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Social Entrepreneurship Between Market and Mission

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Abstract. Most literature on social entrepreneurship has tended to occupy itself either with the start-up phases of social entrepreneurship or the replication of successful ventures. In contrast this paper is interested in the transformation of a sector induced by social entrepreneurship. More specifically it studies the later phases of this transformation. Inductive analysis of three types of social entrepreneurship (fair trade, microfinance, and car-sharing) examines how they transform sectors by creating disequilibria in market and non-market environments. Two cases are studied in each sector resulting in a total of six cases. Comparisons of the cases show, first, that with increasing transformation of the sector social ventures tend to experience tensions between their social mission and the perceived market requirements to emulate traditional for-profit ventures. Second, a direct comparison between matched cases shows two archetypical reactions to the tension observed: retreat towards the philanthropic core or a partial abandoning of the social objectives in favor of a business oriented approach. Rather than one approach being preferable to the other both strategies contribute to the establishment of a new equilibrium.

Keywords: social ventures, managing tensions, transformation.

1. Introduction

The early literature on social entrepreneurship has tended to present an optimistic view on the field. According to this perspective social entrepreneurship entails the simultaneous maximization of public goods for societal purposes through the increasing use of business like practices and entrepreneurial spirit (Boschee, 1995; Brinckerhoff, 2000; Dees, Emerson, & Economy, 2001; Drayton, 2002; Emerson, 2003; Johnson, 2002; Leadbeater, 1997; Shaheen, Cohen, & Roberts, 2006; Yunus, 2006; Zadek & Thake, 1997). Social entrepreneurs and their organizations are described as capable of maximizing social value while at the same time applying traditional businesses methods.

This type of literature was aimed primarily at practitioners. More recently it has been followed by a more scholarly analysis of the field (Austin, Stevenson, & Wei-Skillern, 2006; Dees & Anderson, 2006; Hill, Kothari, & Shea, 2010; Hockerts, 2003; Mair & Marti, 2006; Mair, Robinson, & Hockerts, 2006; Mort, Weerawardena, & Carnegie, 2003; Nicholls, 2006; Peattie & Morley, 2008; Peredo & McLean, 2006; Perrini, 2006; Robinson, Mair, & Hockerts, 2009). Topics of interest here have been in particular the characteristics of social entrepreneurs (Henton, Melville, & Walesh, 1997; James, 2001; Kuckertz &

Wagner, 2010; Light, 2006; Mair & Noboa, 2006; Mayberry, 2006; Prabu, 1999; Simms & Robinson, 2009; Thompson, Alvy, & Lees, 2000; Thompson, 2002), the sources of social opportunities (Cohen & Winn, 2007; Dean & McMullen, 2007; Hockerts, 2006; Patzelt & Shepherd; Robinson, 2006; Schaltegger & Wagner, 2008), the role of public-private partnerships in social entrepreneurship (Den Hond & De Bakker, 2007; Haugh, 2009; Sagawa & Segal, 2000; Waddock, 1988; Waddock & Post, 1995), and measuring the impact of social ventures (Haugh, 2006; Lingane & Olsen, 2004; Nicholls, 2009).

With a few notable exceptions (Alvord, Brown, & Letts, 2004; Hockerts & Wüstenhagen, 2010; Schaltegger & Wagner, forthcoming), so far only little attention has been paid to the transformation process of social entrepreneurship at the sectoral level.

Also little notice has been taken of the consequences this transformation has on individual social ventures. This paper therefore studies the following research questions: How does social entrepreneurship transform a sector over time? What changes in the behavior of market and non-market players can be observed?

The definition of social entrepreneurship adopted in this paper is based on an understanding of entrepreneurship as put forward by Schumpeter (1962 [1934]), Stevenson and Gumpert (1985), Drucker (1986), and Shane and Venkataraman (2000). Entrepreneurship is thus concerned with as the discovery and profitable exploitation of business opportunities by generating market disequilibria. These allow the generation of entrepreneurial rents. However, as Schumpeter (1962 [1934]) points out entrepreneurial profits are only temporary. Once an entrepreneurial venture has been successful, other market players are likely to follow the example, thereby competing away the entrepreneurial profit. At this point most entrepreneurial enterprises become merely "optimizing firms" (Schumpeter, 1962 [1934]: 133), unless they can identify a new entrepreneurial opportunity and exploit it. Within this view it is the entrepreneurial opportunity (its identification, selection, and implementation) that is at the heart of entrepreneurship research.

This paper accordingly understands social entrepreneurship as the discovery of opportunities to generate social impact and the identification of a mechanism to do so in a financially sustainable way. Typically, social ventures will actually not extract the entrepreneurial rents they obtain but instead reinvest them so create even more social impact. However, as their activities are observed by market and non-market players their idea will be emulated. The consequence is two types of transformation processes. On the one hand non-market players (i.e. charities, NGOs, governments) are likely to emulate behavior of the social venture aiming to improve their social impact. On the other hand for-profit firms will attempt to capture part of the economic rent created by the social venture. In adopting certain practices of the social venture both market and non-market players propagate the innovation and increase the social impact generated. From this results the following definition for this paper:

> Social entrepreneurship generates market and non-market disequilibria through the discovery of opportunities to generate social impact.

In this paper we will refer to the alterations caused by market and non-market imitation as the transformation of a sector. The underlying model is one of punctuated equilibrium. Social entrepreneurship creates disequilibria. Sectorial transformation then contributes towards attaining a new equilibrium. The research problem to be discussed in the remainder of this paper is how social entrepreneurship transforms a sector over time. More importantly it will be analyzed how individual social ventures react to this transformation.

2. Research Method

This paper follows a multiple case design wherein cases are used to confirm or disconfirm emerging conceptual insights following a replication logic (Eisenhardt, 1989; Yin, 1989). The cases were chosen to purposefully increase the diversity of the data studied while replicating selected elements as closely as possible. As settings I have selected three areas typically associated with social entrepreneurship: fair trade, microfinance, and car-sharing.

Analysis happens both at sector level and organizational level. To develop an in-depth understanding of each areas data has been selected at the sector level both through document research and expert interviews. Through this a well grounded understanding of each sector from its early days until the time of the study was established.

Based on this preliminary research, six organizations were selected using a matched pair design. In each sector we asked informants to identify one social venture most representative of a for-profit mindset, as well as one organization representing a non-profit mindset. The resulting dataset is described in Table 1. In each of the three areas interviews were carried out at the sector level (typically with experts who have known the area for many years) and at the level of the two case organizations.

I began the study with an analysis of two cases from the fair trade movement. Fair trade has emerged from the development aid world and aims at providing poor and underprivileged producers in developing countries with income and access to developed markets. By turning fair trade coffee in a branded premium product, Cafédirect succeeded in building the UK’s sixth largest roast & ground coffee brand as well as one of the UK’s fastest growing coffee and tea brands, while simultaneously obtaining the social objective of poverty alleviation. These findings are again contrasted with the example of Oxfam, the UK-based hunger-relief organization and fair trade pioneer. After sustained losses Oxfam decided in 2001 to stop its fair trade import. Instead it focused only on philanthropic producer support and the retail of fair trade products imported and processed by third parties.

Table 1: Description of Cases

Organization	Short Description	Social Mission	Number of Interviews
Case 1: Cafédirect, London, UK	For-profit coffee marketer founded in 1992 by four non-profit groups; It is now the UK's sixth largest roast & ground coffee brand and the fastest growing coffee and tea brand.	Provide income to poverty-stricken producers in developing countries through fair trade	7
Case 2: Oxfam Fair Trade, Oxford, UK	The UK's first fair trade organization belonging to Oxfam, a non-profit hunger relief organization. After sustained loses Oxfam decided in 2001 to stop its fair trade import activity.	Policy campaigning for fairer international trade rules and development aid for fighting poverty	4
FairTrade Sector Experts	Sector experts came from Fair Trade associations (4) and a retailer (1).		5
Case 3: MyC4, Uganda, Kenya, Senegal, Tanzania, Rwanda	MyC4 works as an online market place for microfinance providing financing in five East and West African countries.	Provide African entrepreneurs with microloans to eradicate poverty	9
Case 4: MicroBankers Trust (MBT), Lusaka, Zambia	Zambian MFI founded jointly by the Zambian government and the European Union. Starting out with wholesale microfinance MBT has moved towards the retail market lately.	Provide rural and peri-uban poor in Zambia with microloans to eradicate poverty	2
Micro Finance Sector Experts	Sector experts came from other microfinance institutions (2), an NGO (1), and a development agency (1).		4
Case 5: AutoTeilet Gesellschaft (ATG), Lucerne, CH	Europe's oldest and largest car-sharing co-operative has grown from just 20 members to over 80,000 private and business clients across Switzerland.	Reduce the environmental impact of mobility by combining modes of individual and public transportation	12
Case 6: ShareCom Zurich, CH	Car-sharing co-operative similar to ATG but with more stress on grass-roots voluntarism and self-help. Failed in 1998 and was taken over by ATG. A spin-off ProShare was launched by the ShareCom founders to continue the ideals of ShareCom.	Reduce the environmental impact of mobility and promote neighborly self-help and community spirit	4
Car-Sharing Sector Experts	Sector experts came from public transport providers (2), governmental agencies (2), green traffic associations (1), and business (2).		7

A second pair of cases was added from the area of microfinance institutions (MFI). Here I studied MyC4 an online internet platform allowing individual and institutional investors to lend money directly to entrepreneurs in five African countries. This case was compared to MicroBankers Trust (MBT). This MFI has been founded jointly by the Zambian government and the European Union as a wholesale provider of microfinance loans. Lately MBT has also begun offering microfinance loans on a retail basis.

The final set of cases comes from the area of car-sharing. Grassroots cooperative ATG was founded in response to growing concern about the environmental impacts of mobility. By integrating its services closely with public transportation car-sharing has reduced the number of cars on Swiss roads and increased the share of public transport users among its clients while carving at the same time a new market niche for car-sharing in Switzerland. Findings from the focal case were confronted with data from ShareCom another car-sharing project in Switzerland. Both co-operatives were founded at roughly the same time (1987/88). However, while Mobility was very commercially oriented ShareCom stressed voluntary self-help. In addition to environmental protection ShareCom's mission also included the explicit goal of reinforcing neighborly contact and community ties. However, with continuing growth ShareCom realized the limits of voluntarism and finally had to agree to a takeover by ATG. The founders of ShareCom did, however, re-launch on a smaller basis a new initiative, ProShare, whose purpose it was to maintain ShareCom original societal mission and values.

2.1. Data Collection

Data were collected primarily through 54 semi-structured individual interviews, a typical instrument for qualitative, inductive research (Eisenhardt, 1989; Miles & Huberman, 1984; Yin, 1989). Interviews lasted on average 90 minutes, although some went on for longer (the longest taking four hours). During all interviews hand-written notes were taken and entered into a running notebook for each case. In addition interviews were tape-recorded and subsequently transcribed, thus providing a reliable source for citations.

A rough interview guide was used for the interviews. Informants were first requested to describe the historical timeline of the entrepreneurial venture and its main players as far as they could recall. Where possible visual aids (flip charts etc.) were used to let the respondent actually draw a timeline, identify phases, and point out disruptive events. In general interviews were very open, thus leaving the interviewed person freedom in setting the pace and/or focus of the interview. However, over time (as the cases became more saturated), the interview focus was progressively tightened on specific aspects of the emerging theory, which is in line with the tenets of theoretical sampling (Glaser & Strauss, 1967).

Three types of respondents were interviewed. Members of the current management team were chosen to understand the present strategy. They were also probed on their recollection and interpretation of the organization's earlier phases. These pronouncements were contrasted with findings from conversations with early pioneers and founders where these could be contacted. Also numerous discussions were held with members of the organization's partner network.

2.2. Data Analysis

Data analysis used approaches common to qualitative, inductive research studies (i.e. Eisenhardt, 1989; Mayring, 1999; Miles et al., 1984; Yin, 1989). For each case a detailed written case history and timeline was prepared along with a schematic representation of the main phases and events. Initial versions were written following the first couple of interviews. These were then used to identify blank spots and inconsistencies that could be probed in later interviews. In general respondents agreed on key issues, such as what were the main phases of entrepreneurial development, or the major competencies.

Following each timeline, within-case analyses (Yin, 1989) were conducted by studying the key research issues. Codes and sub-codes were developed as the analysis progressed. Each code was applied to all interview transcripts. Elements of a potential theory emerged through an iterative process of going back and forth between data and theory (Eisenhardt, 1989). As new insights were integrated in the emerging constructs, the focus of the analysis always returned to the data to probe for inconsistencies or new categories.

In the cross-case analysis, finally, the findings from the cases were compared through tables and graphical mapping. From this analysis resulted a first framework of the overall entrepreneurial process of sustainability innovation. This model was once again contrasted with the case data, thereby continuing the iterative process between data and theory.

3. Data Description

The following sections will give brief overviews about the three focal areas of fair trade, microfinance, and car-sharing. Each subsection begins first with a short overview of the sector in general and then briefly presents the two focal cases. The paper will expand on these insights in the subsequent discussion chapter.

3.1. Fair Trade Cases (CaféDirect and Oxfam Fairtrade Corporation)

The fair trade sector is an excellent example for an archetypical process of social entrepreneurship. Both case organizations (CaféDirect and the Oxfam Fairtrade Company) studied go back to the same organizational roots since both are actually spin-offs from the UK-based famine relief organization Oxfam.

Fair trade has emerged from the development sector as a means to help disenfranchised producers through minimum prices, training, and long-term financing (Moore, 2004; Nicholls & Opal, 2005). Roots of fair-trade in Europe can be traced back to post-war charities involved with famine relief. The first occurrences were little more than extensions of traditional charity. Goods came from people with whom the charities were already involved through other development projects (Tallontire, 2001). The traded goods from the developing world (often handicraft of no particular value) had the same function as a ribbon that the donor could pin to the lapel. Accordingly one might also talk of charity trade. One of the early players to enter charity trade in the UK was the Oxford Committee for Famine Relief (Oxfam). Oxfam was founded in 1942 to raise funds for the International Red Cross to help fight famine in Nazi-occupied Greece. After World War II Oxfam grew into one of Britain's foremost famine and disaster relief organizations. In 1964, Oxfam also began to import and market handicrafts from the South through its extensive network of shops. This "Bridge programme" later became the Oxfam Fair-Trade Company.

In the 1970s, fair trade expanded beyond charity. At this time so called alternative trade organizations (ATO) emerged dedicated only to fair-trade (selling through charities and church groups as well as specialized One World Shops). Three prominent examples for British ATOs are Traidcraft, a fair-trade mail-order service founded in 1979, Equal Exchange a fair trade wholesalers going back to 1979, and Twin, which was set up in 1985 as a dedicated developing agency by the Greater London Council.

Following an initial boom, fair trade sales slowed and even began to decrease in the mid-1980s. At Traidcraft decreasing sales led to a trading loss, eventually triggering a major business review and 20 redundancies. In response to the trouble experienced the ATOs realized a need for a strong unified fair-trade brand as well as a need for accessing mainstream distribution channels (i.e. supermarkets and coffee bars). Accordingly, Oxfam, Tradecraft, Equal Exchange, and Twin joined forces. They launched a new company called Cafédirect, focusing exclusively on fair trade coffee. While most ATOs had never achieved particularly good quality in terms of taste, CaféDirect made high quality coffee its hallmark working closely with its producer partners on quality programs.

Traditional ATOs had focused on making fair-trade products less difficult and less unattractive for customers (i.e. by offering more choice and using traditional distribution and communication channels). However, their consumer appeal largely remained altruistic.

> When people buy [fair-trade] products, there’s a very heavy element of altruism. There has to be, with the message that we’ve got. This isn’t about what this product does for you, it’s about what somebody else gets out of it. Cafédirect has changed this logic. The one thing they absolutely got right from the beginning was the name. […] There’s an implied consumer benefit out of fair-trade. What

> we’ve normally said about direct trade is that it helps producers. It puts them in closer touch with the market. It empowers them in their operations. What Cafédirect said was, this is a better coffee because it comes direct from the producers." (interview with Ian Bretman, Deputy Director, Fairtrade Foundation)

By focusing on quality CaféDirect broke with this tradition. Several key achievements in 2000, demonstrate Cafédirect's success in attaining high quality: Cafédirect was voted "best coffee" by Best magazine, received 5 stars from Prima magazine, and was voted "favourite coffee" by the UK's leading consumer magazine. In December 2000, AC Nielsen reported that Cafédirect was the fastest growing brand in the UK roast & ground coffee market. This development from “fair trade” to “direct trade” moved fair trade from a development instrument to the level of a quality management tool.

In 1998, the board of directors decided to bring in Penny Newman, as the new managing director, due to her experience in the marketing at Schwarzkopf and the Body Shop. Newman totally overhauled Cafédirect's branding and introduced several new product lines, such as Teadirect, as well as four new roast & ground coffees. The ultimate change came in 2001, when sales for Cafédirect's traditional freeze-dried coffee ran out of steam. Newman opted for a radical repositioning towards product quality edging away from the fair trade message. This did not go down well with all constituents. Some activists have accused CaféDirect of selling out and not promoting fair-trade first. These grassroots supporters were concerned that by moving from a fair-trade towards a quality message Cafédirect was actually abandoning its roots.

The commercial success of fair trade has begun to register on the radar screen of commercial players. The Co-op UK, for example, required Fine Food Foods International, its coffee supplier, to buy from registered fair-trade producers, so Co-op could launch its own-brand fair-trade coffee. Sainsbury's followed suit with its own fair-trade brand soon after (Marketing Week, 2001).

> "If you look at Co-op sales in the UK, […] fair-trade coffee (i.e. Cafédirect and other fair-trade coffee brands) used to account for 10-11% of our total roast & ground coffee sales. But that plateaued and we were finding it difficult to grow that any further. […] We then introduced an own-brand [fair-trade coffee] at a lower price but at the same time gave additional promotion to Cafédirect. And in the next year we managed to double our sales. All fair-trade coffees together now account for 20% of our roast & ground coffee sales. So fair-trade sales have been limited by the fact that it's only been operating in [one] segment [of the instant coffee market]." (Interview with Terry Hudghton, Head of Co-op Marketing)

On the international scene recent years have also seen important developments towards a global fair-trade market. In 1997, the main labeling organizations (such as Max Havelaar, TransFair, and the Fairtrade Foundation) joined their forces to found Fairtrade Labelling Organisations International (FLO). The FLO has agreed on unified standards for fair-trade and has now become the only organization worldwide to hold the fair-trade register on which producer groups need to be included if they want to supply fair-trade coffee. However, such a monopoly position has also exposed the FLO to criticism. In the face of sky-rocketing demand for fair-trade products FLO was slow to add new products. Particularly the German and Swiss FLO members were afraid that introducing too many new products too fast would weaken fair-trade standards.

Even corporate food heavyweights such as Kraft and Nestle have begun to embrace the idea of fair trade. Although Kraft has not yet subscribed to the FLO standard they have begun offering products with the Rainforest Alliance label, an alternative to the FLO mark, which also proclaims to guarantee social and environmental sustainability (Fridell, Hudson, & Hudson, 2008). In the meantime CaféDirect has continued further on the road towards becoming a more mainstream company when it opted for an initial public offering (IPO) to raise capital in 2004.

While CaféDirect had moved aggressively towards the mainstream market Oxfam took a different path. While its coffee spin-off was developing well, Oxfam maintained the less commercially attractive elements of fair trade which it marketed under its subsidiary, the Oxfam Fairtrade Company. This focused mainly on handicraft products. Lending itself much less to standardization handicraft stayed much more in the traditional charity bracket of fair trade. After a decade of losses, Oxfam in 2001 invited McKinsey to evaluate its fair trade activities. The study, which examined a sample of 18 producer groups supported by Oxfam in seven countries across Asia, Africa and Latin America, concluded that Oxfam had the most impact through capacity-building and market access work rather than through its import of fair trade goods. As a result Oxfam gave up the Oxfam Fairtrade Company deciding to focus again more on development work.

Oxfam tried hard to find different fair trade outlets for most of its suppliers (Southgate, 2002). However, several suppliers were not able to find new clients. One respondent recalls the situation as follows: "When Oxfam announced its decision to stop trading at the 2001 IFAT conference, you could see several hundred dependent producers freezing in panic like deer in the headlights of an approaching car. They had been in the Oxfam system for up to 30 years and had never imagined selling their products to anybody else." (Lawrence Watson, Freelance consultant to the fair trade movement)

3.2. Microfinance (MyC4 and MBT)

The second focal area of this paper is concerned with two microfinance institutions operating in Africa, Micro Bankers Trust (MBT) in Zambia and MyC4 operating in Uganda, Kenya, Senegal, Tanzania, and Rwanda. Microfinance has emerged as an attempt to find new flows of development finance (Christen & Cook, 2001; Dehejia, Montgomery, & Morduch, 2005; Hermes & Lensink, 2007). This was seen as crucial if the United Nation's goal of halving poverty was to be met by the target date of 2015 (Economic Commission for Africa, 2008). Traditionally usury laws meant to protect the poor from loan sharks prohibited lending to the poor at market rates. This well-meaning intervention was, however, not without unintended side-effects.

> "Lending to the poor was a heavily-subsidized business, monopolized by state-run banks driven by the belief that requiring the poor to pay more would undermine rural development. Moreover, subsidized resources too often went to non-poor households and political elites. Financial services tended to be low-quality, and scale was constrained by the size of government budgets." (Dehejia et al., 2005)

But even where rates were not constrained by usury laws, traditional wisdom thought it unprofitable to lend to the poor. Firstly, transaction costs for microloans were considered too high. Secondly, it was feared that the poor constituted a much higher risk since they could not provide collateral. All this changed in the 1980s with the entry of microfinance institutions (MFI) such as the Grameen Bank (Bornstein, 1996) and BRAC in Bangladesh (Mair & Marti, 2007) or Accion in Latin America. The founder of Grameen Bank and 2006 Nobel Peace Prize Laureate, Muhammad Yunus (1998, 2006), pioneered two important innovations. Firstly, the bank introduced a system of group lending. These small informal groups apply together for loans and their members act as co-guarantors of repayment and support one another's efforts. Group-lending created peer-pressure and social control, since the ability of a group member to lend in the future relied on the performance of her or his group members. Secondly, Grameen bank put the administration of the loans into the hands of the poor (who also became co-owners of the bank). Both innovations have ensured surprisingly low default rates. In a study of 124 MFIs the Microbanking Bulletin (July 2003) found an average portfolio risk (greater than 30 days) of only 2.8 percent (Stephens, 2003).

The focal organizations differ in their orientation and their background. Micro Bankers Trust (MBT) started out as a middleman. Its roots go back to the liberalization of the Zambian economy and the Structural Adjustment Program (SAP) introduced by the Government of the Republic of Zambia. The liberalization went along with job losses and poverty. These effects brought together concerned individuals, Government, NGOs and the private sector to search for a way to mitigate the negative effects of SAP among Zambia's poor women. In the mid-1990s, the European Union agreed to fund a study to examine the establishment of an institutional mechanism of a savings and credit facility for the poor in Zambia who had no access to credit. This study culminated in the establishment of Micro Bankers Trust (MBT) in 1996, as an autonomous body to implement the micro credit delivery to the poor.

When it started MBT reached the poor solely via local MFI intermediaries, which took care of the selection of recipients and the lending process, leaving MBT in a position of wholesale lender. However, in 2001 MBT decided to switch from wholesale lending to retail lending. This strategy change lead to a quick expansion of Micro Bankers Trust. MBT offices were opened in 8 out of 9 provinces of Zambia. MBT served over 17,000 members in more than 500 groups, making it one of the few Zambian MFI institutions operating mainly in rural and peri-urban areas.

However, the change also threw MBT into financial trouble. Statistics show how MBT's operational self-sufficiency ratio plunged from 101.44% in 2002 to only 32.05% in 2006. The obvious reason has been MBT focus on its social mission. When borrowers failed to repay their loans on time, MBT simply extended the repayment period. This prolonging of the grace period has placed MBT into a self-perpetuating cycle of defaults and losses. Another important factor has been the powerful influence of the Zambian government, which mandated that MBT open rural offices in all regions. The government has aggressively extended MBT into numerous geographical regions and also into widely diverse projects. MBT loans support varied agricultural and rural projects. MBT's over-expansion and over-involvement in numerous projects increases its operational costs and adds to the deterioration of its self-sufficiency. As a result MBT has come to rely heavily on windfall grants to cover its budget. As a result MBT functions more like a government development agency (providing funding projects in areas of agriculture and health) rather than a typical MFI.

MyC4 was similar in outlook to MBT's early activities. It too provided funding to intermediaries who dispensed it to local borrowers. In its early days it was funded partly by Danish development agency Danida. However, in stark difference to MBT's governmental roots MyC4 was a for-profit start-up aiming to turn a profit for both its investors and its shareholders. It worked as an online marketplace for microfinance providing funds to micro-businesses in Uganda, Kenya, Rwanda, Tanzania, and Ghana which needed working or expansion capital. MyC4 itself did not have a local infrastructure but instead relied on twelve local microfinance institutions as intermediaries. These identified promising entrepreneurs and profiled their loan needs on the MyC4 website. Investors could offer to finance part of these loans setting themselves the interest rate they would like to receive. Once a loan was fully funded MyC4 followed a reverse auction principle, whereby each new bid would replace the highest bidder. Thus investors would effectively bid down the average cost of the loan over time.

In its early days MyC4 had focused only on private investors and had mainly profiled small microloans. However, the organization quickly extended its portfolio from the normal microloan size (i.e. €200-500) to larger loans of up to €20,000. It also attracted institutional investors to invest alongside individual investors. All in all MyC4 had loans with over 3500 businesses and was expanding rapidly. Its strong focus on profitability and an attractive return to investors did not go unchallenged though. A group of socially motivated investors felt that the rates of on average 12.9% paid to investors were too high. They complained loudly on MyC4´s user forum that the organization was not living up to its social mission. On the other hand, an increasing number of traditional investors saw the platform primarily as an investment vehicle like any other, with the poverty alleviation mission only a secondary concern. They wanted an interest rate that would mirror the risks they were taking such as the default risk or the risk of changes in the exchange rate since loans were made in local currencies. More recently MyC4 has faced criticism from its financial investors as well as defaults have increased and returns have dispointed.

3.3. Car-Sharing (ATG and ShareCom)

The third area of social entrepreneurship studied in this paper is that of car-sharing. Oftentimes growing out of informal structures car-sharing has developed over the last 20 years internationally (Harms & Truffer, 2000; Meijkamp, 1999; Shaheen et al., 2006). It is promoted by its supporters as an environmentally friendly alternative to owning a car since it promotes the use of public transport and reduces the amount of individual automobile traffic (Litman, 2000; Muheim, 1998; Suzuki, 2007).

The organizations studied for this article have emerged from similar backgrounds. Both were founded in 1987 having grown out of informal car-sharing agreements. Both co-operatives quickly realized that their offers struck a nerve with many people. The Verkehrsclub der Schweiz (VCS), Switzerland's "alternative" traffic club, was one of the first to systematically support car-sharing. Probably the most important contribution of the VCS was its role in initiating a co-operation between ATG, ShareCom and the Bundesamt für Energie (BFE), the Swiss Federal Office of Energy. The VCS proposed car-sharing as one of the projects funded under the program and offered to act as project manager between the BFE and the two co-operatives. Based on this work the BFE proceeded to sponsor organizational and marketing development at ATG as well as an electronic reservation system and other IT developments at ShareCom.

Inevitably the close co-operation under the Energie2000 program and a constant prodding from the VCS, led to initial discussions about merging the two co-operatives. However, these talks quickly became stuck due to differences in the organizational visions. The former heads of both co-operatives recall the discussions as very problematic. ShareCom felt that its central contribution lay in the self-help philosophy that encouraged people to freely share goods. It was also motivated by a fundamental critique of the consumption society which members felt had contributed to the ecological crisis. Hence its slogan was: "Use it – but don't own it!" (Nutzen statt besitzen). ShareCom's members were afraid that "by losing the voluntary element, we would just become another car rental firm."

ATG on the other hand was clearly committed to commercialization and positioned itself as a service provider. ATG saw self-help as a form of self-exploitation that needed to be overcome. Although ATG had initially relied on voluntary contributions by all members, the organization quickly decided to appoint professionals to take care of cars and over time moved towards a system whereby these persons were paid and employed by ATG. The philosophical and personal differences turned out to be too much. Eventually the merger talks failed after intensive debates between and within the co-operatives.

Disappointed about the aborted merger ATG decided to adopt a more aggressive strategy towards ShareCom beginning to compete head on. In 1995, ATG's assault yielded a response. The management team of ShareCom decided to found a commercial subsidiary, the CarSharingCompany (CSC). The idea behind CSC was to keep up the voluntary system of ShareCom, but still to offer a commercial alternative to those clients who were not interested in a self-help system. However, CSC turned out to be too little and too late. While the two incumbents continued to grow at staggering rates, CSC could report only 100 members by the end of 1996.

What held CSC back was the unwillingness of ShareCom to allow CSC clients access to its own fleet. ShareCom was afraid that CSC clients would unduly benefit from the voluntary work of its members, thus eroding the basis for the self-help system. Only after tedious negotiations between CSC and ShareCom did the two sister organizations decide to pool their fleets. However, many pioneer members of ShareCom were complaining that too many users were free-riding on the voluntary contribution of other ShareCom members without putting in their due. If it wanted to save the self-help character of the co-operative, ShareCom had to maintain the high degree of social control that had existed in the early user groups. This meant keeping the number of users in check who were using cars outside their own user groups, so as not to frustrate the members who were eventually responsible for cleaning and maintenance. Critics at ATG quickly rephrased ShareCom's slogan from "Use it – but don't own it!" (Nutzen statt besitzen) to "Clean it – but don't use it!" (Putzen statt nutzen).

Ultimately a development in 1996 consolidated ATG's position and sealed ShareCom's fate: Zurich's public transport provider, the Verkehrsbetriebe Zürich (VBZ), had launched ZüriMobil, an integrated mobility service. The VBZ decided to bring either ShareCom/CSC or ATG into ZüriMobil. Given the fact that ShareCom/CSC had 160 cars in the Kanton Zurich as opposed to ATG's 11 cars, the decision seemed a foregone conclusion. However, to the surprise of all concerned, VBZ chose the weak outsider rather than strong local boy. According to Harms and Truffer (1998), ATG's slick marketing profile (compared with ShareCom's image as a rather amateurish self-help group) and its personally attended telephone line service for reservations saved the day for ATG.

As a result of the ZüriMobil co-operation, ATG's growth outpaced that of ShareCom for the first time. In the summer of 1995, both groups had had roughly 3000 members (Harms et al., 1998). However, by the end of 1996 ATG reported 6900 clients as opposed to ShareCom's 5200 members. In 1997, the co-operation between ATG and ZüriMobil alone attracted 3000 new clients in just 6 months (ZVV, 2002).

At the same time the recent growth at ShareCom had brought many new members into the organization, not all of whom supported the co-operatives commitment to volunteering and neighborly self-help. The gulf between ShareCom's traditionalists and the modernist faction (pushing for more commercialization) became larger as the co-operative began losing money due to free-rider problems resulting from weakening social control. In the end the modernists ousted the old leadership and took control of ShareCom. They arranged a merger with ATG forming a new organization called Mobility Car-Sharing which is primarily driven by the ATG spirit.

ShareCom’s founder Charles Nufer believes that "the self-help system had become a victim of its own success." He concludes that there might be an upper limit of members beyond which a meaningful sharing of goods through a self-help system cannot work. Disappointed with the new, purely commercial course, a group around Charles Nufer left the co-operative and founded a new organization ProShare, based in Winterthur, reviving the spirit of ShareCom with less ambitious growth intentions.

4. Cross-Case Analysis and Discussion

This paper explores how social entrepreneurship changes sectors by creating disequilibria in market and non-market environments. More importantly it is interested in what happens when these sectors approach a new equilibrium. The discussion of the three focal cases highlights three important mechanisms of social entrepreneurship that have so far not been considered particularly in the literature. First, with increasing transformation of a sector social ventures tend to experience tensions between their social mission and the perceived need to emulate traditional for-profit ventures. Second, a direct comparison between the matched cases shows two archetypical reactions to the tension observed: retreat towards the philanthropic core or a partial abandoning of the social objectives in favor of a more business oriented approach. Third, rather than one approach being preferable to the other both strategies contribute to the establishment of a new equilibrium. This will stay in place until another disequilibrium is created by a new act of social entrepreneurship.

4.1. Social Entrepreneurship as a Process of Creating Disequilibria

All examples of social entrepreneurship studied (fair trade, microfinance, and car-sharing) support the notion of social entrepreneurship as a process of creating disequilibria in market and non-market environments. The founders of the fair trade movement were interested to impact power relations in international trade. They wanted to empower poor producers from the south and give them a larger share in the value created. While some development activists have chosen the road of policy campaigning, the fair trade movement has created the institutions for a parallel market guaranteeing a fairer treatment of producers.

Similarly microfinance aims at fighting poverty. Its main innovation has been the demonstration of financially sustainable mechanisms for delivering loans to the poor. Having demonstrated the viability of this idea through success stories such as Grameen Bank (Bornstein, 1996), ACCION, and BRAC (Mair et al., 2007), market and non-market players have begun to emulate microfinance activities. Car-sharing also has demonstrated that an alternative exists to the traditional mobility dichotomy of either car-ownership and or exclusive reliance on public transport. Having demonstrated the economic viability of this innovation public and private players have begun to crowd into the market.

4.2. The Rush Towards Mass Markets

The direct comparison between the matched cases shows two archetypical reactions to the tension observed. On the one hand are social ventures such as CaféDirect, MyC4, and ATG. Although all three organizations make their social missions explicit they have changed more and more into normal market participants. An important factor in this development was the emergence of competitors from the traditional business world. Retailers have begun to offer own brand fair trade products and food multinational such as Kraft and Nestlé have launched their own fair trade products. Feeling this competition traditional ATOs had to adopt a more and more business-like behavior. The very foundation of CaféDirect, its subsequent move towards quality, and the final launching of an IPO all underline how this charity spin-off has merged towards a normal business.

MyC4 similarly is the logical consequence of three decades of transformation of the lending market through microfinance. As the opportunity of microfinance has become more and more evident it was only to be expected that investors interested in attractive returns would enter the market. MyC4 is actually a good example of an organization caught between a rock and a hard place. Although MyC4 proclaims its mission to be the eradication of poverty it also promises its investors the possibility of financially attractive returns. While most investors on the platform support this strategy there has also been concern about increasing default rates on the one hand and what some consider to be excessive rates and harsh treatment of defaulters.

ATG has moved along a similar trajectory beginning from co-operative roots and being based nearly exclusively on voluntary self-help it has transformed itself more and more into a professional mobility provider. This metamorphosis has not been slowed by the merger between ATG and ShareCom. If anything the resulting new organization Mobility CarSharing has even accelerated its transformation. This was partly driven by market players such as the Swiss railway SBB which got so interested in the company that at some point it attempted an unfriendly take-over. Although the SBB failed in this effort it illustrated to the car-sharing activists that they needed to become more businesslike. As a consequence the old ATG management was exchanged and professional managers were introduced at Mobility CarSharing. The cooperative culture was increasingly deemphasized.

4.3. Back to the Roots

Oxfam, MBT, and ShareCom demonstrate the opposite trend. Being caught between market pressures and concern about the social mission they retreated towards the philanthropic core from which the social innovations had sprung. Thus Oxfam decided to close the Oxfam Fairtrade Company and instead to focus on its core competencies of campaigning and capability development. MBT similarly looks more and more like a development agency. At least for the time being it has prioritized the government's interest in supporting certain social programs over the goal of becoming a self-sufficient microfinance institution. Finally, Charles Nufer concludes that his vision of neighborly self-help might have an inbuilt growth limit beyond which an organization such as ShareCom should not grow. He thus has returned with ProShare to the roots of small-scale voluntary self-help turning his back on the commercialization of car-sharing in Switzerland.

4.4. Between Market and Mission

The question may be raised whether either development illustrated in these cases is deplorable. Social activists might decry the increasing movement towards business of organizations such as CaféDirect, ATG, and MyC4, worrying that the process of becoming more businesslike also implied a mission drift away from the social ideals of the founding days. All three organizations indeed display signs of abandoning some of their social goals. Thus we have seen CaféDirect deemphasize its fair trade message. More significantly the fair trade criteria themselves have begun to weaken as larger markets are eyed by ATOs and incumbent corporations alike. Finally by paying dividends to its investors CaféDirect has changed its policy of reinvesting all profits into producer programs.

MyC4 also is a far way from the vision Yunus (2006) has of social business. Whereas Grameen is owned by its borrowers MyC4 is actually owned by investors from the first world. More significantly MyC4 does not object to investors extracting their profits from the platform whereas traditional microfinance institutions would reinvest everything in their activities. The most radical cut has probably been made by ATG. Its cooperative roots emphasized democracy, volunteering, and neighborly self-help. While the mission of reducing environmental impact through alternative modes of transport is still maintained professional car-sharing has lost any pretence for neighborly contact. In fact most car-sharing clients never meet another member. And only half of the clients are actually members of the cooperative.

Some activists will consider these developments to be deplorable as they can indeed lead to an erosion of the original social mission. At the same time an increase in market share might compensate for such losses. If, for example, fair trade succeeds to break into the mainstream market this may result in a larger overall social impact than would have been possible in a more idealistic but smaller market niche.

Looking at the developments at Oxfam, MBT, and ShareCom/Proshare one might be concerned that these are outright failures. Actually they also underline the important role non-profit organizations play in the social transformation of a sector. Indeed their return to the roots (focusing on the original developmental mission) is an important counter weight to business forces driven ventures such as CaféDirect, MBT, and ATG/Mobility.

5. Conclusions

Concluding the analysis of the six cases and the three focal sectors this paper argues that social entrepreneurship may profitably be modeled as a punctuated equilibrium. Social entrepreneurship creates disequilibria in market and non-market environments by surfacing innovative and financially sustainable ways of addressing social problems. As a consequence incumbent players in market and in non-market environments begin to imitate the entrepreneurial idea. Eventually this will lead to a new equilibrium. Market innovations are likely to be absorbed by the market thus forcing any social ventures to compete with the incumbents. Changes in the non-market environment are likely to impact traditional organizations there. Non-market players (charities, NGOs, governments) will incorporate those elements of fair trade or microfinance that are unprofitable for market players. As a consequence social ventures face three possible choices. They can either emulate market players and thus risk ending very much like the organizations they started out opposing; or they may leave the profitable bits of the innovation to the market players and instead return to the original developmental mission drawing primarily on grants and charity. A possible third way could be one of continuous innovation whereby social ventures keep innovating their way out of the tension between market and mission.

In this paper I have positioned social ventures as being torn between their mission on the one hand and profitability goals on the other. The article stresses the tension organizations are exposed to when they try to simultaneously maximize social welfare and economic profit. Inherently paradoxical constructs such as the notion of social enterprise are difficult to theorize about. They require simultaneity of concepts that we have learned to think of as two opposing horns (Poole & Van de Ven, 1989). However, herein lies also their richness. Denying the underlying conflict and searching for a silver bullet for social entrepreneurship would ignore the potential paradox holds for organizational theory building.

It can be hoped that future research will increasingly enlarge its focus from the individual level (the social entrepreneur) and the organizational level (the social enterprise) to sectoral phenomena. In particular it would be interesting to analyze how we can better measure social impact created by disequilibria. To date all attempts at social impact assessment focus on the direct impact of a single organization or program. Measuring indirect impacts in market and non-market environments as a result of disequilibria will require new methodological approaches.

The practical significance of this research lies in its relevance to practitioners. The well deserved positive coverage of social entrepreneurship in the media tends to obscure that the “third way” hinted at by the practice of social enterprise is not without its bumps and dead ends. By taking a skeptical inventory of their own organization and the sector they act in managers of social ventures will be forced to define the path they want their organization to take. The use of social impact assessment may help in analyzing the overall social impact created by social enterprises. In this context it is important to keep in mind that it is not just the impact of one particular enterprise that needs to considered. Rather we will have to keep in view the overall impact created by the imitations that happen in both market and non-market environments. Along this logic it is not just the impact of Grameen Bank against which Muhammad Yunus should be measured but rather the overall impact his work has had on bankers and development agencies around the world.

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