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Making Money and Making Change: Understanding and Overcoming Tension between Profits and Purpose within Social Entrepreneurship

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Claremont McKenna College

**Making Money and Making Change: Understanding and Overcoming Tension
between Profits and Purpose within Social Entrepreneurship**

Submitted to

Professor Giorgi Areshidze

by

Eli Etzioni

for

Senior Thesis

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Abstract

Using a combination of interviews of social entrepreneurs and secondary research, this paper investigates the strategies that social entrepreneurs use to overcome tension and conflict between the two distinct goals of financial sustainability and mission fulfillment. The results suggest that although some social entrepreneurs can simultaneously achieve revenue generation and mission fulfillment, thus almost entirely eliminating any tension or misalignment, it is the creative responses of social entrepreneurs who have achieved one of these objectives and are attempting to achieve the other that prove the unique value of the practice. Additionally, the results gesture towards the conclusion that different kinds of profit-purpose tension are differentially challenging to overcome. Ultimately, this paper suggests that it is only by interrogating the past experiences of social entrepreneurs that answers to the most difficult questions in the field can be obtained.

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I. Literature Review

Almost 50 years ago, The New York Times Magazine featured an article by the famous economist Milton Friedman titled “The Social Responsibility of Business is to Increase its Profits”. The article challenges the logical integrity of the notion of corporate social responsibility, which can be defined as the idea that businesses have responsibilities to stakeholders and society. “There is one and only one social responsibility of business--to use its resources and engage in activities designed to increase its profits”¹, says Friedman. Friedman insists that corporate executives are the agents of the business owners, and thus are directly responsible to those business owners. Thus, to suggest that any employee of a corporation has any responsibility to anyone or anything else besides the business owners is almost oxymoronic on Friedman’s view. “[I]n practice”, says Friedman, after unremorsefully lambasting corporate social responsibility, “the doctrine of social responsibility is frequently a cloak for actions that are justified on [self-interested] grounds rather than a reason for those actions”.² Although Friedman acknowledges that corporate executives who shroud their decisions and actions in the veil of social responsibility might receive a short-term boost from improved public opinion, he worries that their subversion of the unencumbered pursuit of profits threatens to compromise the entire free enterprise system in the long run.

John Mackey, the founder and CEO of Whole Foods Market, disagrees with Milton Friedman’s business philosophy. Mackey has been a longtime advocate of businesses having purposes beyond solely profit. In 2013, Mackey and co-author

1. Milton Friedman, *The Social Responsibility of Business is to Increase its Profits*, The New York Times Magazine.

2. Ibid.

Rajendra Sisodia wrote a book titled *Conscious Capitalism: Liberating the heroic spirit of business*, which presents a different set of principles for how to do business. In an article for the Harvard Business Review titled “‘Conscious Capitalism’ Is Not an Oxymoron”, Mackey and Sisodia lay out the core tenets of this business philosophy, and show how and why it is one that is much more broadly considerate than Friedman’s. Conscious capitalists are people who are “building their companies based on the idea that business is about more than making a profit”,³ and through these conscious companies “endeavor to create financial, intellectual, social, cultural, emotional, spiritual, physical and ecological wealth for all their stakeholders”.⁴ The article names Starbucks, Trader Joes, Patagonia, and Whole Foods Market as several of the best-known companies embracing these other-regarding business values, and claims that there is considerable evidence that conscious businesses outperform those narrowly focused on the maximization of profits.

In a 2005 debate on Reason.com between Friedman, Mackey, and T.J. Rodgers, CEO of Cypress Semiconductor, Mackey attempts to rebut Friedman’s accusation that corporate social responsibility is nothing more than some kind of cloaking device for ultimately selfish business maneuvers. “I believe there are thousands of other businesses similar to Whole Foods (Medtronic, REI, and Starbucks, for example) that were created by entrepreneurs with goals beyond maximizing profits, and that these goals are neither ‘hypocritical’ nor ‘cloaking devices’ but are intrinsic to the purpose of the business”⁵,

3. John Mackey and Raj Sisodia, <https://hbr.org/2013/01/cultivating-a-higher-conscious>.

4. Ibid.

5. Milton Friedman, John Mackey, and T.J. Rodgers, <http://reason.com/archives/2005/10/01/rethinking-the-social-responsibility/>.

states Mackey. His mention of the entrepreneur in the creation of these businesses and the establishment of their nonpecuniary goals is telling. For, in stark contrast to Friedman, Mackey believes that “the entrepreneurs, not the current investors in a company's stock, have the right and responsibility to define the purpose of the company”.⁶ Although many investors would likely disagree with Mackey’s declaration of entrepreneurial license, Mackey does strive to embody this belief in his own leadership of Whole Foods. Even though Whole Foods has been enormously profitable, and grown to a valuation of greater than 13 billion dollars⁷, Mackey insists that the company has not done so by prioritizing shareholder value above all else and rendering all other goals instrumental. For instance, he points to Whole Foods’ “5% Days”, five days a year where five percent of profits are donated to nonprofits. Although 5% days do tend to increase profits by incentivizing new customers to shop at Whole Foods and by improving Whole Foods’ public image, Mackey insists that “such programs would be completely justifiable even if they produced no profits and no P.R.”⁸ because Whole Foods has other goals besides profit maximization. Mackey ends his argument with an impassioned prediction: “Someday businesses like Whole Foods, which adhere to a stakeholder model of deeper business purpose, will dominate the economic landscape. Wait and see.”⁹

This debate over the legitimate purpose of business has significant implications for any entrepreneur interested in the lasting success of her business. Mackey and Friedman argue for different guiding business philosophies, each claiming that his

6. Ibid.

7. On August 28, 2017, Amazon bought Whole Foods for 13.7 billion dollars.

8. Ibid.

9. Ibid.

business philosophy is the one that both engenders success and is philosophically justifiable. Can business be about achieving a social purpose, or must businesses strictly maximize profits? Can business be about generating returns to stakeholders, or must we direct returns to shareholders or investors? Can business be about striving to embody Conscious Capitalism, or must we channel Unconscious Capitalism? While every entrepreneur should be interested in this debate, I believe that those who categorize themselves as “social entrepreneurs” must have answers to these questions. Social entrepreneurship lacks a single definition that is both comprehensive and precise.¹⁰

However, what makes Friedman and Mackey’s debate over business purpose unavoidable for those engaged in social entrepreneurship is that any business that is a social enterprise must have positive social impact¹¹ as one of its priorities. This point should be uncontroversial, since it is this emphasis on social impact that differentiates social entrepreneurship from standard entrepreneurship. Thus, the practice of social entrepreneurship, by virtue of its emphasis on social change, is a part of the debate on business purpose.

If social entrepreneurship were only about creating positive social impact, then it would appear that most social entrepreneurs would side with Mackey in the debate with Friedman over the purpose of business. Any business that is a social enterprise can and should be used as a vehicle for social change. End of story. However, many social

10. A useful entry point into the ongoing dialogue surrounding the definition of social entrepreneurship can be found in Martin and Osberg’s article “Social Entrepreneurship: The Case for Definition”, published in the Stanford Social Innovation Review:

https://ssir.org/articles/entry/social_entrepreneurship_the_case_for_definition.

11. The notion of “positive social impact” is intentionally left vague, as there is a very broad range of specific activities that a company can engage in that can qualify as social entrepreneurship.

entrepreneurs and social enterprises maintain a stalwart commitment to profitability, as well. Moreover, in the public consciousness, in the private sector, and at institutions of higher education across the country and around the world, social entrepreneurship has come to be thought of as the new way to make money and do good in the world at the same time. A Forbes article titled “The Forprofit Social Enterprise Is The Impact Model Of The Future” makes social entrepreneurship sound unanimously appealing, and gives one some idea of how and why this new business concept has garnered so much attention. Whereas nonprofits “do good while losing money”, and standard corporations “make money without actually doing much good”, the article exalts the bona fide social enterprise, a business that “tracks both bottom lines”, blending profitability and positive social impact into one neat package.¹² The Grameen Bank, the first major microfinance¹³ organization, was established by Muhammad Yunus in 1983, and is widely regarded as the first large-scale example of social entrepreneurship in action. A Guardian article reports that as of today, the Grameen Bank has nine million borrowers, and a repayment rate of 99.6%.¹⁴ Yunus was awarded the Nobel peace prize in 2006 for this impactful work. More recently, companies such as TOMS Shoes and Yoobi, that each donate one product for every product that they sell, have brought social entrepreneurship to the attention of many people that would have otherwise thought of business and positive social impact separately. These well-known examples of social businesses succeeding in

12. Forbes, “The Forprofit Social Enterprise Is The Impact Model Of The Future”, <https://www.forbes.com/sites/forbestechcouncil/2017/12/22/the-forprofit-social-enterprise-is-the-impact-model-of-the-future>.

13. Microfinance is the practice of lending extremely small sums of money to individuals without asking for collateral.

14. Miriam Cosic, The Guardian, <https://www.theguardian.com/sustainable-business/2017/mar/29/we-are-all-entrepreneurs-muhammad-yunus-on-changing-the-world-one-microloan-at-a-time>.

the market sphere are inspirational and uplifting, and make it easy to understand why the social entrepreneurship craze sustains and spreads.¹⁵

Whereas Mackey - given his emphasis on socially conscious, entrepreneur-led business practices - would definitely condone social entrepreneurship, it is fascinating to think about how Friedman might have responded to the wave of enthusiasm for socially-minded business that is sweeping through today's world, given his unavowed emphasis on profits. One interesting and optimistic perspective comes from Ray Hennessey, in a 2013 article titled "Why Milton Friedman Could Love Social Entrepreneurship". Writing for Entrepreneur.com, Hennessey suggests that Friedman, never one to interfere with good, profitable business, "would have delighted in the idea that the business of a business can be a social good, provided the social good is good for business".¹⁶ Hennessey points out that although, in 1970, there was a clear boundary between corporate success and social good, that boundary has since become blurry and flexible. In the modern era, "[c]ompanies can make a business plan out of a social strategy"¹⁷, and many companies do so, existing on both sides of the line between profit and social purpose. Thus, argues Hennessey, although Friedman did not have social

15. This bullishness on the combination of profits and social purpose has even reached large institutional investors. On January 15th, 2018, the New York Times aired an article titled "BlackRock's Message: Contribute to Society, or Risk Losing Our Support". In the article, Lauren D. Fink, the founder and chief executive of the investment firm BlackRock, which manages more than six trillion dollars in investments, praises the practice of investing in socially responsible companies. "To prosper over time," says Fink, in the article, "every company must not only deliver financial performance, but also show how it makes a positive contribution to society". The article also points out that Fink's proclamation "pits him, to some degree, against many of the companies that he's invested in, which hold the view that their only duty is to produce profits for their shareholders, an argument long espoused by economists like Milton Friedman". The fact that Fink, comfortably situated within the highest echelon of business managers on Wall Street, appears to be arguing against Friedman's point of view, is significant. The article can be found at <https://www.nytimes.com/2018/01/15/business/dealbook/blackrock-laurence-fink-letter.html>.

16. Ray Hennessey, Entrepreneur, "Why Milton Friedman Could Love Social Entrepreneurship", <https://www.entrepreneur.com/article/228407>.

17. Ibid.

entrepreneurship in mind when he wrote his seminal article on the social responsibility of business, his approval of profits and all that comes with them may have paved the way for the practice.

The Stanford Social Innovation Review (SSIR) article “In Search of the Hybrid Ideal” supports Hennessey's observation that business structures are far more diverse and flexible than they were in Friedman’s heyday. A team from Harvard Business School worked with researchers from Echoing Green - a prominent funder of aspiring social entrepreneurs - to review 3,500 applications for the Echoing Green Fellowship in an attempt to gain insight into the use of hybrid models - integrations of non-profit and for-profit corporate structures and practices - by social entrepreneurs. The article reports that, between 2006, and 2011, the percentage of applicants using some kind of hybrid model grew from 37 percent to 50 percent.¹⁸ It appears that some kind of hybrid model is rapidly becoming the modus operandi for social entrepreneurship. The article offers the following articulation of what aspiring social entrepreneurs understand the hybrid model to mean:

When we talk to entrepreneurs and students about hybrid organizations, a common theme that emerges is what we call the “hybrid ideal.” This hypothetical organization is fully integrated—everything it does produces both social value and commercial revenue. This vision has at least two powerful features. In the hybrid ideal, managers do not face a choice between mission and profit, because these aims are integrated in the same strategy. More important, the integration of social and commercial value creation enables a virtuous cycle of profit and reinvestment in the social mission that builds large-scale solutions to social problems.

18. Julie Battilana, Matthew Lee, John Walker, and Cheryl Dorsey, SSIR, https://ssir.org/articles/entry/in_search_of_the_hybrid_ideal.

The article then goes on to discuss challenges to the hybrid ideal and those that attempt to actualize it in the areas of legal structure, financing, customers and beneficiaries, and organizational culture, demonstrating that the hybrid ideal is meaningfully divorced from reality. Nevertheless, “[d]espite these obstacles”, the article equivocates, “our research reveals that some hybrids manage to integrate social and commercial activities sustainably”.¹⁹ How the structure of an organization affects its ability to align profits and purpose is an interesting topic that merits further consideration, and will be considered later in this thesis.

There are others who are deeply involved in social entrepreneurship who are hesitant to fully embrace the new, widespread enthusiasm, and are critical of important aspects of the modern-day practice. Jyoti Sharma is one such thinker. She is an Ashoka²⁰ Fellow, and was Brown’s first Social Entrepreneur in Residence during Spring and Fall of 2016. She has written two articles for the Stanford Social Innovation Review in which she considers the issues that enterprises walking the line between social welfare and business face. In the first article, “A Neoliberal Takeover of Social Entrepreneurship?”, she takes issue with companies like TOMS Shoes that hog the social entrepreneurship spotlight. Her concern is that “[h]igh visibility examples such as TOMS Shoes and Frogtek—launched by young people who had access to considerable seed funding—are touted for operating profit-generating business models”²¹ when such models cannot be applied to many other social problems. She fears that, due to its “powerful blend of

19. Ibid.

20. Ashoka is the world’s largest network of Social Entrepreneurs. Fellows are chosen for life, and their work is supported and accelerated by the organization.

21. Jyoti Sharma, “A Neoliberal Takeover of Social Entrepreneurship?”, Stanford Social Innovation Review, https://ssir.org/articles/entry/a_neoliberal_takeover_of_social_entrepreneurship.

idealism and materialism”²², social entrepreneurship is being idolized by aspiring entrepreneurs²³, donors, and the general public at the cost of an understanding of what is truly required to sustainably solve social problems. It is important to acknowledge, as Sharma does in her article, that profits and positive social impact do not always align, and that not all problems have lasting, profitable solutions. Despite the success of the most well-known social ventures, Sharma’s reminder of the cashflow-related challenges that most social entrepreneurs face merits serious consideration. Whereas Hennessey made the important point that Friedman would have likely taken no issue with a profitable social enterprise, Sharma raises the point that not all socially-minded businesses can be profitable. When doing good is good for business, then people on all sides of the debate seem like they would be happy. Sharma forces us to consider the reality that there are many cases when doing good is only okay for business, or even bad for business. It is these situations, ones in which social entrepreneurs must choose between profitability and mission fulfillment, that demonstrate the real constraints placed on the practice.

Sharma’s second, more recent article, written in October of 2017, “Avoiding the Neoliberal Trap in Social Entrepreneurship”, directly identifies and addresses the tension between solving social problems and making money. In the article, Sharma advances the claim that “social entrepreneurship seems to be moving away from an emphasis on ‘social’ into the territory of the purely ‘entrepreneurial’”.²⁴ Many of the comments that

22. Ibid.

23. Sharma’s warning reaches me at an opportune and important time. As a senior in college, the appeal of the realm social entrepreneurship, as a sector in which I might find a job where I get paid competitively to work to innovatively improve the lives of others, is powerful.

24. Jyoti Sharma, “Avoiding the Neoliberal Trap in Social Entrepreneurship”, Stanford Social Innovation Review, https://ssir.org/articles/entry/avoiding_the_neoliberal_trap_in_social_entrepreneurship.

Sharma received on her first article, written one year earlier, highlighted the difficulty of both making a positive impact and making money. Sharma writes:

Readers—donors and faculty teaching the subject, in particular—felt that walking the tight rope between social welfare and business was a challenge. Many were skeptical that it was even possible to prevent the skew toward the neoliberal ideal of laissez faire in social entrepreneurship. *They felt that without a strong profit orientation* [emphasis added], social enterprises die a quick death in the difficult markets they serve.²⁵

Ultimately, what Sharma saw in the responses she received is that many people who are knowledgeable about and experienced with social entrepreneurship are concerned that - outside of rare, ideal circumstances - the entire endeavor has to be beholden to the pursuit of profits. It seems like, in many cases, the missions of social businesses and their need for profits are coming into conflict, and profits are winning out, since businesses cannot sustain without profits. The truth that Sharma calls attention to is that social entrepreneurship is hard, and that profits and purpose might be more like oil and water than the mainstream narrative suggests. Sharma tells us that many social entrepreneurs are struggling - and failing - to walk the tightrope between profit and purpose. If, despite social entrepreneurs' best efforts, the success of their initiatives turns on their profitability, and their missions must be disregarded whenever profit and purpose come into conflict, then social entrepreneurship might only be viable in narrow, specific situations where profits and purpose do not come into tension.²⁶ This would mean that, in many real-life cases, social entrepreneurship is crippled by the profit imperative that all businesses face. This would mean that, ultimately, profits dictate the pursuit of social

25. Ibid.

26. My reasoning here is that if, when profits and purpose conflict, profits are chosen at the expense of purpose, then the social entrepreneur's dedication to the social responsibility inherent in her work might be thought to be suspect.

good, even in the context of social entrepreneurship, where social change is meant to be the goal. How social entrepreneurs navigate this tension between profits and purpose, whether or not they can engage in other strategies besides profit maximization, and whether or not they can preserve the integrity and purpose of their businesses while doing so, will be the central matter that this thesis investigates.

II. Introduction

I believe that the conversation about the tension between profit and purpose has never been more pertinent than right now, as ideas and initiatives based on the best-of-both-worlds²⁷ conception of social entrepreneurship proliferate. Friedman and Sharma, each in their own way, challenge the viability of the idealistic conception of social entrepreneurship that ignores this tension, and they are right to do so. As evidenced by the proliferation of nonprofit organizations, there is no natural or obvious business-oriented solution to many humanitarian problems, and social entrepreneurship is not some kind of panacea.²⁸ Nevertheless, I remain of the belief that, in many cases, there is something uniquely valuable to be gained by attempting to solve a problem using the social entrepreneurship approach. I have in mind cases in which the solution that is ultimately reached could not have been obtained without the pressure to make a profit, nor could it have been obtained without the pressure to achieve a social purpose. I believe that these cases, ones in which the social entrepreneurship approach leads to a solution that those concerned with only profit or social purpose would never have reached, ultimately prove the value of the practice of social entrepreneurship. The question remains: can enough of these cases be found to justify and validate the enthusiastic movement that has sprung up around social entrepreneurship? This thesis, which will seek to identify, explore, and analyze cases that demonstrate the true value of social

27. By this, I mean a conception of social entrepreneurship that assumes that most humanitarian problems have solutions that can be made profitable.

28. The authors of “In Search of the Hybrid Ideal” appear to agree with this hedged appraisal of the applicability of social entrepreneurship. In their concluding paragraph, they write: “We are not suggesting that all nonprofits should seek profits. Some critical solutions to social problems will never be commercially viable, and it is important that we continue supporting these through grants and subsidies.”

entrepreneurship, stems from a desire to defend the practice of social entrepreneurship from cynics and skeptics, and help social entrepreneurship find its identity.

Despite the importance of articulating the unique strengths and weaknesses of the dual commitment to profit and purpose that characterizes social entrepreneurship, the literature on how to survive and thrive as a social business when the maintenance of profits and the achievement of purpose come into conflict is sorely lacking. A Harvard Business Review article titled “New Research: If You Want To Scale Impact, Put Financial Results First” echoes my belief that the balance between social impact and financial success is crucial. The article is written by two people from Endeavor, an organization that supports “high-impact entrepreneurs”²⁹ from around the world, and states that “Endeavor Insight, the research arm of our organization Endeavor, has found that the way that entrepreneurs who lead social enterprises make tradeoffs between social and financial goals is a critical factor in determining the degree to which their companies will grow”.³⁰ In the pages that follow, I will attempt to contribute to the existing literature on walking the tightrope between profit and purpose³¹ as a social business that values both. Through a combination of secondary research and original interviews, I will attempt to collect answers to the following questions: How do social entrepreneurs navigate the tension between the generation of profits and the pursuit of positive impact when such tension arises? Can a social business survive such tension, or must this conflict be avoided entirely? Is there something about the tension that arises as a result of a robust, dual commitment to profit and purpose than can be distinctly positive and productive?

29. Linda Rottenberg and Rhett Morris, HBR, <https://hbr.org/2013/01/new-research-if-you-want-to-sc>.

30. Ibid.

31. Here, I borrow Sharma’s analogy.

Whatever the answers may be, they lie among the real experiences had by social entrepreneurs of all kinds, and they cannot be discerned from a cursory look at social entrepreneurship's most well-publicized success stories.

My hypothesis is that a social business can survive tension between profits and purpose, that social entrepreneurs all around the world have found ways to overcome such tension, and that this tension has led to directions, discoveries, and success that never would have been achieved without a dual commitment to profit and purpose. I hypothesize that many thriving social businesses have used past moments of tension as opportunities to innovate and change their business models in a way that is respectful of their dual commitment. This sort of innovation, by nature of the dual commitment that true social businesses are beholden to, would not be considered by businesses concerned with only profit or only purpose. But some social entrepreneurs have found ways to overcome this tension. So, ultimately, the question my thesis seeks to answer is: who are they and what have they done to make it work?

This hypothesis is verifiable because it suggests that many thriving social ventures will have moments or periods of profit-purpose tension within their own pasts, be able to identify their responses to such moments, and be able to evaluate the effect of those responses on the trajectory of the business as a whole. By gathering data from a combination of research about social businesses and interviews of social entrepreneurs. I plan to interrogate their pasts, and attempt to identify any salient trends in the resulting data.

III. Research Cases

Patagonia

When an outdoorsy millennial such as myself thinks about modern businesses that forgo or at least balance the profit motive with other priorities, Patagonia immediately jumps to mind. Although the arguable industry-leader in outdoorswear is privately held by owner and founder Yvon Chouinard, the company's ardent commitment to its mission still makes for an interesting case study. Patagonia's mission statement and *raison d'être* is: "Build the best product, cause no unnecessary harm, use business to inspire and implement solutions to the environmental crisis".³² The last clause of the mission statement, which speaks to using business as a vehicle for solving the environmental problem, reads like it was pulled directly from a social entrepreneurship handbook. Chouinard has never taken any outside investment, owns 100 percent of the company, and has been quoted as saying "I couldn't give a shit about how much money we make".³³

There are many different actions Patagonia has taken and projects that Patagonia has undergone that privilege the company's mission statement over profit maximization. Last month, Patagonia temporarily replaced their normal website with a single black screen, headlined with white font that read "the President Stole Your Land"³⁴. The goal was to raise awareness about President Trump's elimination of protected land³⁵ and the

32. Patagonia, <http://www.patagonia.com/company-info.html>.

33. Jeff Beer, Fast Company, <https://www.fastcompany.com/40525452/how-patagonia-grows-every-time-it-amplifies-its-social-mission>.

34. Miranda Green, The Hill, <http://thehill.com/policy/energy-environment/372786-patagonia-launches-political-action-group>.

35. In December of 2017, President Trump reduced the size of two national monuments in Utah, Bears Ears and Grand Staircase-Escalante, by a combined two million acres.

company's new environmental activism platform, Patagonia Action Works. Since 1985, Patagonia has given 89 million dollars in grants to grassroots organizations tackling local environmental issues. In 2016, the company recorded 10 million dollars in sales on Black Friday, and donated every cent to environmental nonprofits. In 2011, also on Black Friday, the company ran its now-famous "Don't Buy This Jacket" advertisement in the New York Times, actively encouraging consumers to buy less Patagonia merchandise, and consider the environmental implications of any and every purchase. Although there is an argument to be made that all of the time, money, and effort that Patagonia spends trying to further its mission has a net positive benefit on the company's financial well-being, and this argument may actually be correct³⁶, it seems far-fetched to deny that the primary purpose of these projects is to solve the environmental problems.

Today, as a company that brought in an estimated 209 million dollars in earnings in 2017³⁷, and that is growing larger even as its spending on environmental initiatives reaches all-time highs, Patagonia no longer has to decide between profits and positive social impact; it has both in spades. In the early days, though, Patagonia looked and behaved nothing like its modern-day self. In *The Responsible Company*, a book about the learnings that have come out of Patagonia's first 40 years, written by Chouinard and Vincent Stanley³⁸, Stanley points out that "[a]t its beginning Patagonia was meant to be not a risk-taking, environment-obsessed, navel-gazing company but an easy-to-milk cash

36. An article on Groundswell.org reports that Patagonia's 2011 "Don't Buy This Jacket" advertisement led to a 30% increase in sales compared to Black Friday of the previous year.

37. Marisa Meltzer, The Guardian, <https://www.theguardian.com/business/2017/mar/07/the-north-face-patagonia-saving-world-one-puffer-jacket-at-a-time>

38. For a long time, now, Stanley has been Patagonia's Chief Storyteller. Sounds like an awesome job!

cow”.³⁹ Over time, though, as Chouinard and the others at Patagonia learned more about the clothing industry, and discovered the extent to which conventional industry practices were perpetuated at the expense of the environment, their “responsibilities as businesspeople came slowly and almost involuntarily to light”.⁴⁰ In an important way, Patagonia’s gradual awakening to the realities of the environmental crisis mirrors a sentiment shared by many social entrepreneurs: once they realize that there is a problem, social entrepreneurs feel compelled to try solve it. It seems like by the time that Patagonia decided to embrace environmental responsibility alongside the pursuit of profits, Chouinard and the other decisionmakers no longer felt like there was any other option.

Ultimately, the Patagonia example demonstrates that a strong commitment to a cause and financial success do not have to be mutually exclusive. Even though Chouinard started Patagonia with solely profits in mind, he was able to develop a commitment to environmental advocacy and protection, and that commitment is now fundamental to the company’s identity, and probably to its continued financial success, as well. Any social enterprise that has established an earned income stream so stable and abundant that it can dedicate millions of dollars to a host of mission-driven projects has clearly overcome the tension between profits and purpose that often stems from commitment to both. In many ways, Patagonia might best be understood as an example of a multidimensionally successful mission-driven business that social entrepreneurs should aspire to emulate.

PepsiCo

39. *The Responsible Company*, 4. Via better margins and a broader customer base, Patagonia was initially meant to offset the money that Chouinard’s mountain climbing gear company, Chouinard Equipment Company, was slowly losing.

40. *Ibid.*, 4.

An abortive initiative implemented by PepsiCo offers another interesting example of the interaction and tension between profit and social purpose. A Stanford University thesis titled “Corporate Social Responsibility and Profits: A Tradeoff or a Balance?” by Thuy Tran investigates PepsiCo’s “Pepsi Refresh Project”⁴¹, a program which ran from 2010-2012 before being terminated by the company. “The Pepsi Refresh Project was an online platform launched in 2010 that gave individuals and organizations the opportunity to submit proposed solutions to local community problems and receive grant money from PepsiCo for those ideas”⁴², explains Tran. The initiative was the brainchild of PepsiCo’s CEO, Indra Nooyi, who was appointed in 2006 in part to try and help PepsiCo both become and appear more socially responsible. The initiative entailed a sizeable up-front financial sacrifice. Tran reports that instead of paying almost \$20 million for Super Bowl advertisements, PepsiCo invested that money into the creation of the program. Over the program’s two years, “[a] total of 676 ideas were funded through the Pepsi Refresh Project over the two years, [and] a total of over \$21 million in grant money [was] awarded”.⁴³ The project appeared to be working: Pepsi was putting its money where its mouth was by investing time and resources into corporate social responsibility, and it seemed only a matter of time until the world would take notice.⁴⁴

However, PepsiCo’s foray into the realm of corporate social responsibility was ultimately deemed unsuccessful by the company, despite its marked social impact.

41. Thuy Tran, http://cddrl.fsi.stanford.edu/sites/default/files/thuy_tran_cddrl_thesis_v3.pdf, 51.

42. Ibid, 51.

43. Ibid, 61.

44. The general public did appear to be noticing PepsiCo’s new initiative, and liking what they saw. Tran mentions that visitors to the Pepsi Refresh Project website donated \$10 million of their own money through grants and in-kind donations.

During the two years that the program ran, sales of PepsiCo's soft drinks struggled, the share price stagnated, and the company lost market share. During the same period, the share price of PepsiCo's biggest competitor, Coca Cola, nearly doubled. Put simply, even as the Pepsi Refresh Program flourished, PepsiCo lost money. Tran reports that, rather than being lauded for bringing about a program that had the potential to meaningfully alter PepsiCo's public image, CEO Indra Nooyi was criticized for "diverting attention away from what PepsiCo was best at selling: fatty and sugary snacks and beverages".⁴⁵

Unlike Patagonia, PepsiCo is a publicly held company, and the need to provide competitive returns to shareholders no doubt contributed to the company's inability to experiment more substantively with the Pepsi Refresh Program. Tran goes so far as to say that as a "publicly traded company whose success more crucially depends not only on its profitability, but also the perception of its profitability"⁴⁶, "PepsiCo had virtually no flexibility to balance its dual objectives".⁴⁷ Although most social entrepreneurs are not the stewards of publicly traded companies, more and more of them are taking investment from impact investors who expect a return on their capital. The PepsiCo example seems to demonstrate that, in some cases, the need to generate profits for investors can overpower other priorities.

The Cookie Project

Another Harvard Business Review article titled "Making Social Ventures Work" discusses an initiative called "The Cookie Project"⁴⁸ that began in 2004 in the township

45. Thuy Tran, http://cddrl.fsi.stanford.edu/sites/default/files/thuy_tran_cddrl_thesis_v3.pdf, 71.

46. Ibid, 78.

47. Ibid, 73.

48. James D. Thompson and Ian MacMillan, HBR, <https://hbr.org/2010/09/making-social-ventures-work>.

of Mfuleni in South Africa. The aim of the project was to train uneducated, unmarried women to bake and sell cookies in bakeries throughout the country. The article does not go into deep detail about The Cookie Project, but ultimately judges that the initiative was marginally successful.⁴⁹ The venture shifted at some point from the original model of local distribution, and now exports cookies to the United States. “The financial challenge remains”, states the article. “[B]uilding a new food brand in the current economic climate is tough. If the venture fails to come up with a profitable distribution model, it may need to redirect its strategy toward e-commerce in order to reduce its marketing costs and extend the lifespan of its current investments”.⁵⁰ The Cookie Project serves as an interesting example of the unique modus operandi of social entrepreneurship. It seems overwhelmingly likely that no entrepreneur concerned purely with profit maximization would have started something like the Cookie Project in a township in South Africa. It also seems likely that most nonprofits operating in the area would not have opted to start an organization such as the Cookie Project that attempted to fuel positive social impact with profits from sales. The Cookie Project seems like it would have had to be the brainchild of a social entrepreneur.

49. The article, written in 2010, does not name the founder of The Cookie Project. The project appears to have evolved into an organization called The Khayelitsha Cookie Company, which is still in operation today. According to trickleout.net, The Khayelitsha Cookie Company was founded in 2004 in a community center in Khayelitsha, the township next to Mfuleni. It seems likely that the Harvard Business Review article refers to the project that became The Khayelitsha Cookie Company. If this assumption is correct, then The Cookie Project has ultimately been successful, as The Khayelitsha Cookie Company now employs over 50 women as bakers, has won multiple social enterprise awards, and recently partnered with CIRO, one of South Africa’s largest coffee and beverage companies.

50. James D. Thompson and Ian MacMillan, HBR, <https://hbr.org/2010/09/making-social-ventures-work>.

IV. Interviews

Gemma Bulos, ASDSW and GWWI

Gemma Bulos is the Director of Social Innovation and Impact at the Kravis Leadership Institute here at Claremont McKenna College (CMC). Before coming to CMC, Gemma founded and launched two social enterprises, both around the provision and creation of sustainable safe-water solutions for communities. The first, A Single Drop for Safe Water (ASDSW), develops “income-generating community-led water service organizations in disaster prone regions of the Philippines”.⁵¹ The second, Global Women’s Water Initiative (GWWI), trains women in communities in Africa “to become water, sanitation and hygiene (WASH) technicians, trainers and social entrepreneurs”.⁵² My conversation with Gemma began with a discussion of her work, then shifted into a conversation about her definition of social entrepreneurship, and about how the meaning of the term has changed over time.

Gemma’s definition of social entrepreneurship, and her understanding of what the most successful and effective social entrepreneurs do, appears to be agnostic with regards to income generation and profitability. “For me,” says Gemma, “social entrepreneurship is ... how do you approach problems in an innovative way, and how do you ensure that those innovations are not only changing systems but are also long-enduring?”. For Gemma, the hallmark of social entrepreneurship is that the venture delivers long-lasting, systemic change. By this definition, the one-for-one donation model, at the heart of TOMS Shoes and other companies, does not qualify as social entrepreneurship. “That’s

51. Kravis Leadership Institute, <https://www.kravisleadershipinstitute.org/blog/2017/8/18/kli-welcomes-gemma-bulos-director-of-social-innovation-and-impact>.

52. Ibid.

not systems change, to me that's just a way of making money and helping", said Gemma about the TOMS Shoes model.⁵³ One might also reasonably wonder how this definition of social entrepreneurship as systems change differentiates between social enterprises and nonprofits. Although Gemma and I did not explicitly discuss this question, I believe her answer would be that this definition of social entrepreneurship does not specify organizational structure, and thus permits for non-profit social enterprises. However, I think that Gemma would likely also point out that a lot of nonprofits respond to the symptoms of social problems rather than attempting to eradicate their root causes. Symptomatic relief, though important, is not systemic change.

As an example of an alternative initiative premised on a model of systemic change, Gemma pointed to the work of Elizabeth Scharpf. Scharpf, aware of the fact that many girls in third-world countries are forced to miss sizeable amounts of school due to inadequate information about menstruation and a lack of pads and other materials⁵⁴, discovered a way to make menstrual pads out of highly absorbent banana leaves. She then distributed this new knowledge, teaching women in Rwanda how to manufacture and sell these environmentally friendly pads to diversify their own incomes. In Gemma's eyes, Scharpf's venture creates the kind of lasting, systemic change that social entrepreneurship is all about.

53. In defense of TOMS Shoes, itself, the company did commit in 2013 to producing one third of all donated shoes in the regions where they are given. This switch to local production could constitute the kind of systems change that Gemma identifies as necessary to social entrepreneurship. Gemma's comment is probably best understood as making the point that the one-for-one donation model alone does not qualify as social entrepreneurship since it does not necessitate systemic change.

54. An article from Fast Company on Scharpf's work mentions the stats for Rwanda, where Scharpf is doing her work: "Eighteen percent of girls in Rwanda miss, on average, 35 days of school every year (and up to 50 days of school or work each year) due to their periods and ineffective pads and the embarrassment and ridicule that ensues". See <https://www.fastcompany.com/1692270/banana-based-pad-maker-elizabeth-scharpf-wants-rwandan-women-educated-period> for the full article.

One point that Gemma was adamant about is that earned income is not a necessary prerequisite to systems change. “To me,” she said, “it’s how do you create self-reliance, enduring local solutions, how do you not have a negative footprint, how do you create systems change, how do you build local systems and local expertise, how do you build local economy, all of these things are first for me before earning money”. The important theoretical implication of this point is that if social entrepreneurship is about systems change, and systems change can be achieved without earned income, then the commitment to making money that I have stipulated is a part of social entrepreneurship can be circumvented entirely. Gemma points to the Accountability Counsel as an example of a social venture that has achieved systems change without an earned income stream. Started by another Echoing Green fellow, the Accountability Counsel works with the accountability offices of the World Bank in every country, helping communities learn how to navigate these offices and effectively express their grievances. Although there is no income generation involved, if the Accountability Counsel is able to change the way communities interact with accountability offices, and by doing so prevent environmental destruction or human rights violations, then this work qualifies as systems change and thus social entrepreneurship by Gemma’s definition of the term.

Within Gemma’s own work, however, earned income has been a necessary part of the systems change she has worked to achieve through her two social ventures. ASDSW, which creates systemic change by helping communities build and manage their own water systems, thus breaking the dependence on outside developers, is income-generating by design. A team of community members manages and maintains the centralized water system, creating jobs within the community. Moreover, the money that community

members would have been paying to an outside company for water is paid to this management team, keeping the funds in the community, as well. The ASDSW website explains that “By using this business model ASDSW ... [becomes] directly accountable to communities, government and the success of the organization is directly linked to project performance”.⁵⁵ The website goes on to explain that a second organization, Single Drop Consultancy Services (SDCS), was created to supplement the efforts of ASDSW. SDCS, a for-profit organization, is able to accept payment for implementing ASDSW projects. The ASDSW website states the distinct advantages of this hybrid approach: “This allows the funds to be used to ensure the economic resilience of both organizations and its commitment to the vision. SDCS can invest in scaling up its operation, building human resources, and building economic resilience through profit, *which is not possible as a non-profit* [emphasis added]”.⁵⁶ Gemma explained that this hybrid approach, centered around earned income, is right for ASDSW because, at its core, ASDSW offers a fundamentally valuable service. Now, said Gemma, non-governmental organizations (NGOs) and the corporate social responsibility (CSR) arms of companies have recognized the value that the work of ASDSW provides, and ASDSW is routinely contracted by large NGOs and corporate social responsibility teams to build community-owned water systems.

GWVI incorporates earned income into its model in an entirely different way than ASDSW, but the emphasis on monetization still appears to be present. GWVI focuses on teaching local women to become water experts, able to “build and maintain

55. A Single Drop for Safe Water, <http://www.singledrop.org/our-story>.

56. Ibid.

a variety of water, sanitation and hygiene (WASH) technologies out of local materials”.⁵⁷ After receiving this training, women can earn money providing services, trainings, and technologies related to the provision of safe water. “Women are taking the lead bringing demand-driven income-generating services to solve their local water crises”, the GWWI website proclaims, “improving community health, building simple technologies and MAKING MONEY!”.⁵⁸ Gemma also explained that although GWWI is currently not being hired by international NGOs, it is on track to reach that point, and become able to operate independently of charitable donations.

In summary, Gemma shifted the definition of social entrepreneurship away from earned income and towards enduring systems change, suggesting that although earned income is one means to that end, it is not a necessary component of the formula for successful social entrepreneurship. However, in Gemma's own work, income generation and profitability have been enormously important, indicating that even when systems change is the ultimate goal, earned income should be considered as a natural means to that end.

Philip Wilson, Ecofiltro

Philip Wilson is the CEO of Ecofiltro, a social enterprise that aims to “reach 1 million rural Guatemalans with clean water by the year 2020”.⁵⁹ Ecofiltro manufactures and distributes water filters made out of only clay, sawdust, and colloidal silver.⁶⁰

57. Global Women's Water Initiative, <https://www.globalwomenswater.org/what>.

58. Ibid.

59. Ecofiltro Website, <https://ecofiltro.com/en/about-us>.

60. <https://ecofiltro.com/en/how-it-works> offers a detailed explanation of how Ecofiltro's filter works. Essentially, the bacteria and parasites that contaminate the water are filtered through micro channels in the clay walls of the filter, the sawdust removes the bad smell and taste of the water, and the colloidal silver serves as a second defense against bacterial contaminants.

Ecofiltro sells using a differential pricing model, where “urban sales of filters [at a higher price] ... serve to finance the distribution of rural filters at an affordable price”.⁶¹ My conversation with Philip started with a discussion of Ecofiltro’s history and current work, and then broadened into a wider discussion of strategies for success at the social enterprise level.

For many years, Philip’s sister worked as a social worker, focused on community health and nutrition programs. Working with communities in Guatemala, she came to understand that 80 percent of illness in rural Guatemala is water-related. Many organizations donate chlorine tablets to try to alleviate these problems by offering a quick water-potability fix, but Philip’s sister observed a lot of cultural resistance to these tablets. Many families would simply refuse to use the tablets because they made the water taste bad. At a conference one year, she learned about a promising, new, clay-based water filter.⁶² She pivoted to a strategy of selecting communities and donating these new filters and found that these filters were much better-received than the chlorine tablets, and that families using the filters both doubled their water intake and got sick significantly less often.

Meanwhile, Philip was having a mid-life crisis of sorts. After graduating from Wharton, he had been successful as an entrepreneur. But, upon turning 40, he came to Guatemala searching for some sort of purposeful work. When he spoke to his sister about her work, and learned that she was able to raise the money to donate 2000 filters per year, but that over 1 million people in rural Guatemala lack access to clean water, he started

61. Ecofiltro website, <https://ecofiltro.com/en/about-us>.

62. Philip informed me that all families in rural Guatemala are familiar with clay.

thinking about how the new filter technology could be used to help more Guatemalans solve their water problems. Calculating that the average family in rural Guatemala was spending thirteen dollars every month on wood to boil water⁶³, Philip came up with a new plan: price the filter such that it pays for itself in three months, and sell what had previously been given away. Thus, in 2012, Ecofiltro, with its lofty, ambitious goal, was born.

Philip's sister refused to speak to him for the first three months that he was working on Ecofiltro. At first, she had a very hard time accepting Philip's decision to *sell* to the Guatemalans instead of donating to them. To someone who had been doing social work for decades, the idea that Philip was trying to make money off of the water contamination issue must have seemed misguided and morally suspect. However, Philip approached his work from a very different ideological perspective: “[w]e don't see the poor as objects of pity, we see them as potential customers, and we try to communicate a very valuable value proposition”, he told me. Philip brought an unyieldingly entrepreneurial mindset to the development work.

After three months, Philip's new approach to solving the problem appeared to be working. Families took the product more seriously because they had to pay for it, and the money being generated from sales of filters could be used to help the business scale. Philip's sister has become one of his most important colleagues, and the business that is a combination of their ideologies, expertise, and learned knowledge looks like it has a

63. Philip made this calculation by asking rural Guatemalans questions, including how much wood they used daily to boil water.

serious chance of solving Guatemala's clean water access problem. At this point, Ecofiltro has distributed more than 350,000 filters to families all over Guatemala.⁶⁴

Ecofiltro's differential pricing model merits discussion, as the model is a fascinating example of the outcome of a conscious decision about how to manage tradeoffs between profit and purpose. Ecofiltro's mission is to distribute filters to families in *rural* Guatemala who lack access to safe water. However, it is easier and more cost-effective to sell these filters in urban locations in Guatemala, where transport costs are low and consumer density is high.⁶⁵ From the beginning, in 2009, Philip saw a clear path to profitability in urban sale of the filters. He did not see the same clear progression to financial sustainability in rural sales. However, despite the financial challenge that rural distribution of filters posed, Ecofiltro's mission placed avoiding rural distribution firmly out of the question. Harkening back to his entrepreneurial background, Philip told me that he has always thought of the money from urban sales of filters as venture capital funds, to be used to find a way to ultimately make the rural sale of filters independently financially sustainable. In other words, the profits from urban sales of filters were always a means to achieving Ecofiltro's founding goal, and not an end in and of themselves. "I needed the urban sales because we were trying to figure out this rural puzzle", said Philip. This past year, for the first time, the rural sales of filters has reached a scale and level of efficiency at which it is starting to break even and generate marginal positive returns. But, without the initial and ongoing urban sale of filters, and without Philip's

64. Ecofiltro website, <https://ecofiltro.com/en/about-us>.

65. In urban areas, Ecofiltro sells filters in ceramic and enamel receptacles. These more elaborate designs fetch higher prices, which improve margins on urban sales.

commitment to investing the resultant profits in the name of social good, Ecofiltro's rural sales would look nothing like they do today.

Whereas Gemma emphasized the primacy and importance of systems change to the practice of social entrepreneurship, identifying income generation as one of many possible means to that end, Philip emphasized his belief in the unparalleled importance of earned income to the success of a social enterprise. "You gotta make money or you can't help anyone", he said to me at one point, calling systems change "murky" and hard to quantify. Philip offered a more nuanced insight into his understanding of social entrepreneurship when he said "[w]hen I say 'social enterprise', I say 'social' lowercase, and 'enterprise' uppercase". Profitability appears to be a must-have ingredient in Philip's recipe for success at walking the tightrope of social entrepreneurship. Earned income and its advantages have certainly been crucial to Philip's success scaling and developing Ecofiltro. Ecofiltro recently took on its first outside investors to finance the construction of a new 1.5 million dollar factory, and is and always has been a for-profit organization.

Ileana, The Failure Institute

In 2012, Leticia Gasca, fed up with the secrecy, shame, and stigma around entrepreneurial failure, founded Fuckup Nights, an organization and a movement that encourage failed entrepreneurs around the world to come together and share their mishaps and misadventures with each other. The organization that was born from Gasca's desire to normalize and learn from business failure has now hosted over 1000 events⁶⁶ in 80 countries⁶⁷ all around sharing stories of entrepreneurial failure. In 2015, Gasca

66. James Watkins, <https://www.ozy.com/rising-stars/the-visionary-behind-the-tedx-of-failure/75675>.

67. Fuckup Nights website, <https://fuckupnights.com/>.

refocused on leading the Failure Institute, the research arm of Fuckup Nights, which is regarded as “the world’s first and only think tank dedicated to studying business failure”.⁶⁸ The Failure Institute collects, organizes, analyzes, and shares data on business failure. I had a chance to speak with Ileana from the Failure Institute about the purpose of the Failure Institute and about some of their findings so far.

Thus far, The Failure Institute has investigated business failure primarily in Mexico, and surrounding countries such as a Colombia, Chile⁶⁹, and Peru. In 2016, The Failure Institute developed a survey asking entrepreneurs why they think their business failed, and has surveyed 1000 entrepreneurs in the aforementioned countries of focus on their failures. Although entrepreneurs of all sorts have been surveyed, when I asked Ileana if there were any general takeaways about social entrepreneurship, she highlighted that many of the social entrepreneurs surveyed were deeply passionate about making positive change. However, Ileana also mentioned that it appears that many of them forget that in order to be a business that generates this kind of change, they need to have money. This assessment of failure in social entrepreneurship is rather general, and does not offer any insight into how social businesses should or should not go about acquiring the necessary capital. Moreover, I did not get the chance to analyze the data that brought Ileana to this generalization. Nevertheless, the implication that social entrepreneurs underemphasize proper financing when they try to execute on their visions remains an interesting one.

Scott Sherman, Transformative Action Institute

68. James Watkins, <https://www.ozy.com/rising-stars/the-visionary-behind-the-tedx-of-failure/75675>.

69. The Failure Institute is located in Mexico City.

Scott Sherman is the Senior Director of Social Innovation and Co-Curricular Programming at the Kravis Leadership Institute here at CMC. Scott went to college at U.C. Berkeley, where, although he was already interested in generating and implementing solutions, he found all of his classes to be about the problems of the world. Scott and I discussed the path he took to the work he now does, examined the business model he uses, and then zoomed out to consider trends within the field of social entrepreneurship.

At U.C. Berkeley, with the support of a faculty advisor, students could design and implement their own courses.⁷⁰ So, Scott took advantage of this opportunity, and started a course about solutions to environmental and social problems. To provide high-quality content for the course, Scott went out into the Berkeley community, found people implementing innovative solutions to environmental problems, and invited them to speak at his course. Scott taught classes himself when he did not have a guest speaker. The first semester Scott's solutions-oriented course was offered, 35 students signed up. The next semester, 75 students enrolled, and the following semester 150 tried to sign up. By Scott's final semester, more than 1000 students were trying to get into his course!

Scott went on to earn a Ph.D. in environmental studies from the University of Michigan, doing his research on how people most effectively win the battles that change the world. "When people are fighting for civil rights, the environment, or public health, what are the strategies and circumstances in which they are most likely to succeed?", offered Scott in summary. But instead of returning to academia, Scott applied to Echoing

70. Judging by <https://decal.berkeley.edu/facilitate/start-your-own-course>, students at U.C. Berkeley appear to still have this unique freedom!

Green with the idea to train young people to use the methods he discovered through this research⁷¹, and became an Echoing Green Fellow in 2005. Scott and his co-founder co-taught a class at UCLA that served as a pilot program. Unlike at Berkeley, where seasoned innovators speaking about their own work made up the bulk of the course, this class did not go smoothly. Although they iterated and made each class session vastly different from the previous one, Scott says that students appeared bored and uninterested much of the time. However, when student evaluations were submitted at the end of the semester, Scott's course ended up being the number one ranked course on campus by students. Thus, the Transformative Action Institute (TAI) was born, and was off to a red-hot start.

Princeton, Yale, Harvard, Cornell and others all wanted their own versions of Scott's course. Scott was confronted with a major business decision: how was he going to scale what TAI had to offer? "We decided we would open source and give it away", said Scott. "And the reason is we did not want any barriers to entry." Scott decided that TAI would give away all of its intellectual property for free. Anyone could access the materials that Scott used to set up and teach his course, and anyone could develop and lead their own version of Scott's research-based training. At an Ashoka conference, a professor from Wharton heavily criticized Scott's business model, calling it horribly unsustainable. After telling me this, Scott expanded on his initial articulation of TAI's open-source model, explaining that TAI uses a freemium model in which not everything

71. Scott has summarized the findings of his research in three main principles, which are the backbone of the content he teaches. The first is to "Shine a Light" on injustices, the second is to use "Social Aikido" to "focus on a shared vision of the future", and the third is to create a "Constructive Program" where everyone wins. More details on these principles can be found at "<http://transformativeaction.org/understanding-transformative-action/>."

is given away. Like Gmail, or Skype, or many others, the majority of users enjoy what the free version has to offer, never thinking about or needing to pay to upgrade. However, those few customers who want an expanded set of capabilities pay handsomely for premium privileges. In TAI's case, this meant that those who wanted Scott to develop or teach additional, custom-made programs would need to pay for it. Ironically, Wharton became one of TAI's first paying customers. At Wharton, Scott helped develop and execute a program that takes 20 students per year to the Berkshires, places them in one house together, and challenges them to create business plans around ideas that solve pressing problems. Wharton paid TAI one million dollars over four years for TAI to set up and establish the program.

Scott estimates that TAI now reaches one hundred thousand young people per year. By offering free content that has a lot of value and flexibility, TAI's curriculum has been able to spread virally. "We're almost like a Trojan Horse," said Scott of TAI's proliferation, noting the way that different schools are able to modify TAI's curriculum and materials to fit their own needs. Scott noted that TAI's materials are being used in many high schools in Uganda, and have spread to nine other African nations. "They love it, they adopt it, they're paying their own staff to teach our stuff", said Scott. TAI is also in over 200 colleges and universities across the country. I was surprised to learn from Scott that TAI has only two staff members: Scott, and a colleague based in Washington, D.C. The low overhead costs combined with high virality lead Scott to refer to TAI as a "low-budget, high-impact organization".

TAI incorporated as a non-profit organization, but has operated like a for-profit business for most of its existence. For its first 10 years, TAI did not receive any donations

or philanthropic aid of any sort, and was financed entirely by earned income. “We weren’t trying to maximize money, we weren’t trying to make millions and millions, because [that] didn’t matter”, insisted Scott, but nevertheless, the income earned from TAI’s paying customers was always enough to cover the organization’s low operating costs. Echoing something that Philip Wilson said, Scott explained that TAI was “having lots of impact in the world, and doing it through earned income because people were paying for a product that they found to be valuable”. In the past year, however, two different philanthropic organizations have offered TAI substantial sums of money. TAI has accepted the donations, and plans to use the money to develop a series of videos that will help the organization reach more people.

Scott, who has been studying, teaching, and participating in the practice of social entrepreneurship for quite some time, told me that he believes that the focus of social entrepreneurship has evolved over the last 15 years. When he won his Echoing Green fellowship in 2005, and Gemma won hers in 2007, almost all awardees were nonprofits, and there was little to no differentiation between nonprofits and social ventures. “Now we’re saying there’s always a way to find a customer”, said Scott, suggesting that the widely acknowledged definition of social entrepreneurship has shifted towards Philip Wilson’s perspective. As a community organizer, early in his career, Scott and his colleagues would always try to make events and programs free. However, Scott told me that one thing he learned is that when communities are given services, programs, or products for free, “the communities have no skin in the game”. Scott offered the following characterization of the mindset of the modern-day social entrepreneur: “you’re offering something of value, and if you’re offering something of value, then people will

pay it. And so it's just a question of finding out: who's your customer, and how are they willing to pay for it?"

Josh Carn-Saferstein, PATOS

Josh Carn-Saferstein is the Director of Growth at PATOS Shoes, a company that has partnered with artisans in Peru to use local materials to create a modern sneaker.⁷² Josh, who is an undergraduate student at the University of Michigan, told me how PATOS came to be, how PATOS' mission has affected the trajectory of the business thus far, and how PATOS is trying to find a balance between its mission and its existential concerns as the business looks to scale in the future.

Josh began by acknowledging that "[i]t's cool to be socially conscious", and that many companies portray themselves as being socially conscious as a "branding technique". However, PATOS aims to be transparent and provide real long-term sustainability, incorporating social responsibility as far more than a marketing strategy. The company was founded by University of Pennsylvania student Fernando Rojo, who, while traveling with his family in Argentina in 2015, met an artisan named Rafael who was selling shoes made from colorful, local textiles. Fernando partnered with Rafael, connected with a production shop in Peru, refined the design of the shoes, and launched a Kickstarter campaign to fund the manufacturing of the first batch of shoes. The campaign ended up raising more than \$60,000 from 770 backers⁷³, and PATOS got off the ground

72. PATOS was named by BuzzFeed as one of 25 brands that "Actually Help Struggling Latin American Artisans", demonstrating that the company has garnered some attention for its stated social purpose. The article can be found at <https://www.buzzfeed.com/danielacadena/brands-that-actually-pay-latin-american-artisans-for-their?>

73. PATOS Kickstarter Campaign, <https://www.kickstarter.com/projects/1608039412/patos-fresh-sneakers-with-traditional-textiles>.

and came into full-fledged existence. In the fall of 2017, Josh, who grew up playing soccer with Fernando, joined the PATOS team.

One of the first topics that Josh and I discussed was the fundamental difference between PATOS and TOMS Shoes. Josh was quick to object to TOMS Shoes' model of manufacturing shoes in China, and then donating them to impoverished areas. Although TOMS now manufactures a significant portion of their shoes in the locations they donate to, Josh explains that PATOS is and always has been dependent on paying and using the Peruvian manufacturers, and that the manufacturers "benefit from PATOS immensely". According to Josh, PATOS pays the Peruvian manufacturers five times the minimum wage in Peru. Sensing that this decision to pay the artisans and producers so highly might have been motivated by PATOS' mission, I asked Josh why the company had made a decision that no doubt cuts into profit margins. "Our margins aren't great", acknowledged Josh, "but at this point they're good enough to run it in a way that we can still be profitable and still keep the core of what Patos is". Although Josh, Fernando, and the PATOS team are still trying to figure out many aspects of the business, this decision to generously compensate local workers demonstrates commitment to the business' mission of supporting artisans in struggling economies. PATOS also chooses to source all materials for the shoes they manufacture from within one hour of the factory. This decision could have been made simply for its cost-effectiveness, but also ensures that PATOS shoes are a truly locally made product, which provides support to the local community at every stage of production.

As of now, PATOS has taken zero outside investment. The first order of shoes was crowdfunded through KickStarter, and Fernando went on to receive a grant from the

University of Pennsylvania to help finance the venture. However, Josh told me that since PATOS needs more money to scale, the company will soon seek outside investment. When I asked Josh if taking on investment might threaten PATOS' ability to adhere to its mission, Josh mentioned that it will be important for PATOS to find investors whose values align with what PATOS is attempting to accomplish alongside profit generation.

Jacob Colker, Sparked

Jacob Colker is a 2009 Echoing Green fellow, and the founder of Sparked, a platform that was designed to “revolutionize the way community organizations utilize volunteer resources and engage a new generation of volunteers through meaningful ‘micro volunteer’ opportunities by leveraging the latest technological advancements, such as smartphones”.⁷⁴ I spoke to Jacob about the creation of Sparked, why the venture ultimately failed, and what he learned from the experience.

As people began to adopt smartphones in 2006, Jacob started to realize that the technology was enabling new and interesting ways to organize people. He saw an opportunity to identify and implement a business model that took advantage of these new devices. He and his team built a crowdsourcing platform that connected people to organizations in need of their time. Initially called “The Extraordinaries”, and later renamed Sparked, the idea was that people could use the app to spend their spare time and brain cycles doing translations, image processing, and other useful micro-tasks for nonprofits in need of support. Jacob told me that, when Sparked was finally shut down, and the company pivoted out of the social impact space, an estimated 20 million dollars of volunteer work had been done through the platform.

74. Echoing Green, <https://www.echoinggreen.org/fellows/jacob-colker>.

Although hundreds of thousands of people downloaded Jacob’s app, Jacob told me that he was ultimately unable to create a viable business model around the Sparked platform. Nonprofits did not have the money to compensate “micro-volunteers” for their time, and the people spending time on the app had no interest in paying for it. The experience taught Jacob the importance of focusing on the business model early in the process of conceiving of a new social venture. Jacob told me that he has seen many aspiring social entrepreneurs start a business because they are passionate about solving a certain problem, and spend 90 percent of their time focusing on solving the problem and 10 percent of their time figuring out how to pay for it. However, “by focusing on impact and not on sustainability, it’s hard to be alive in three years”, commented Jacob. In his opinion, the best social entrepreneurs reverse this stereotypical paradigm, spending only 10 percent of their time figuring out how to solve the problem, and the other 90 percent finding a way to make it financially viable to do so. “If you focus on the inverse, and build a business that’s sustainable, then you can grow your impact over time”, concluded Jacob.

Jacob pointed to ColdHubs, a social enterprise based in Nigeria that he has been tangentially involved with, as an example of the kind of profit-driven development he espouses. In the hot, open-air markets of Nigeria, where commerce and trade take place, 45% of food spoils due to lack of cold storage.⁷⁵ ColdHubs offers solar powered, 24/7 cold storage to farmers looking to extend the shelf life of their produce. According to the ColdHubs website, the service reduces post-harvest loss by 80%, leading to a 25%

75. This statistic was pulled from <http://www.coldhubs.com/>.

increase in the income of farmers.⁷⁶ Although ColdHubs currently only has five refrigeration stations across Nigeria, they offer a valuable product and experience, which even smallholder farmers are willing to pay for, and they are improving lives and making money by doing so.

My conversation with Jacob concluded with an agreement between he and I that his definition of social entrepreneurship differs from normal entrepreneurship only in the specific problems that are focused on. According to Jacob, the goal of the entrepreneur is to find a problem, and then develop a way to solve the problem that generates more money than it costs. Jacob suggested that the more straightforwardly this conventional entrepreneurial model can be transported into the social impact space, the better.

Michael “Luni” Libes, Fledge

Michael Libes, who everyone refers to as “Luni”, is the founder of Fledge, a “conscious company accelerator” that funds, mentors, and accelerates mission-driven, for-profit businesses. I spoke to Luni about the founding of Fledge⁷⁷, the term he prefers over “social entrepreneurship”, and how he believes that mission-driven businesses should handle the tension between profit and fulfillment of purpose.

After 17 years as a serial entrepreneur, Luni decided that it was time to give back. He wound up securing a teaching job at a small business school near Seattle called Bainbridge Graduate School. The school offered a “sustainable” MBA in how to use business to do good in which the idea of a “triple bottom line” that considers profits, people, and the planet was emphasized. Luni saw that when these MBA students

76. Ibid.

77. Many more details on Fledge can be found at <http://fledge.co/about/>.

graduated, they could not find financial support for the mission-driven ventures they aspired to found. Thus, with the help of three initial investors, who were soon followed by 47 others, Luni founded Fledge to support these students and others like them in making their conscious company ideas a reality.

Luni told me that he tends to shy away from the term “social entrepreneurship” because it has too many connotations with the nonprofit world. According to Luni, the original definition of a social enterprise was a nonprofit that earned some revenue, although the term has since been co-opted by the for profit sector. He prefers to call the businesses that Fledge funds “mission-driven, for-profits”, since doing so eliminates all ambiguity about their profitability. “My fundamental premise is the only way that we can make globally systemic change is through profits because profits is the only way we can scale up”, said Luni.

Due to lack of funding, Fledge has to turn away 97% of the applications they receive. When deciding which 3% to accept into the accelerator, Luni looks for complete alignment between the proposed companies’ profit mechanisms and their missions. According to Luni, even a company such as Ben & Jerry’s Ice Cream, which is a certified Benefit Corporation⁷⁸, and maintains a strong commitment to corporate social responsibility, has to expend valuable time and effort balancing this commitment to social responsibility with its business dealings because its product does not fully align with its focus on social responsibility. Luni’s, and Fledge’s, solution to overcome the tension between profits and purpose is to fund businesses that -- by design -- eliminate

78. Benefit Corporations are for-profit companies that are certified by a nonprofit organization called B Lab to have fulfilled certain social responsibility requirements. More information can be found at <https://www.bcorporation.net/>.

this tension entirely. “The reason we insist on the mission being embedded in the product or service is that there is no conflict”, explained Luni. His understanding of tension-free, for-profit mission-driven ventures is reminiscent of the “hybrid ideal” discussed in the SSIR article “In Search of the Hybrid Ideal” that was mentioned in the literature review of this thesis.

Fledge itself is a for-profit organization, making it one of the rare for-profit accelerators in the social good space. Fledge takes an ownership stake in the companies it accepts in exchange for the mentorship, network, and seed funding provided. Luni told me that he feels like Fledge’s for-profit model is well-justified since it enables the accelerator to remain confident that it will continue to exist and operate in the future. At this point, Fledge has 73 graduates from 22 different countries, and shows no sign of slowing down.

V. Analysis

In this section I will analyze and discuss the six full interviews⁷⁹ I conducted. I will do so by revisiting each of the questions that I posed during my introductory section. I will then move on to evaluate the validity of the hypothesis I posed in the introduction. After evaluating my hypothesis, I will discuss the different paths that the people that I interviewed took to working at the intersection of business and social impact. I will conclude this section by attempting to integrate and reconcile the results of my primary research with some of the literature on tradeoffs within social entrepreneurship that was explored earlier in this thesis.

Can a social business survive the tension between the generation of profits and the pursuit of positive impact, or must this conflict be avoided entirely?

The mindsets and opinions of Gemma and Luni, each in their own way, suggest that any and all conflict between profit and social mission can and should be avoided. For Gemma, this avoidance of tension is a direct result of her definition of social entrepreneurship, which is focused on the creation of enduring systemic change. For Gemma, “enduring local solutions, ... systems change, ... local expertise” and other factors are far more important than income generation. Thus, it would seem that since income generation is not an integral part of Gemma’s theoretical vision of social entrepreneurship, if the pursuit of profits were foreseen to have the potential to become

79. Including my interview with Ileana from the Failure Institute, I conducted seven interviews. However, Ileana herself is not a social entrepreneur, and since I am trying to extract what I have learned from the social entrepreneurs that I interviewed, Ileana’s testimony will not inform my analysis.

problematic with respect to these other priorities, then said pursuit of profits could be abandoned instead of incorporated.⁸⁰

Luni's testimony suggests the same conclusion, that social enterprises should avoid profit-purpose tension entirely, through an entirely different avenue of reasoning than Gemma. For Luni, the necessity of profit to the vitality and sustainability of any "mission-driven, for-profit business", as he calls the businesses that Fledge funds, is non-negotiable. Profitability is so important to Luni, and Fledge receives so many applicants⁸¹ (3% acceptance rate), that Luni funds only social entrepreneurs who rule out the possibility of tension between profit and purpose by completely aligning the revenue stream and the social mission of the business. Thus, for Luni and Fledge, profit-purpose conflict is something that can and should be avoided entirely.

In contrast, the interviews with Philip, Scott, Josh, and Jacob demonstrate that, even in social businesses that are generating profits and earned income, the tension between these profits and business purpose cannot always be avoided entirely. I will focus on their interviews, and their responses to this tension, in the following exploration of the second question from my introductory section. It is these responses to profit-purpose tension that I believe represent the character of social entrepreneurship better than anything else.

80. I acknowledge that this point ignores the hypothetical case where income generation was made part of a social venture and then previously unforeseeable tension arose. However, I believe that my more general point, that Gemma's view of social entrepreneurship encourages the avoidance of such tension, remains salient despite the minor qualification raised here.

81. A question that I am not able to answer is whether or not Luni's insistence on perfect alignment between profit and purpose would be maintained if Fledge had a shortage of applicants instead of a surplus.

How do social entrepreneurs navigate the tension between the generation of profits and the pursuit of positive impact when such tension does arise?

Philip, Scott, Josh, and Jacob have all experienced at least some misalignment between profit and business purpose, and each navigated the resultant tension in his own way. For Philip, a wedge between profitability and business purpose arose because although Ecofiltro's urban sales of water filters were generating profits, rural sales of filters were not.⁸² This meant that, for the first portion of Ecofiltro's existence, the fulfillment of its mission was fundamentally unsustainable, enabled only by surplus from urban sales. However, rather than interpret this misalignment as a sign that the social enterprise had no future, Philip spent time, effort, and money resolving this tension by scaling and innovating rural filter sales until this mission-driven area of the business was no longer cashflow-negative. I remain struck by Philip's exact words: "*I needed the urban sales because we were trying to figure out this rural puzzle*", he said. In my mind, Philip's willing and creative reinvestment of profits into the mission-driven side of his business to improve its productivity, profitability, and efficacy is emblematic of the unique advantage possessed by a social entrepreneur that can use the pressure to generate both profit and purpose instead of shying away from it. Philip used Ecofiltro's profits to revamp its purpose-driven, rural operations. Businesses driven by profit only would likely have deprioritized rural sales, while nonprofits, as directly evidenced by the prior work of Philip's sister, would not have been selling filters in the first place. It seems that

82. As a reminder, Ecofiltro's mission is to provide access to clean water to 1,000,000 rural Guatemalans by the year 2020.

only a business with goals including but not limited to profit generation could accomplish what Ecofiltro has accomplished.

PATOS' decision to pay its Peruvian artisans five times the Peruvian minimum wage exemplifies another way to manage profit-purpose tension which I will call "profit-purpose satisficing", and which I believe is also unique to social enterprises. When I asked Josh about the effect of this high pay on PATOS' margins, Josh responded by telling me the following: "Our margins aren't great, but at this point they're good enough to run in a way that we can still be profitable and still keep the core of what Patos is". Here, Josh indicates that PATOS' strategy is to *satisfy* its mission of empowering Peruvian artisans and *satisfy* its need for profits without maximizing or optimizing either mission fulfillment or profit-seeking. To embody this kind of two-dimensional balancing act by paying such a high wage required a conscious decision on the part of someone at PATOS, likely founder Fernando Rojo. The fact that PATOS made this decision, and is able to remain profitable, demonstrates that tradeoffs between profit and purpose do not have to lead to mutual exclusivity. Philip's reinvestment of Ecofiltro's profits into the mission-driven side of the business could also be interpreted as profit-purpose satisficing.

The freemium model that Scott uses to operate TAI is yet another example of creative resolution of the tension between commitment to earned income and mission fulfillment. A key tenet of TAI's mission is that there should be no financial barrier to use of the curriculum and materials Scott assembled. Thus, by design, the majority of TAI's "customers" use TAI's materials for free. Scott needed to find a way to reconcile TAI's open-access mission with the following definition of social entrepreneurship that he offered: "you're offering something of value, and if you're offering something of

value, then people will pay it. And so it's just a question of finding out: who's your customer, and how are they willing to pay for it?". The moment that Scott finished his Ph.D. research, he had the materials and information necessary to achieve social impact, but he needed to find a way of paying for it without compromising access. Thus, Scott chose to use a freemium model to earn income from paying customers without sacrificing TAI's commitment to being open-sourced and open to access by anyone. Scott's work with TAI offers yet another example of the creative alignment of profit and social purpose that I argue is unique to social entrepreneurship. The freemium model that TAI uses satisfies both the organization's mission and its need for financial sustainability.

In Jacob's work with Sparked, profit-purpose tension arose because although Sparked was fulfilling its mission, and connecting "micro-volunteers" to nonprofits in need, no one was willing to pay for the service. Unsurprisingly, this experience of being unable to overcome the lack of profits led Jacob to revise his advice for other social entrepreneurs to sound a lot more like Luni and Philip's profit-focused mantras: Jacob now recommends that social entrepreneurs spend only 10 percent of their time figuring out how to solve the problem they are passionate about, and the other 90 percent of their time figuring out how to pay for it. In contrast to Philip, Scott, and Josh, Jacob was unable to make the fulfillment of his company's mission profitable, demonstrating that profit-purpose tension cannot always be resolved.

Is there something about the tension that arises as a result of a robust, dual commitment to profit and purpose than can be distinctly positive and productive? Was my original hypothesis correct?

My original hypothesis was that 1) a social business can survive tension between profits and purpose, that 2) social entrepreneurs have found ways to overcome such tension, and that 3) this tension has led to directions, discoveries, and success that never would have been achieved without a dual commitment to profit and purpose. I think that the creative, productive responses of Philip Wilson and Ecofiltro, Scott Sherman and TAI, and Josh Carn-Saferstein and PATOS to tension between profit generation and purpose fulfillment ultimately prove the correctness of my original hypothesis. The unique possibilities for advancement and innovation that social entrepreneurship's dually committed approach creates cannot be accommodated by a pure profit-seeking approach to entrepreneurship, nor can these possibilities be realized by philanthropic organizations. For many social entrepreneurs, success comes not from ignoring the pressure to make money and do good, nor does it come from finding a way to achieve both goals flawlessly and simultaneously. Rather, it comes from using the pressure of these two distinct goals to triangulate a solution that does not forsake one for the other.

It is worth noting that not all tensions experienced are the same. The comparison that I have in mind is the misalignment experienced by Jacob versus the misalignment experienced by Philip. In Jacob's case, Sparked was achieving its mission but doing so in a way that was not financially sustainable. In Philip's case, Ecofiltro was generating profits, but was doing so in a way that left its mission unfulfilled. Whereas Jacob was unable to find a way to make Sparked financially feasible, Philip was able to expand Ecofiltro's rural, mission-driven sales over time, relying on the profits from urban sales of filters to cover the costs of mistakes that he made along the way. This dichotomy suggests that it likely easier to resolve tension and misalignment between profit and

purpose if it is the purpose, rather than the profit, that is missing or lacking. However, the importance of situation-specific details to the resolution of profit-purpose tension means that this finding likely is not generalizable.

Another interesting consideration is how each of the social entrepreneurs that I interviewed came to be doing the work that I interviewed each of them about. Gemma, Scott, Fernando⁸³, and Jacob each appeared to make a relatively organic transition into the realm of social entrepreneurship: each of them identified a social problem of some personal importance, and implemented a solution to that social problem. Three of them are Echoing Green fellows, and thus received financial support that enabled them to begin the implementation of their solutions. However, Philip and Luni took a categorically different approach to the creation and implementation of their social ventures. Both of them were serial entrepreneurs who decided that they wanted to find some way to give back to the world, and social entrepreneurship was their way to use their entrepreneurial capabilities to do so. Philip, caught in a mid-life crisis, brought his entrepreneurial zeal to bear on his sister's work with rural Guatemalans, and the results have been extremely positive. Luni used his entrepreneurial know-how to create a socially conscious startup accelerator. The accelerator has long been a staple institution in the realm of conventional entrepreneurship, and Luni was able to transfer that institution into the social impact space. This successful pivot into social entrepreneurship by Philip and Luni raises interesting questions about how to best prepare aspiring social entrepreneurs for success. If effective, profitable, mission-driven businesses can be created by grafting conventional entrepreneurial solutions and institutions onto social

83. Although I interviewed Josh about PATOS, Fernando is the founder of the company.

problems, then perhaps more “normal” entrepreneurs should be encouraged to try to innovate in the social impact space. One also wonders how the social entrepreneurship community could benefit as a whole from other replications of institutions of conventional entrepreneurship.

Especially given Philip, Jacob, and Luni’s avowed emphasis on profitability, Sharma’s critique about the overpowering effect of the market-based perspective on social entrepreneurship should be revisited. While Sharma does not suggest that profitability is not an important boon to any social enterprise that can achieve it, her concern is that “a model of social entrepreneurship focused on market-based solutions and profit is threatening to crowd out more collaborative approaches”.⁸⁴ One answer to Sharma’s concern suggested by my research is that nowhere near all social entrepreneurs have confined themselves to a profit imperative. Gemma remains profit-agnostic in her appraisal of social entrepreneurship, and focuses on partnering with local groups and other NGOs in order to create lasting, systemic change. Both of her ventures remain able to incorporate earned income into their models when appropriate, and both do in different capacities, but neither are premised on profitably meeting a market need. Perhaps even more encouragingly, Scott accepted two large philanthropic donations for TAI after 10 years of operating entirely on earned income. TAI’s willingness to incorporate philanthropic partners into the work it does, even after existing wholly in the market sphere for so long, would no doubt be commended by Sharma, and runs counter to the trend she warns against. The same flexibility and ingenuity that the social entrepreneurs I

84. Jyoti Sharma, SSIR, https://ssir.org/articles/entry/a_neoliberal_takeover_of_social_entrepreneurship.

interviewed exercised in navigating tension between profit and purpose appears to be on display in this area of organizational strategy.

However, my research also suggests that Sharma's critique of "neoliberal" social entrepreneurship may ignore what a social enterprise stands to gain from the stubborn and persistent pursuit of profits. For instance, consider the example of Ecofiltro. Had Philip not come to Guatemala aiming to do good *and* make money, and had he not insisted on scaling Ecofiltro's rural distribution and sales until it *became* profitable, then Ecofiltro would likely not be as high-impact and far-reaching as it is today. Philip's pedantic emphasis on profits at an enterprise level in all areas of the business guided Ecofiltro to sustainability and scale. PATOS is another social venture that operates entirely in the market sphere; first-world demand enables its existence. Whereas Sharma worries that well-funded companies such as TOMS Shoes set a narrow precedent for aspiring social entrepreneurs and impact investors, PATOS is excellent proof that no two social enterprises are truly alike, and that no single model will ever come to characterize social entrepreneurship. Fernando and Josh were no doubt familiar with the TOMS Shoes model when they started PATOS. However, in our interview, Josh almost directly told me that he and Fernando used their knowledge of the TOMS Shoes model to differentiate PATOS from it. The criticism TOMS has received for not producing all of its shoes where they are donated likely informed PATOS' decision to manufacture all shoes locally in Peru out of entirely locally sourced materials. When one looks at the details of how social enterprises are incorporating profits and earned income into their models, one realizes that the strategies being used and the models being embraced look nothing like TOMS Shoes or any other high-profile example of social entrepreneurship. Thus, I

remain unconvinced by Sharma's skepticism. The limited research I have conducted has demonstrated that profit-seeking social entrepreneurship is not some kind of "neoliberal trap". Insisting that this trap exists, and that the social entrepreneurship movement is falling into it, deemphasizes detail-oriented analyses such as the one I have just done, and deprives social entrepreneurs of the agency to take creative advantage of all that the market sphere has to offer.

The hybrid models that were emphasized in the SSIR article "In Search of the Hybrid Ideal" were not used by most of the social entrepreneurs that I interviewed. Gemma's first social venture, ASDSW, was by far the most clearly hybridized. ASDSW, a nonprofit organization, combined forces with SDCS, a for-profit consultancy, so that SDCS could accept payment for projects implemented by ASDSW. TAI, which, according to Scott, incorporated as a nonprofit but earned money like a for-profit, may have been - in practice - the most hybrid-esque organization besides Gemma's ASDSW-SDCS duo. Meanwhile, Ecofiltro, PATOS, Fledge, and the companies that Luni funds through Fledge are all unabashedly for-profit entities. While hybrid models are no doubt gaining popularity in the social entrepreneurship space, they appear to remain far from the only solution to the questions of organizational design posed by the unique demands of the dual commitment to profit and purpose that more and more people are associating with social entrepreneurship. Overall, as evidenced by the flexibility that Scott has experienced in operating TAI, the technical details of business structure were far less important to these social entrepreneurs than I expected them to be.

VI. Conclusion

At this point, I wish to take a moment and mention what I see as the shortcomings of my investigation. If I had more time and resources to devote to this project, the following areas are the ones on which I would focus: First and foremost, I think that the investigation would have been strengthened had I been able to interview more social entrepreneurs. Although I have taken a case study approach, and thus the legitimacy of my conclusions is not premised on their statistical significance, more interviews would likely have led to richer evidence, more robust analysis, and more compelling conclusions. Another concern is that there was likely some selection bias in who I did choose to interview. I sought out individuals whose work aligned with my own personal definition of social entrepreneurship, which likely had a homogenizing effect on the testimony I received. A fuller examination would have consulted individuals working at nonprofits and traditional for-profit businesses on their beliefs about social entrepreneurship, as well.

Nevertheless, the interviews I was able to conduct and the conclusions I drew from them remain salient. Through a review of the literature on tradeoffs between profit and impact faced by social entrepreneurs, through a consultation of a couple of representative research cases, and through a granular analysis of case studies of actual social entrepreneurs having to decide when, how, and why to make these tradeoffs, I hope to have shed some light on the uniquely productive potential of the dual commitment to profit generation and impact creation held by social entrepreneurs.

More broadly, I believe that this thesis is an example of the kind of case-study-based research that the community that has rallied around social entrepreneurship needs

to generate more of. The social entrepreneurship movement is one that lacks cohesiveness, concreteness, and identity. “Social entrepreneurship” does not even have a single definition, and its meaning has changed over time. However, through conducting and analyzing these interviews I have come to realize that many social entrepreneurs’ actions speak louder than their words. When Philip repeatedly reinvested Ecofiltro’s profits from urban sales into rural distribution, he demonstrated the power of social entrepreneurship. When Scott chose a freemium business model for TAI, he harnessed the power of social entrepreneurship. When PATOS decided to pay Peruvian artisans five times Peruvian minimum wage, they showed what social entrepreneurship has to offer. If we could simply gain a better understanding of the work that social entrepreneurs all around the world are engaged in, and we could understand how they creatively overcome the challenges they face, then perhaps we would be able to defend, define, and *understand* social entrepreneurship once and for all.

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