is the outcome of the social problems embedded in the particular social, physical, political, economic and cultural context of that region. Understanding the ecological context of the social problems helps the social enterprise ventures to identify the areas of highest leverage that are least obvious. The context shapes the kind of need, purpose, activity, organizational form, legal structure, and process involved in its creation and realization. The research studies show that, in the liberal economies like US, social enterprises began as a result of education inequality, in co-operative economies like UK, it began due to new socio demographic trends and in informal economies like India to address the huge gap between the formal legislation and social reality. These enterprises take different legal forms in different context. They may be in the form of non-profit organizations, for profit organizations, foundations, NGO's etc. Though it is a global phenomenon, the US and the Western Europe dominate the academic discourse. The present study intends to identify the reasons for the emergence of social enterprises and also the relevance of contextual situations for their conceptualization. It also examines how different local contexts may have helped to shape broad conceptions of social enterprise, the legal structure and design appropriate Business Models.

Keywords: Social Entrepreneurship, Socioeconomic context, Social enterprises, Social Enterprise Model.

Introduction

Social Entrepreneurship creates social innovations that generate market demand for such products and will also contribute to the dynamic shift in cultural sustainability, social justice and economic development in a country. In the process of social innovations, studying the ecosystem of the social problem and designing an appropriate model that intends to resolve the social issue becomes the primary task of such entrepreneurs. Eventually, sustainability and scalability of such enterprises lands up to be a major challenge as they have to survive amidst the conventional profit making enterprises. The existing literature gives wide variety of definitions to social entrepreneurs and giving light to the task of identifying social entrepreneurs and discriminating social entrepreneurs from commercial entrepreneurs. In community organizations, Social Entrepreneurship has been identified as playing a role in up-lifting living conditions of the marginalized (e.g. Cornwall, 1998) and contributing to the community development (Wallace, 1999). SELCO India, Teach for America, The Grameen Bank and BRAC in Bangladesh and The Green Belt Movement in Kenya are some prominent examples of Social enterprises. The idea is to build up a self-sustaining instead of just profit maximizing businesses, creating opportunities to entrepreneurs to design their business models based on social issues (Boons, Frank, & Florian, July 2012). It has been a challenge to address socioeconomic exclusion on the one hand (in developing countries) and externalities (in developed world) as a fall out of economic growth on the other hand. Strategic designs in an organized manner to address both the problems associated with achieving economic growth and externalities consequent to such economic growth has been an important objective of Social Entrepreneurship (Kumar Uday & Rajalakshmi, 2011). There are many organizations like the Schwab foundation, Ashoka, Deshpande foundation that support the incubation and growth of social enterprises.

Objectives and Methodology

The present paper is a conceptual one which aims at providing a background for the relevance of the context for emergence of social enterprises. It studies the influence of the contextual factors in designing business models of social enterprises. This paper is divided into four parts; the first part covers the introduction of Social entrepreneurship in the global scenario, the second part discusses on the context and emergence of social enterprises in different parts of the world. The third part attempts to reflect on the emergence and development of social enterprises in India and finally the last part concludes on the relevance of context and content for the emergence and growth of social enterprises. Secondary sources of data in print and electronic form are used for the study

Part I: Social Entrepreneurship: A Global Perspective

Social innovations are based on the ecology of the social problems. Understanding the ecological context of the social problems helps the social enterprise ventures to identify the areas of highest leverage that are least obvious (Trivedi & Misra, 2015). The social enterprise phenomenon around the world was the result of the social problems embedded in the particular social, physical, political, economic and cultural context of that region. Though it is a global phenomenon, the US and the Western Europe dominate the academic discourse. The social enterprises are classified into two categories in the Europe, the EMES approach and the UK approach. The emergence of social enterprise in Europe began with EMES research network in 1996 and it defines social enterprises as an enterprise launched by a group of citizens to benefit the community. They include co-operatives, associations, foundations etc. it allows for some profit distribution due to the inclusion of co-operatives. The UK approach propagates social enterprises as defined by the Dept. of Trade and Industry 'as businesses with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or community, rather than being driven by the need to maximize the profits of the shareholders or the owners'. Hence the profits of the social ventures are invested back to the business without any dividends to its owners investments. In the USA, to classify the different conceptions, Dees and Anderson (2006) have proposed to distinguish two major schools of thought, the Earned income approach and Social Innovation school of thought. The former is a school of thought studies social enterprise as a nonprofit venture that generates earned income while serving a social mission. This school also promotes the idea that adopting business methods is a successful way to improve the effectiveness of NPO's and make them entrepreneurial. Edward Skooldt is one of the pioneers of this school of thought. The latter is Social innovation school of thought, which describes social entrepreneurs as individuals who tackle social problems through social innovations. The enterprise here is a profit or a nonprofit one. Bill Drayton, the founder of Ashoka is considered to be a leading figure in this area. Hence, the Socio-economic, political, cultural and environmental issues decide the social enterprise models.

Part II: Emergence and Context of Social Enterprises

The social enterprises in different parts of world have emerged due to some issues which are considered to be the reasons to start social enterprises. The distinctive conceptions of social enterprise are deeply rooted in the social, economic, political and cultural context in which these organisations emerge (Defourny & Nyssens, 2010). Hence the context in different countries influences the social innovations.

In Europe

In Europe, the concept of "social enterprise" as such seems to have first appeared in Italy, where it was promoted through a journal launched in 1990 and entitled *Impresa sociale*. In Europe, the concept of social enterprise made its first appearance in the very early 1990s, at the very heart of the third sector. In the 1970's and early 1980's, the European countries faced the toughest challenges like unemployment, reduction in the state budget, the need for more active integration policies and increased exclusion of some groups. In this context, the question raised was how far the third sector would help to face these challenges and the answer given by each country varied according to the specifications of different European social enterprise models (Defourny & Nyssens, 2006). According to a European tradition (Evers and Laville, 2004), the third sector includes co-operatives, associations, mutual societies and also the foundations. All the not-for-profit private organizations, such a third sector is being labeled as the "social economy" in some European countries. In the western Europe social enterprises emerged due to the faltering economy, which resulted in fall in the government revenue, increase in unemployment, ineffective government employment programs, reduction in govt. funding supporting NGO's. In Central Europe, social enterprises emerged due the fall in communism that led to the withdrawal of state funding and the transition to a market economy increased unemployment. A group of central European social reformers found social enterprise as a viable solution and received aid from International sources. Italy is the first country in Europe to adopt a legal form of social enterprises (Defourny & Nyssens, 2010). The Social enterprise movement in Italy is in the co-operative tradition.

United Kingdom (UK)

According to the UK landscape report 2015, social enterprises have great concentration in the areas of greatest deprivation, with 31% of social enterprises working in most of the deprived communities in UK. 73% of the Social enterprises earn 75% of their income from trade with public sector, general public, private sector, third sector, other social enterprise, grants from public sector, other grants and donations. The survey shows that they concentrate more in service industries-in education (18%), business support (17%), employment and skills(14%), retail (12%), social care(10%), culture and leisure(9%), healthcare(9%), environment (8%), creative industries(8%), housing(7%), hospitality (7%), childcare(4%)followed by transport,

manufacturing, farming with 2%. The profits are invested back for further attainment of social or environmental goals. In UK legal forms introduced to support social enterprise include Community benefit society and Community Interest Company. In addition, the government has also introduced policies such as Social investment tax relief to support the cause. In Scotland Social enterprises are located in urban areas, but they flourish in remote and rural communities. Majority of them provide training or support to provide employability and other common sectors are community amenities, creative industries and child care. In Wales, the social enterprises are built on models focusing on culture, leisure, education and environment.

In America

The Economic downturn in the late 1970's and 1980's led to the withdrawal of federal funding for nonprofits operating in healthcare, education, poverty, environment and community services. In this context nonprofits gave importance to revenue generating activities (Kerlin, 2006). Hence American approach includes social enterprises with hybrid nature that involve market oriented economic activities and also serve a social good irrespective of a legal structure (Nyssens, 2006).

United States of America (USA)

When looking at the US landscape, a slowdown in the U.S. economy in the late 1970s resulted in government deficits in the 1980s which resulted in the government cuts in funding the Nonprofits. That, in turn, brought on government cuts in funds for nonprofits by the Reagan administration. This withdrawal of government support to the nonprofits led to social enterprises that were not just nonprofit organizations, but also involved in activities that led to revenue generation. In US, Social Enterprise Knowledge Network (SEKN), was formed in 2001 by leading Latin-American business schools and the Harvard Business School. On the other hand, in many countries of South America, social enterprises emerged due to "Washington Consensus" structural adjustment programs instituted as a part of market reform. The social benefit programs shrunk due to market reforms and this led to unemployment. Roitter et al. summarizes that social enterprise in Argentina appeared to fill the vacuum left by the shrinking state. The social enterprise models were designed to solve the problem of unemployment and social exclusion problems like poverty, financial exclusion inequality in income distribution etc. Social enterprise, particularly in Argentina, became associated with a broad range of cooperatives and mutual benefit societies to address unemployment.

In Africa and Asia

By contrast, the histories of Southern Africa and Southeast Asia are marked by a persistent lack of state support and poor economies. In the Republic of Serbia, the 2008 crises lead to lower GDP and higher unemployment. The social enterprises emerged more in number to tackle these problems. Here Social enterprise are in the form of NGO's, foundations and charitable trusts, Co-operatives, companies

for the disabled as well as Quasi social enterprises using company structures. The social enterprise model is designed to benefit the community which is launched by a group of citizens and the distribution of profits is limited because the majority of surplus is reinvested on the social mission. Here they operate providing goods and services for the market in an entrepreneurial and innovative fashion and use the profit to attain the social objectives. In South Africa, social enterprises have emerged due to the government's failure to solve the challenges due to the trust on donor funding. The social enterprises have specific organizational forms like nonprofits and voluntary organizations (Alexander & Weiner, 1998) and hybrid structure that flourished recently (Austin, 2006; Dey 2006). The social enterprises here design models to tackle social problems like unemployment, insecurity, food storages and environmental degradation. South Korea is the first country in Asia to establish a legal framework for social enterprises. The Government passed the Social Enterprise Promotion Act (SEPA) in 2007. The social enterprises are categorized with the purpose as job creation (WISE's), Social Service provision, Hybrid models with the combination of WISE and social service provision and Miscellaneous. Singapore has the most common social enterprise activity as service provision. The models developed are profit plough back social enterprises, work integration social enterprises (WISE), co-operatives and hybrids. Profit plough back social enterprises are engaged in trading activity that has no social impact, but the income generated from this trading activity is transferred to another activity that has direct social impact. Work integration social enterprises engage in trading activity that has direct social impact, but where there is tradeoff between social impact and financial return. Co-operatives are those that engage in a trading activity that generates a financial return which is directly correlated with the social impact created. Hybrid models blend the elements of different models to create one of their own. The ministry of social and family development, organizations like the social enterprise association, Singapore National Co-operative Federation and social innovation park provides networking opportunities and organizes mentoring and capacity building activities. There is no legal definition for social enterprises in Singapore, but majority of them are self-defined. Only co-operatives are regulated by the Act. Social enterprise franchising is an emerging funding source and first time used in Singapore. In Bangladesh social enterprises like BRAC or Grameen have assumed the role and activities of ineffective Government. Grameen provided an early model of an SEI when in the late 1970s it started offering credit to the poorest of the poor in rural Bangladesh without the borrowers needing to provide collateral for their loans (Johanna Mair and Kate Ganly 2010).

Part III: Emergence and Context of Social Enterprises in India

India had a long history of social entrepreneurs and visionaries, who have promoted entrepreneurial approach to achieve a social good. Early Social Entrepreneurs were inspired by Gandhian philosophy and movements that

aimed at economic self-sufficiency & preservation of human dignity. Selfless service was the motive behind all the models that were initiated for the purpose. The 1980s witnessed the withdrawal of the state role and subsequent increase in the role of the private and the third sector in addressing the socio economic issues. The Seventh five year plan “formally acknowledged the importance of popular participation, especially in rural areas, for the successful execution of its programmes and explicitly sought to engage NGO’s in the implementation of various anti-poverty programs” (Keshab Das), and fully took flight in 1991, with the onset of Economic liberalization. Hence the liberalization led to the relevance and importance of the third sector in the Indian economy which is also called as the citizen sector (termed by Ashoka foundation). Over the last two and a half decades, with the rise of citizen sector, the popularity of the Social entrepreneurship has exponentially increased. While until recently till the Foreign contribution regulation Act (FCRA) came into existence, it has been the foreign capital in the form of social impact investment providing capital for the incubation and growth of the enterprises, now the domestic social enterprises are finding ways to unlock the domestic capital. The Government is also initiating ways to address the financial gap of social enterprises by the formation of the India Inclusive Innovation Fund (IIIF) (XIIth Five year plan) and making it mandatory for the corporate to spend 2% of their profits on the CSR activities under the New Companies Act of 2013. Social Entrepreneurship has been growing at a very high pace over the years even through economic downturn, from corporate philanthropy to nonprofit and now to self-sustainability. The intentions to start a social enterprise may differ from country to country, but in India the social & economic context become the reason for the emergence of social enterprises. Indian Social enterprises are characterized as inclusive business models that give poorer people a chance to participate economically. They aim at products that are affordable for the BoP, like affordable healthcare, water, sanitation, energy and housing (ADB report 2012). India, with a score of only 3.38, ranks 60th among the 79 developing economies on the Inclusive development index, despite the fact that its growth in GDP per capita is among the top 10 and labor productivity growth has been strong. The new international Multi-dimensional Poverty Index (MPI) has published in its report that 645 million people or 55% of India’s population is poor. India ranked 130 among 188 countries in 2014 in Human Development Report 2015 released by the United Nations Development Programme (UNDP). In India, the business models are designed based on the social need that focuses on reduction in poverty, increase in employment & training, better education, better health & hygiene and environmental factors. Some successful ones to mention would be, SKDRDP works on women empowerment and microfinance, Deshpande foundation on education and training, Sahaja Samruddha on organic farming, SELCO on low cost solar energy for the marginalized, Namma Bhoomi on rural development through training, employment & education and Arvind eye care on health needs etc. Most of Indian social enterprises

give importance the underprivileged and the marginalized sector because of the social and economic conditions prevailing in the country. Social enterprises have always been extremely effective in developing countries like India which is the home to one of the largest populated countries in the world (Clinton, Lindsay, 2010).

Conclusion

The local context shapes the opportunities for social enterprises and determines the strategies and tactics employed. The emergence of social enterprises in almost all the countries was due to the economic meltdown and the withdrawal of the state funding for the nonprofit sector. From the above study it is clear that social enterprise models are contextual and are designed understanding the ecology of social problems. Hence researchers, policy makers or businesses have to situate the social entrepreneurship phenomenon in a specific context in order to understand it fully (Mair, 2010). Social enterprises design models that compliment and substitute the missing action by National and International relief activities. In the liberal economies like US, social enterprises began as a result of education inequality, in co-operative economies like UK; it began due to new socio demographic trends and in informal economies like India to address the huge gap between the formal legislation and social reality. Many organizations, such as Ashoka or the Schwab Foundation, directly support social enterprises by providing seed capital and access to crucial support networks. More research is needed to more accurately define how the public sector can best collaborate with and support Social Enterprises, given the variety of challenges involved in achieving Sustainable Development goals. Moreover financial constraint has always been a major challenge for the social enterprises around the world. Hence self-sustainable business model needs to be designed and this calls for a healthy social enterprise ecosystem.

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