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Introduction: New Perspectives on Social and Educational Entrepreneurship

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1. Introduction

This publication is both an edited volume and a special issue that is the product of a highly selective refereeing process. The rationale for the *International Journal of Entrepreneurship Education* (*IJEE*) Special Issue on Social (and Educational) Entrepreneurship, sponsored by the UCLA Institute for the Study of Educational Entrepreneurship (ISEE) and the Kauffman Foundation, originally emerged from a growing recognition that the worlds of social entrepreneurship and education are increasingly cross-pollinating. There are numerous examples and models, as will be explored in this set of articles, of how entrepreneurship is being used or can be used to enhance and support education at the pre-college level. This kindergarten through twelfth grade (K–12) education in the United States traditionally has been thought to be a public sector issue because the funding comes largely from government sources. Although there are private schools and initiatives in the United States, the vast majority of students are educated in public schools, and most of the funding for education comes from local, state, and federal government.

Government influence and control over education is no longer as dominant as it used to be. There are social innovations and powerful ideas coming from both the private for profit sector and the not-for-profit sector that are challenging existing ways of structuring and providing education for students. These changes also are stimulating the adoption of more entrepreneurial practices in the operations of public schools. Such efforts are being undertaken to make K–12 education more dynamic and effective, and also to make it more self-supporting and efficient. Most academic research, however, has only tangentially investigated this topic, and tends to focus on either education or entrepreneurship instead of the interaction between the two fields. This set of articles makes the connections between the two separate, but related areas. They were written to illustrate new ideas and stimulate new thinking about social entrepreneurship in general, about how education can be more enterprising, and about how entrepreneurship can strengthen educational institutions and practices.

The editors of the Special Issue formulated two broad questions to be addressed by the Issue's papers.

1. Can "social impact" be compatible with "for profit" wealth creation? How does a social entrepreneur manage the tradeoffs? Under what circumstances are both goals aligned, and under what conditions are they in conflict?

2. What is the potential impact of educational entrepreneurship (both for profit and not-for-profit) on public school reform in general, and on urban school reform in particular? What are some of the key issues to consider?

The editors then conducted an exhaustive search for scholars in the United States who had or could best answer these questions and improve our understanding of social and educational entrepreneurship. Seven individuals or teams of scholars were selected to prepare papers for the Special Issue. These papers were circulated in their draft stages so that all the authors and a team of referees could read them and offer comments. Based on this feedback and on detailed commentary by the Issue's editors, authors made additional revisions to meet the particular requirements and standards of the Issue. It is this rigorous process of selection, review, and revision that produced this *IJEE* Special Issue's set of articles on social and educational entrepreneurship.

2. The Articles

The first three articles in this Issue by Gregory Dees and Beth Anderson (2003), Calvin Kent and Lorraine Anderson (2003), and William Walstad (2003) focus primarily on the first Special Issue question about the compatibility of social impact and for-profit wealth creation. Although they explain how entrepreneurship and entrepreneurial thinking may be used to serve a social purpose that improves communities and society, each article offers a different perspective on social entrepreneurship. The next four articles by Paul Hill (2003), Henry Levin (2003), Ted Kolderie (2003), and Marilyn Kourilsky and Guilbert Hentschke (2003) target the second main question. They investigate the potential for using entrepreneurship in education to provide K–12 educational reform. These articles present different examples of such educational initiatives and consider their potential for improving elementary and secondary education. What follows is a brief synopsis of each article to describe how each article contributes to our understanding of social and educational entrepreneurship.

2.1. Dees and Anderson

Dees and Anderson address the question of whether the wealth-creation imperative inherent in for-profit organizations is really compatible with optimal social impact. They begin by focusing on social entrepreneurs, who they define as individuals creating enterprises that are intended to serve society and make a profit at the same time. They note the growing importance of this type of entrepreneurship: "as traditional sector boundaries continue to break down, there will be a rise in the number of social entrepreneurs who want to combine a social purpose with a for-profit organizational structure." They define for-profit social ventures as legally incorporated for-profit entities explicitly designed to serve a social purpose. The article makes a clear distinction between for-profit social ventures and other types of social ventures such as not-for-profit business ventures, socially responsible businesses, and purely profit-motivated firms operating in the social sector.

Dees and Anderson use a "value chain" concept as a tool for analyzing potential sources of competitive advantage for a firm. The simplified value chain, which includes procurement, employment, production, product or service, and marketing, is used to highlight major activities through which a business can create social value. The potential benefits of combining social purpose with a profit motive include such factors as promoting efficiency and innovation, leveraging scarce public and philanthropic resources, responding quickly to demand, and improving access to skills personnel.

The creation of a for-profit social venture is not without many challenges. These challenges can arise from the complexity of combining two very different kinds of objectives. There also can be market pressures to compromise on social value creation or there can be political pressures to compromise on financial performance. The authors assert that these challenges can be met, and they offer eight strategies.

1. Be clear and open about the venture's mission, including both social and economic objectives.

2. Articulate a comprehensive venture model that integrates a plausible social impact theory with a viable business model.

3. Be creative in measuring performance and ruthless in testing the assumptions behind the venture model.

4. Start with sympathetic investors and retain control in the hands of those who are committed to the dual mission.

5. Invest time and energy in hiring and developing the right people.

6. Anticipate resistance and develop a strategy for dealing with it.

7. Develop a brand reputation for quality and performance.

8. Recognize the limits of what can be done for profit and use not-for-profit partners or affiliates to provide complementary services.

Dees and Anderson conclude that for-profit social entrepreneurs can succeed if they follow these strategies. Such work will require them to be "tenacious" in following their social and economic goals and also "flexible" in finding viable ways to achieve them.

2.2. Kent and Anderson

Kent and Anderson offer a different perspective on social entrepreneurship by focusing on the importance of social capital and its relationship to entrepreneurship and leadership. They lament that the study of entrepreneurship in business schools thus far has been limited primarily to technology and the ventures that produce it. They argue that innovation is more than new products and processes for production because entrepreneurs can be the change agents for creating social as well as material progress. In making their case, they define social capital as "the stock of active connections among people; the trust, mutual understanding and shared values and behaviors that bind the members of human networks and communities and make cooperative action possible." They further explain that social capital has both internal and external dimensions. Internally, social capital increases the effectiveness of the organization by establishing a workplace where workers are encouraged to create. Externally, social capital increases the effectiveness of social institutions in pursuing greater social harmony, through an interdisciplinary approach that engages sociological, political and economic issues.

Kent and Anderson observe that social capital has an economic value because knowledge creates a competitive advantage. They make a distinction between information and knowledge: the former being sterile data which can easily be transformed; the latter being the human skills necessary to understand the data, assimilate it and apply it in new and creative ways. In their view, social capital depends foremost on trust, and trust necessarily comes from human interaction. Social capital therefore has an economic value also because transaction costs are reduced when people trust each other. They assert that the stronger a social community is, the greater the level of trust there is between its members. Trust encourages risk-taking by reducing the fear of failure. Risk-taking in turn yields greater innovation and more entrepreneurship. Successful businesses, therefore, are built on trust between company and customer, employer and employee, and employees and their colleagues.

The authors also see a strong relationship between leadership and social capital. They make an important distinction between management and leadership: the former tending to yield consistent results or the status quo; the latter having the potential to produce dramatic change. Effective leadership requires the ability to develop a vision for the future and to motivate others to work towards the accomplishment of that goal. The authors highlight the concept of “servant leadership” in which leaders think of themselves as working for their employees in terms of supporting whatever they need (e.g., materials, training, encouragement, rewards, recognition). They also note that leaders need to be honest with their employees, praising them for their accomplishments while providing them with honest feedback. Similarly, entrepreneurs need to give as much attention to their co-workers as they do to a new idea. An effective entrepreneur understands that through strong relationships built on trust, great accomplishments naturally follow.

This article finishes with several recommendations for changes in the curricula of business schools. They think that these schools should give more emphasis to social capital in the education of future entrepreneurs and business leaders. Students need to understand the importance of developing social communities based on shared values and goals because they create trust, and it is this trust that is the basis for entrepreneurial risk-taking, product innovation, and economic growth.

2.3. Walstad

Walstad offers a third perspective on social entrepreneurship. His article describes the multiple effects of entrepreneurship that, when added together, have an enormous influence on society and education. These effects initially arise from the new product and innovations created by entrepreneurs, but there are other long-lasting effects on society that stem from the philanthropy created by entrepreneurs. The contribution that entrepreneurship makes to philanthropy serves as a foundation for most social entrepreneurship.

He begins by describing the direct and indirect effects of entrepreneurship on philanthropy. The direct effects came from the wealth created by the entrepreneur. He states that "entrepreneurs do not start out to become philanthropists, but they often assume that role when the business becomes successful." He then cites numerous examples of successful entrepreneurs, such as Bill Gates currently or Andrew Carnegie long before him, who became major philanthropists after amassing great fortunes. These fortunes have been used to influence and change society during the lifetime of successful entrepreneurs and long afterwards. In addition, there are associates of the entrepreneur and investors in entrepreneurial firms who also become wealthy and make additional contributions to philanthropy. These indirect effects expand the pool of wealth far beyond the business founder. For-profit wealth creation is clearly compatible with social impact when it gets channeled through philanthropy.

The article also describes a feedback effect from entrepreneurship that can be self-reinforcing. In the first link, entrepreneurship promotes increased philanthropy. In the second link, more philanthropy can improve society, and also education, as one of the main beneficiaries of this philanthropic spending. In the third link, a better society and educational system can encourage more entrepreneurship. He notes that this last connection between an improved society and increased entrepreneurship is the most tenuous of the three links in the model. He argues that this link can be strengthened when improvements in society and education lead to improvements in the business climate that supports entrepreneurship. Philanthropy can contribute to improving the business climate by helping potential entrepreneurs in underserved communities gain access to start-up capital, by providing effective programs in entrepreneurship education at all age levels, and by reducing the tax and regulatory costs that can serve as impediments for starting and growing businesses.

Walstad then discusses the other effects of entrepreneurship on society when analyzing what happens to the net worth of entrepreneurs. In addition to contributing to philanthropy, the net worth of entrepreneurs gets redistributed to society in other ways. Taxes are paid on entrepreneurial income and they fund public goods and services. The spending for consumption goods largely has personal effects, but there are social effects from the creation of jobs and the taxes paid on that consumption. Those family members who inherit the fortune of an entrepreneur will ultimately redistribute their inherited wealth through the same avenues: philanthropy, taxes, consumption expenditures and inheritance. He argues that all four of these avenues have an impact on society.

The final effect described in the article is the innovation effect on philanthropy from entrepreneurial giving. New approaches to charitable giving have encouraged wealthy entrepreneurs and traditional philanthropists to be more innovative about how best to make the nonprofit sector more accountable and create more social value from philanthropic funding. From this perspective, entrepreneurship has the power to radically transform society through philanthropy because it allows a wider diversity and flexibility of ideas, choices and programs to improve society as compared to government legislation and funding. Education will always be a main target of such activity because there is substantial spending on education by private foundations. As more entrepreneurs are created and successfully amass greater wealth, they will develop new, innovative approaches to redistributing their wealth to find the best way to benefit society and education.

2.4. Hill

The Hill article turns directly to the issue of educational entrepreneurship and, in particular, the changes needed to reform K–12 education in the United States. The thesis of this article is that public education is hurt by the lack of entrepreneurship, and that greater openness to entrepreneurship could make public education more adaptable and efficient. Hill thinks that education is plagued with uncertainty, and claims that the only two things which are certain in education are that not every child will learn best from the same form of instruction and when today's children are adults they will need to know things that few, if any, members of their parents' generation know. He thinks that the best mechanism for coping with such uncertainty is entrepreneurship. He utilizes Schumpeter's definition of entrepreneurship as the implementation of change via the introduction of new or better quality goods; new methods of production; new sources of supply; or reorganization of an industry.

In the first section, Hill describes the areas in which public education is weakened by being closed to entrepreneurship. Public education has little incentive or capacity to invest in new ideas, which results in public education not being able to adapt to demographic changes and seldom being able to take advantage of ideas and resources available in the broader society. The public school system, relative to most other American institutions, also does not do a good job of performing many important functions, such as quality control, the creation of new products, reaction to competition, staff recruitment and development, and financial control. Hill contends that within the public education system, no one has significant discretion over who is hired, where they are assigned, or how money is spent. As a result, potential entrepreneurs are regularly thwarted by a system bound by odd rules and customs.

In the second section, Hill considers how public education could be opened to entrepreneurship and thinks the key is discretion. If entrepreneurs are to change public education, people within the system must become capable of making real choices and reallocating real money. He recommends that this discretion be achieved with policies that eliminate any routine funding for central administrative units, and by allocating money to schools based on enrollment. Vouchers, charters and school contracting movements all make the flow of funds to schools transparent, allowing schools the freedom to buy what they need from a competitive marketplace of vendors. This would in turn encourage school leaders and teachers to become entrepreneurs with the incentive to constantly promote student learning. Hill suggests that a less radical-sounding proposal is standards-based reform which would similarly allow schools to control their funding, spending, hiring, use of time and selection of instructional methods, as long as they meet their performance expectations.

In the final section, Hill explains what would be the greatest opportunities for education entrepreneurs, once the laws governing public education are changed to allow money to follow children and individual schools are given discretion to make spending decisions. Four major areas for entrepreneurial innovation would be providing support services, managing human resources, delivering complete courses and operating whole schools. He concludes that entrepreneurship is needed in every aspect of school and system operations to free a public education system that is currently frozen by laws, regulations and labor contracts.

2.5. Levin

Levin presents a more circumspect and skeptical assessment of the potential of for-profit schools to reform K–12 education in the United States. His article begins with a brief history of this education to highlight the absence of for-profit schools as an important force in the development of the K–12 educational system. This observation suggests that there is something inherent about education that does not lend itself well to for-profit operations. In recent years, however, there has been a rise in educational management organizations (EMOs) that has re-inserted for-profit firms into elementary and secondary education. His article examines whether these for-profit EMOs have the potential to reform public education by asking whether EMOs can succeed as a business and if EMOs can stimulate changes that will lead to educational improvement.

In the case of the first question, Levin concludes that it is difficult for EMOs to turn a profit because the proponents of educational privatization failed to carefully study the economics or politics of education. Levin identifies five critical characteristics of education that those who decided to enter the "business of education" failed to realize: 1) education is a difficult business in which to make a profit because it is highly regulated and monitored, and also influenced by multiple groups and levels of government; 2) EMOs have marketing costs that must be paid to attract and sign charter schools and districts to contracts, but the public schools do not have such costs; 3) the contracts for EMOs are relatively short (3–5 years) which means that the overhead and startup costs on such contracts have to be amortized over a relatively short period of time; 4) the economies of scale that might appear to be present in operating many schools and teaching large numbers of students may be more elusive than real; 5) the push for uniformity across school sites does not take into account the important differences in educational needs within communities and may be difficult to achieve given these local differences. All of these factors lead Levin to conclude that the economic health of for-profit EMO firms is highly questionable and they are not likely to serve as viable business models.

For the second question, Levin considered two hypotheses of how for-profit EMOs potentially could promote educational reform. He first asked whether for-profit EMOs could operate schools that make organizational or pedagogical breakthroughs that might be emulated by public schools. In evaluating the research evidence, Levin found mixed results in terms of "revolutionary" breakthroughs by EMOs. There was no evidence of major positive benefits from EMOs with respect to improvement in curriculum, instructional strategies, or use of technologies, but there was strong evidence of improvement in the areas of personnel and organizational practices. The second hypothesis he evaluated was whether the EMOs might create competition between EMOs and public schools that would stimulate the latter to improve their operations. In this case, Levin found no direct or substantive evidence that EMOs spurred competition in public schools and improved results for the educational system.

Levin concludes that the present model of for-profit EMOs is not likely to be successful because they generally have not been profitable thus far and there is little evidence of breakthroughs in educational results. In the spirit of supporting educational entrepreneurship, Levin does offer selected recommendations that might make EMOs more successful than has been the case to date. He thinks that for-profit EMOs might work better as smaller firms that operate just a few schools, and that they should seek to establish themselves in niche markets such as special education. He also recommends that EMOs get better control over their administrative costs when operating multiple schools, and contain their marketing and promotional costs. Another recommendation is that EMOs negotiate longer contracts so that the high fixed costs of startup can be more easily amortized. Levin ends with the cautionary note that it will not be easy to create a network of for-profit EMOs in the United States because the private sector has not been successful in creating or penetrating the potential market.

2.6. Kolderie

Kolderie considers another approach to educational entrepreneurship and sees teachers as the key group with the power to transform K–12 educational institutions. His article discusses teacher ownership as a new form of educational entrepreneurship that has considerable potential to change the structure and practices of these institutions. Teacher cooperatives or partnerships allow teachers to make changes and improvements in education that so far have been impossible through the traditional school structures. In these arrangements teachers are no longer just employees but now have ownership in an educational institution and more interest in seeing it succeed.

He begins by describing why it is impossible for entrepreneurship to have an effect on education without first rearranging the education institution. He then states that the advent of "chartering" has allowed the traditional arrangements to be challenged and reinvented. The opportunity to open and operate charter schools has created a market for the services of entrepreneurs because the "buyer" of educational services is no longer limited to a political body. Furthermore, the charter sector serves as a research and development sector within K–12 education because it contains incentives for schools to operate in different ways. Kolderie defines an incentive as a reason combined with an opportunity and argues that the charter school sector contains both the reason and opportunity for educational reform. The charter school sector is the nation's major experiment with school-based decision-making because a charter school is responsible for managing its budget, selecting its teachers, managing its facilities and support services, and establishing its learning program.

Kolderie next describes teacher cooperatives as one kind of entrepreneurship that has manifested as a result of the growth of the charter school sector. He provides the example of the Minnesota New Country School that has a collection of contracts for transportation, extracurricular, lunch, facility and instructional services. It has a contract with EdVisions, a teacher cooperative, to provide the learning program. The teachers of EdVisions select their colleagues, decide on the instructional methods and materials, evaluate performance and decide their own compensation. At New Country School, the teachers have elected to have virtually all learning be project-based. EdVisions currently operates in 11 different schools. The Bill & Melinda Gates Foundation also invested $4.5 million in 2000 to have this model replicated in 15 more schools over the next four years.

Kolderie concludes that the idea of teacher ownership is generalizable to other areas of K–12 education. He states that the traditional arrangement, in which teachers work as employees for administrators, is not essential to education. He also thinks that teacher ownership has significant implications for changing and improving K–12 education. It allows teachers to assume multiple professional roles as teachers, managers, and owners. Teacher practices are changed, and these changes have the potential to improve student learning. Teacher ownership can expand the supply of quality teachers by making teaching more attractive and rewarding. It can speed the introduction of learning technologies into the educational system. Finally, teacher ownership will help contain the costs of education while maintaining program quality.

2.7. Kourilsky and Hentschke

The concluding article by Kourilsky and Hentschke completes the discussion of educational entrepreneurship and its many possibilities by introducing the concept of "educational multisectorism." It involves drawing on the resources and strengths of all three economic sectors – private not-for-profit, private for profit, and public/government sectors – to provide significant benefits for the pursuit of educational reform. The authors contend this multisectorism is needed rather than just unisectorism, and that if entrepreneurial thinking and social entrepreneurship are used to implement the multisectorism then it can become a powerful paradigm for innovation and change.

Kourilsky and Hentschke begin by defining educational entrepreneurship and discussing how manifestations of educational entrepreneurship may vary with the three levels of the entrepreneurial spectrum pyramid: entrepreneurship, entrepreneurial behavior, and entrepreneurism. They then describe the evolutionary changes that are fostering the growth of educational entrepreneurship in K–12 education: 1) increasing publicly expressed dissatisfaction with public education, 2) increasing reliance on multiple sources of revenue, 3) changing organizational frameworks: from centralized public models to decentralized market models, 4) increasing inter-penetration by education service providers of historically protected markets, 5) changing relationships between the 'policy end' and the 'operation end' as educational organizations move from compliance to performance, and 6) increasing reliance on technology for service delivery, organization and operation.

The next section of the article focuses on the education "industry" today, highlighting its historical antecedents, the current trends that are shaping it, and its expanded modern presence well beyond traditional schools, colleges, and universities. Kourilsky and Hentschke note that as K–12 education rapidly evolves into a three-sector domain, each sector enjoys certain comparative advantages relative to various types of educational objectives, organizations and ventures. The government or public sector has a comparative advantage in the areas of core learning, social justice initiatives, and holistic anchoring of the student. The private not-for-profit sector has a comparative advantage in the areas of core value (filling unmet social needs), having access to the "hearts" of individuals and organizations that value K–12 education, and filling gaps left by public market failures. The private for-profit sector has a comparative advantage in the areas of identifying market niches, accessing capital for investment, and building compelling and innovative business models. The private sector (both not-for-profit and for profit sectors) also has comparative advantages in providing specialty services for education, alternatives to existing public schools (e.g., charter schools and teacher cooperatives), and laboratories for educational innovation.

Kourilsky and Hentschke observe that entrepreneurship and entrepreneurial thinking can emerge in any sector of an economy. In the not-for-profit private sector, the main focus is on the social mission for education and how best to achieve effects in the targeted areas of social need. In the for-profit private sector, the pursuit of the social mission has to be balanced responsibly against the economic obligations of the venture. In the public sector, the social mission of education is the main focus but there is the additional need to provide acceptable levels of service for governmental jurisdictions. They make the case that the most successful K–12 educational leaders will be "innovative, opportunity-oriented, resourceful, value-creating change agents" who pursue their social mission across sector lines and use the strengths of each sector.

3. Conclusion

Entrepreneurship has tremendous power to transform and change society. The conventional view is that entrepreneurship is about startup businesses and the contribution they make to economic growth. This set of articles, however, shows that entrepreneurship should be conceived more broadly and has wide applicability to important social concerns. One pressing concern is how best to reform K–12 education in the United States to make it more dynamic, innovative, and effective. This set of articles explores how entrepreneurship directed to a social or educational purpose potentially can improve education. Although the answers vary and the articles cover a range of topics, this special issue should provide new insights about the potential for entrepreneurship and entrepreneurial practices to advance educational reform.