Governance Institutions and Social Entrepreneurship in Developing Countries

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Abstract

Social entrepreneurship is the causal force behind substantial social change in the world, both today and historically. This type of entrepreneurial behavior originates in those who seek out solutions to major economic and social problems that, so far, disproportionately affect developing countries and their often poor and marginalized sub-populations. While this entrepreneurial function has its genesis with those searchers endowed with local knowledge, large-scale change often requires the institutional support of government and the resources therein. This article establishes a framework for understanding how social change occurs via entrepreneurial behavior in all sectors of the economy, and then it analyzes the role of governmental institutions in helping to facilitate social change. Several examples of local social entrepreneurship scaling up into large-scale social change through governmental support are discussed.
Introduction

In his popular book *How to Change the World: Social Entrepreneurs and the Power of New Ideas* (2007), David Bornstein conceives of social entrepreneurs as “transformative” forces, that is, “People with new ideas to address major problems who are relentless in the pursuit of their visions, people who simply will not take ‘no’ for an answer, who will not give up until they have spread their ideas as far as they possibly can.” The final result is *large-scale social change*, which Bill Drayton (2002), prominent social-entrepreneurship theorists J. Gregory Dees and Beth Battle Anderson (2006), Paul Light (2006a; 2006b; 2008), Roger Martin and Sally Osberg (2007), as well as Bornstein all seem to unanimously identify as the distinguishing feature of social entrepreneurship. This paper primarily argues that the most significant social change originating with a social entrepreneur becomes “large-scale” with the enabling institutions, resources, and policies of government, and this large-scale social change is precisely what is needed to move developing countries toward economic viability.

Reviewing many well-known cases of large-scale social change credited to social entrepreneurship in developing countries, this paper shows that in each case the vital intermediary role of government institutions, resources, and policies played in the amplification of the effect of social entrepreneurship into large-scale social change.

A secondary objective of this paper is to develop a theoretical basis for treating *governance institutions*—e.g., national governments, international NGOs, public-private partnerships—as playing a necessary role in successful social entrepreneurship in developing economies. Our argument hinges on an institutional perspective on social-entrepreneurship opportunities. Douglass North (1990, p. 7) writes of an institutional-organizational hierarchy in the two-step process of creating and seizing entrepreneurial opportunities. North writes that institutions, first, provide the structure and incentives necessary to seek out and seize entrepreneurial opportunities. Then entrepreneurial initiatives arise and create organizations, which in turn both evolve and strengthen the existing
institutions, thus continuing the cycle. What we have elsewhere articulated as the “classical view” of entrepreneurship in economics of Israel Kirzner and Joseph Schumpeter—namely, that entrepreneurship is ubiquitous in all human endeavors and the priority of process of entrepreneurship over individual entrepreneurial actors (e.g., Frank, 2008; Shockley, 2008; Shockley, Frank, Stough, & Haynes, 2006)—will help us to develop this theoretical basis by extending Kirznerian and Schumpeterian entrepreneurship to the institutional environments of the social and public sectors in developing economies. Overall, we offer the theoretical proposition that social entrepreneurship originates from the bottom-up in the social sector (just as entrepreneurial behavior does in the market sector) in response to the opportunities structured by the institutional environment. Governance institutions at the top, then, expand these initiatives until their effects accumulate into large-scale social change.

**Social Entrepreneurship**

As in general entrepreneurship research (Shane & Venkataraman, 2000), there is a distinct need for an empirically robust, yet theoretically consistent, conceptualization of social entrepreneurship (see Light, 2008, Chapter 1). “In fact, we would argue that the definition of social entrepreneurship today is anything but clear,” write Martin and Osberg (2007, p. 30). But this is not the state of social entrepreneurship theory-building for lack of effort.

Theories of nonprofit organizations are closely related to theories of entrepreneurship generally and social entrepreneurship specifically. One of the true innovators in the field of nonprofit studies, Young (1983) introduced a Schumpeterian, supply-side conception of nonprofit entrepreneurship 25 years ago. Estelle James (1987) conceived of “religious entrepreneurship” is an early, demand-side theory of nonprofit organizations in which nonprofit entrepreneurs seize opportunities to create specific religiously oriented nonprofit organizations because of unmet
demand (i.e., market disequilibrium). And Rose-Ackerman’s (1996) “ideological entrepreneurs” resulted from her observation of more ideologues among nonprofit organizations than for-profit ones (p. 719)

There has been an intensification of social entrepreneurship theory-building in recent years. Frumkin’s (2002) conceptualization of social entrepreneurship continues the supply-side theory of nonprofit organizations. He comments: “Entrepreneurship has emerged as a critical mover and shaper of non-profit ideas and programs” (p. 32). Weerawardena and Mort’s (2006, p. 22) social entrepreneurship is “a bounded multidimensional construct that is deeply rooted in an organization’s social mission, its drive for sustainability and highly influenced and shaped by the environmental dynamics.” (See also Mort, Weerawardena, & Carnegie, 2003.) And Mosher-Williams’ recent ARNOVA publication Research on Social Entrepreneurship: Understanding and contributing to an emerging field (2006) contains three of the most preeminent contemporary theorists of social entrepreneurship. Dees and Anderson’s (2006) “enterprising social innovations” sees entrepreneurship as the “carrying out of innovations that blend methods from the worlds of business and philanthropy to create social value that is sustainable and has the potential for large-scale impact” (p. 40). And Light’s (2006b) early, “inclusive” conception of social entrepreneurship expands the locus of social-entrepreneurship activity by including “an individual, group, network, organization, or alliance of organizations” and explicitly delimits social to “sustainable, large-scale change through pattern-breaking ideas in what governments, nonprofits, and businesses do to address significant social problems” (p. 30). As this quick review of the literature shows, theories of social entrepreneurship abound, yet, as Light (2008) more recently expounds, still no consensus on “the” theory of social entrepreneurship, be it either an inclusive or exclusive definition, has formed.

Here we take a different approach. Instead of devising another theory of entrepreneurship, we maintain that the tenets of the Schumpeter’s and Kirzner’s classical economic theories are not
only still theoretically robust but also perfectly suited for all forms of “non-market” entrepreneurship including social entrepreneurship (Shockley, Frank, & Stough, 2008). Relying on previous research demonstrating the complementarity and compatibility of their theories of entrepreneurship (e.g., Boudreaux, 1994; Choi, 1995; Kirzner, 1999; Yu, 2001),¹ we translate and adapt the tenets of the Schumpeter’s and Kirzner’s classical economic theories to the social sector in order to critique available theories of social entrepreneurship and then derive a “classical” theory of classical (i.e., Schumpeterian/Kirznerian) theory of social entrepreneurship.

Ubiquity of entrepreneurship in all sectors

Our theory of social entrepreneurship first rests on the principle of the ubiquity of entrepreneurship in all sectors. In one sense, there is no social entrepreneurship per se, just entrepreneurship occurring in the social sector or with a social function. As Morris (1998) proclaims, “Entrepreneurship is a universal construct that is applicable to any person, organization (private or public, large or small), or nation” (p. 2; also see Morris & Jones, 1999). Remarkably, Schumpeter, Kirzner, and many well-known theorists of presumably private sector entrepreneurship astonishingly make little or no mention of the private sector in their theoretical work. For example, Schumpeter in his later work Capitalism, Socialism, and Democracy (1950) explicitly argues that “the entrepreneurial alertness takes place in the mind of the politician and the consequences can be compared with those of a technological innovation, namely to reform or revolutionize the pattern of production by exploiting an invention” (Albrecht, 2002, p. 651). Kirzner deliberately erects his theory of entrepreneurship on the work of Ludwig von Mises, particularly on Mises’ magnum opus Human Action (1949/1996). In Human Action, Mises insists that that entrepreneurship is universally present in human action: “This function [of entrepreneurship] is not the particular feature of a special group or class of men; it is inherent in every action and burdens every actor” (pp. 252-253).

¹ See (Shockley et al., 2006, pp. 212-214) for a review of the complementarity of Schumpeterian and Kirznerian entrepreneurship.
Further, two contemporary and foundational articles on presumably private sector entrepreneurship—Bull and Willard’s “Towards a Theory of Entrepreneurship” (1993) and Bygrave and Hofer’s “Theorizing about Entrepreneurship” (1991)—make no mention of the private sector at all. As Koppl (2006, pp. 1-2) reiterates, “…entrepreneurs are not a class of people distinct from other persons, and entrepreneurial behavior is not a class of actions distinct from other actions. Entrepreneurship is a human universal.” (See also Koppl & Minniti, 2008.)

The causal functionality of entrepreneurship

In the classical conception, entrepreneurship produces important effects in a market economy. In Kirznerian entrepreneurship, “the entrepreneurial role drives the ever-changing process of the market” (Kirzner, 1997, p. 70). The primary effect of entrepreneurship is thus equilibration, that is, the movement of a market toward an equilibrium state. “For me,” Kirzner (1973) writes, “the changes the entrepreneur initiates are always toward the hypothetical state of equilibrium…” (p. 73). Entrepreneurship and equilibration are central to the market process because they facilitate profit opportunities. According to Kirzner (1973), entrepreneurial opportunities for profit occur only in disequilibrium resulting from human error, usually taking the form of arbitrage opportunities arising from price discrepancies (p. 26). In economics terms, the market is in a state of disequilibrium because a given product or service can be purchased in one place cheaper than it can be sold in another. When the entrepreneur’s alertness identifies the potentially profitable arbitrage opportunity in disequilibrium and acts entrepreneurially by buying cheap and selling dear, the equilibration process is triggered (Kirzner, 1979, p. 116). Once the entrepreneurial transaction has been consummated, the entrepreneurial opportunity begins to deteriorate and the disequilibrium begins to lessen as the system moves toward equilibrium (Kirzner, 2006).

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2 We interpret “human error” to be synonymous with the suboptimal decisions and actions resulting from bounded rationality (see Simon, 1945/1976, 1982), imperfect information (e.g., Hayek, 1945), incomplete knowledge (e.g., Hayek, 1952), and other limitations from cognitive processing or the human condition.
“The dynamic competitive process of entrepreneurial discovery…,” Kirzner (1997) writes, “is one which is seen as tending systematically toward…the path to equilibrium” (p. 62, emphasis in the original). Thus, the major effect of Kirznerian entrepreneurship is to move the market toward equilibrium. “Scope for market entrepreneurship, in the context of the passage of time,” Kirzner (1982) concludes, “arises then from the need to coordinate markets also across time” (p. 154).

Like Kirznerian entrepreneurship, Schumpeterian entrepreneurship also produces important effects in a market economy. In fact, Schumpeter places the effects of entrepreneurship at the center of his theory of economic change and development. “Development,” Schumpeter argues in The Theory of Economic Development (1934/2002), “is spontaneous and discontinuous change in the channels of flow, disturbance of equilibrium, which forever alters and displaces the equilibrium state previously existing” (p. 64). In other words, entrepreneurship in the form of the carrying out of new combinations is the main cause of economic development (see Bull & Willard, 1993, p. 186). In Schumpeterian entrepreneurship, “introducing a new good or method of production, opening of a new market, identifying a new source of supply of raw materials or half-manufactured goods, or carrying out of the new organisation of any industry” (p. 66) all individually or in combination have the potential to cause “spontaneous and discontinuous change” in an economy and spur economic development. (Also see Schumpeter, [1926] 2003; Sweezy, 1943.) “By introducing innovations,” McKee (1991) observes, “the [Schumpeterian] entrepreneurs jump-start the system from the range of equilibrium…The overall impact regenerates the system, causing it to expand” (p. 8). Thus, as in Kirzner’s theory, Schumpeter’s theory of entrepreneurship is a functional one that emphasizes the effects of entrepreneurship, namely, to drive positive economic growth and development.

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3 Similarly, Schumpeter in Capitalism, Socialism, and Democracy (1950) contends that political entrepreneurs spark revolutionary change, much like technological innovation “reform[s] or revolutionize[s] the pattern of production by exploiting an invention” (Albrecht, 2002, p. 651).
The fourth requirement of the classical theory of social entrepreneurship is that it, like Schumpeterian and Kirznerian entrepreneurship, it features the larger, systemic effects directly and observably produced by entrepreneurship in the social sector.

In *The Search for Social Entrepreneurship*, Light (2008) insists that the “basic goal” of every prominent, contemporary theory of social entrepreneurship is causing social change (p. 5). Indeed, these ‘systemic effects’ are one area where almost all contemporary theories of social and nonprofit entrepreneurship seem to converge, wittingly or not. For example:

- Young (1983, p. 36) early on recognizes that entrepreneurship in the nonprofit sector, as elsewhere, represents the cutting edge of the sector’s activity, and, as such, its study helps to reveal the driving forces and underlying character of its member organizations” (36)
- Alvord, Brown, and Letts’ (2004, p. 279) theory of social entrepreneurship focuses on “sustainable transformation” in the social sector in the form of Capacity-building initiatives alter local norms, roles, and expectations to transform the cultural contexts in which marginalized groups live…”
- Waddock and Post’s (1991, p. 394) theory of social entrepreneurship is one of catalytic change.
- Light’s earlier inclusive conception (2006b, pp. 18-20) recognizes that social entrepreneurship can come in the form of both new solutions to large, intractable problems or smaller, more modest technical or administrative change.
- Dees’ earlier conception (2001, p. 4) features social entrepreneurs as change agents “by adopting a mission to create and sustain social value.” His later conception (Dees & Anderson, 2006, p. 44) expands that though in unmistakably Schumpeterian terms:
“Social entrepreneurs are individuals who reform or revolutionize the patterns of producing social value, shifting resources into areas of higher yield for society.”

- Bornstein’s (2007, pp. 1-2) more popularly oriented account views social entrepreneurs as “transformative forces”: “People with new ideas to address major problems who are relentless in the pursuit of their visions, people who simply will not take ‘no’ for an answer, who will not give up until they have spread their ideas as far as they possibly can”

- Martin and Osberg (2007, p. 34) underscore the effects of social entrepreneurship almost explicitly in Schumpeterian and Kirznerian terms as the social entrepreneur “creates a new equilibrium, one that provides a meaningfully higher level of satisfaction for the participants in the system.”

Light (2008) observes that “some definitions give entrepreneurs greater prominence than others” (p. 7). Kirzner and Schumpeter give it less prominence. Another essential component common to both Schumpeterian and Kirznerian entrepreneurship and the classical conception—and one that is a logical extension to the above discussion on the effects of entrepreneurship—is that the function of entrepreneurship takes priority over the description of entrepreneurs or mere identification of entrepreneurial activity. Both Kirzner’s and Schumpeter’s theories of entrepreneurship can be understood as causal, functional theories of how entrepreneurship produces equilibrative effects in the market (Kirzner) or economic growth and development (Schumpeter). In The Theory of Economic Development (1934/2002), Schumpeter clearly distinguishes between entrepreneurship and entrepreneurs when he defines enterprise, or entrepreneurial activity, as “the carrying out of new combinations” and entrepreneurs as “the individuals whose function it is to

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4 In a contemporary assessment, Bygrave and Hofer (1991) not only insist on separating the process of entrepreneurship from the entrepreneur but they also give priority of importance to the former.
carry them out’” (p. 74). “The ‘entrepreneur,’” Schumpeter writes, “is merely the bearer of the mechanism of change” (p. 61), thus leaving the more substantive role of causing the change to the process of entrepreneurship. It is thus entrepreneurship, and not the entrepreneur, that drives economic growth and development. In Schumpeter’s theory, entrepreneurs are subordinate to the function of entrepreneurship in the economy.

The priority of entrepreneurship over the entrepreneur is even more apparent in Kirznerian entrepreneurship. Kirzner is not concerned with the identification of individual entrepreneurs. Since, according to Kirzner, any individual has the potential to be an entrepreneur because uncertainty is an unavoidable element of all human action, whosoever turns out to be an entrepreneur is at most of secondary importance. Of primary importance, rather, are the effects of entrepreneurship. Similarly, Kirzner (1999) prioritizes the function of entrepreneurship over instrumentality of the entrepreneur:

While psychological and personal qualities of boldness and creativity, and self-confidence will doubtless be helpful or even necessary in order for a person to ‘see’ such price differentials in the open-ended, uncertain world in which we live (with ‘seeing’ defined as necessarily implying the grasping of the opportunity one has seen), the analytical essence of the pure entrepreneurial role is itself independent of these specific qualities (pp. 12, emphasis in the original).

Like Schumpeter, Kirzner places entrepreneurship and its effects as the cornerstones in explaining the market process. “The market process…,” Kirzner (1992) writes, “consists of those changes that express the sequence of discoveries that follow the initial ignorance that constituted the disequilibrium state” (p. 44). In other words, according to Kirzner, entrepreneurship—not the individual entrepreneur—plays the vital function in the market. As Vaughn (1994) puts it, “Kirzner is clear that he is describing a function rather than a kind of person, just as labor and capital are
themselves function in economic theory” (p. 142). Or, as Gloria Palermo (2002) puts it, “Kirzner’s theory of entrepreneurship focuses on the equilibrium function of the entrepreneur” (p. 36, emphasis added).

Therefore, it is entrepreneurial activity, not individual entrepreneurs, that is paramount in both Schumpeterian and Kirznerian entrepreneurship. The function of Schumpeterian and Kirznerian entrepreneurship takes precedence over its instruments, namely, mere entrepreneurs. There is considerable agreement among prior theories of social entrepreneurship on the priority of process over instrumentality. Light (2006a, p. 48), for example, disagrees on the penchant to focus on the individual entrepreneur because it “…strays from what the entrepreneur does to who the entrepreneur is and his or her ability to sell an idea.” Also, Frumkin (2002, p. 132) sees the entrepreneurial process overtaking the social entrepreneur: “As a behavioral phenomenon, entrepreneur can quickly become a highly creative and personal process.”

Social Entrepreneurship in the Government and Non-Market Sectors

Ultimately, the classical theory of social entrepreneurship rests on the two classical insights discussed above, the ubiquity of entrepreneurship in all human endeavors and the priority of the process of entrepreneurship (and its outcomes and effects) over the mere instrumentality of the social entrepreneur. Thus, examples abound of social entrepreneurship in both the government and non-market (nonprofit) sectors. Since social entrepreneurship is about creating social value regardless of who creates it; NGOs, nonprofits, governments, and public agencies all “[recognize] the significance of strategic social entrepreneurship towards the development of world-class competitive services” (Christie & Honig, 2006). It is this commitment to creating social value that differentiates social entrepreneurship from other forms of entrepreneurial behavior (Peredo & McLean, 2006).
Since all entrepreneurship is opportunity recognition, once the institutions exist that support such recognition, social entrepreneurship originates in multiple contexts. “As well as business entrepreneurs, people who realize where there is an opportunity to satisfy some unmet need that the state welfare system will not or cannot meet, and who gather together the necessary resources (generally people, often volunteers, money and premises) and use these to ‘make a difference’” (Christie & Honig, 2006, p. 338). Additionally, Austin Stevenson, & Wei-Skillern (2006) note that social entrepreneurship is the “innovative, social value creating activity that can occur within or across the nonprofit, business, or government sectors” (p. 6).

As Weisbrod (1977; 1988) elucidated in his groundbreaking work on the nonprofit sector, nonprofit organizations formed due to excess demand for services that were undersupplied by either the market or the government. Thus, social entrepreneurs recognized this excess demand and formed organizations in education or other “quasi-public goods” in the face of limited government supply (James, 1987). A recent example of this in the USA is the Charter School movement, in which public monies are used to establish K-12 schools but most governmental regulations and constrictions on public schools are avoided (Flanigan, 2006). The first charter school was started in California in 1997; today more than 3,000 charter schools exist nationwide. In addition, social entrepreneurs focused on improving education are using venture funds trying to provide incentives to public teachers in poor areas, and the New Schools Venture Fund is investing its first $80 million in organizations like Inner City Education Foundation to start 20 new elementary schools in a poor south Los Angeles area (Flanigan, 2006). Hence, both the nonprofit and public sectors are utilized by social entrepreneurs to meet the growing demand of education in areas of under ‘production.’

In addition, government aid agencies have long been directly involved in social ventures. Early charities (proto-nonprofits) were premised on the idea that, since poverty and other social ills were socially caused, then they “had to be socially ameliorated, an enterprise in which government
would have to play a crucial and leading role” (Stivers, 2000, p. 60). Similarly, Alvord et al. (2004) attest that “for years” government has supported and implemented programs for the disadvantaged and marginalized members of a society. These solutions are often developed and catalyzed by entrepreneurs across sectors who “[f]aced with whole problems,…readily cross disciplinary boundaries, pulling together people from different spheres with different kinds of experience and expertise, who can, together, build workable solutions that are qualitatively new” (Bornstein, 2007, p. 242). The strength of these entrepreneurs in all sectors is their ability to mobilize diverse people, groups, and institutions all culminating in the talents and resources need to initiate development and change.

Social Entrepreneurship, Institutions and Development

As indicated above, social entrepreneurship spans all three economic sectors and occurs in myriad contexts as a process of initiating social change. Change is initiated through a process of bottom-up searching from those entrepreneurs who, in most cases, are ‘on the ground’ in areas with marginalized people with unmet needs. Easterly (2006) explains the distinction between “planners” and “searchers” in the quest for economic development in the third world, and social entrepreneurs are the epitome of searchers in the context Easterly outlines. Searchers “adapt to local conditions” while engaging in local dialogue to better understand the needs and the context in which they live (p. 6). In this way, the local knowledge that is unknown to those ‘on the outside’ is attained by social entrepreneurs ‘working’ or ‘searching’ via grass roots interaction thus gaining the knowledge necessary to meet the needs and desires of those within areas of underdevelopment. As exemplified in the next section, social entrepreneurs seek out and initiate solutions to development problems and government often acts to help enable this process.
The role of institutions in this process is crucial and it comprises a twofold understanding of their importance. As North explains, “Institutions, together with the standard constraints of economic theory, determine the opportunities in society.” The institutional environment thus structures opportunities, including social-entrepreneurship ones. Then entrepreneurial initiatives arise to seize those opportunities and; as North puts it, “Organizations are created to take advantage of those opportunities, and, as organizations evolve, they alter the institutions” (1990, p. 7). Thus, institutions help to create the opportunities for development by catalyzing entrepreneurial ventures, and they also shape, and are subsequently strengthened by, these institutions.

One example of evolving institutions is land rights and titling in Africa. Forcing individual property rights in by a top-down approach to titling has often hurt the cause of establishing what we in the West understand as an essential part of economic development. Customary laws and other rights to land have been a less formal means of securing property than titling, yet titling based on traditional customs might be a more desirable means. Thus, an “evolutionary path” to securing property (Boudreaux and Alicia, 2007) through local entrepreneurial solutions has proven to its effectiveness in facilitating both economic development and institutional change. What follows are cases where large-scale development and change was caused by local social entrepreneurship empowered and amplified by government institutions.

Social Entrepreneurship and Large-Scale Change

Bornstein’s (2007) recent book How to Change the World: Social Entrepreneurs and the Power of New Ideas analyzes this role of social entrepreneurship leading to large-scale social change. In this book, he examines the role of these social entrepreneurs establishing organizations who then utilize government institutions to generate change on a greater scale. The Grameen Bank, for example, is a paradigmatic social entrepreneurial venture, as we have conceptualized above. Founded by
Muhammad Yunus, Grameen Bank is credited for spurring massive economic development throughout Bangladesh. His organization has created banking and lending programs to poor regions throughout the country. Yunus began developing the institutional structure to ensure micro-lending in a poor region of Bangladesh near Chittagong University in 1976. Today the “Grameen Family” represents eight social ventures including a nonprofit information-technology company, a nonprofit power company, a telecommunications company, and an internet-service provider, among other initiatives. These social-entrepreneurial ventures have made a significant impact on the economic development of Bangladeshi regions, and they all have been catalyzed by a visionary entrepreneur attempting to meet needs recognized by gaps in the market and public sectors.

The specific economic development spawned by the Grameen Bank can be seen in its unique micro-credit lending process. To be sure, part of the success of the Grameen Bank is measured in increased household income and a concomitant decrease in poverty. Yet, the key to its success has been the robust institutional reform the bank generated. As stated by the lending criteria:

The Grameen Bank is based on the voluntary formation of small groups of five people to provide mutual, morally binding group guarantees in lieu of the collateral required by conventional banks. At first only two members of a group are allowed to apply for a loan. Depending on their performance in repayment the next two borrowers can then apply and, subsequently, the fifth member as well.  

Thus, the Grameen Bank has become a model of economic development through social entrepreneurship in the developing world.

As Bornstein aptly emphasizes, “No government could have built or legislated…the Grameen Bank; on the other hand,…the Grameen Bank could not have achieved national and

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5 [www.grameen-info.org/bank/bcycle](http://www.grameen-info.org/bank/bcycle)
global impact without the financing and the legitimacy they received from governments” (p. 276). Yunus (2003) himself recognizes the role of the Bangladeshi government in drafting the legal framework of the Grameen Bank and in supporting its establishment. Thus, Grameen operated as a “full-fledged” independent bank but was able to become large-scale via the support of institutions sponsored by government.

Another crucial player in helping to generate global economic development is Ashoka. Foreign aid provided by the World Bank, IMF, or the United Nations is a $60 billion dollar a year industry and one of the well-documented problems with this means of development is the ineffectiveness of top-down solutions by government agencies (Easterly, 2006). One of the primary problems with aid is the distribution channels of these resources through government bureaucracies, yet Ashoka has successfully argued for and implemented a system of empowering local social entrepreneurs who can use these resources to craft bottom-up solutions to local problems. Ashoka is one example of how an organization has mobilized social entrepreneurs to transform society as they utilize government in a more efficient manner than government alone.

**Local cases of social entrepreneurship achieving large-scale change**

Gloria de Souza, an Indian elementary school teacher in a Bombay Jesuit school and Ashoka’s first fellow, sought to introduce experiential education into India elementary education. As much as this innovative teacher tried to get her colleagues to adopt her pedagogy, the typical response was that it would not work in India. After pursuing experiential education at her private Jesuit school, de Souza realized that her success would never reach a large audience unless she elicited the help of government and, in particular, the Bombay public school system. Thus, she successfully persuaded the Bombay municipal school board to adopt these experiential methods and then the Indian government incorporated them into their national curriculum (Bornstein, 2007, p. 6).

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6 [www.ashoka.org](http://www.ashoka.org)
This Indian school teacher realized that, by developing a partnership with the rigid government-run public education system, she could reach far more children and thus change the faltering system that was held-over from colonial rule. It is hard to understate the importance of an effective educational system for a nation attempting to achieve widespread economic development. Increased human capital has long been recognized as an essential component of the production function. It is clear in this case, that Indian children are better educated due to innovative method of education that begin by a social entrepreneur noticing a gap in the system and then enlisting the government school system to engender large-scale change.

Another Indian social entrepreneur, Jeroo Bilimoria, created a child protection system in the form a hotline for children to call. Childline, first operational in 1996 in Bombay, is “a twenty-four hour helpline and emergency response system for children in distress” (Bornstein, 2007, Chapter 7). Bilimoria wanted to create a means for the millions of street children in India to reach help when needed, yet in order to expand his venture country-wide he would need the help of the public communications infrastructure. Thus, by 2002 Childline had expanded to forty-two cities, and the mature franchises were training the start-ups. The Indian Ministry of Telecommunications gave Childline exclusive use of the number 1098 to expand into these cities, and based on Childline’s success, the government “incorporated several Childline recommendations in revisions of India’s Juvenile Justice Act and mandated Childline as a lead child protection agency” (Bornstein, 2007, p. 90). This example demonstrates the change that occurs through social entrepreneurs realized a large-scale social impact while both benefitting from governmental institutions and also catalyzing institutional change.

In Hungary, Erzsébet Szerkes saw a need and had a vision for how to provide it (Bornstein, 2007, Chapter 9). Szerkes had a son in 1976, who after years of doctor’s visits and sleepless nights, was diagnosed with severe mental retardation. She realized that dealing with her son was going to
require outside help, but the state-run social home was part of an entire system of the malevolent neglect and willful ignorance of disabilities. She decided a change was necessary to give people with disabilities a place with dignity to live. With some seed money from a couple of outside organizations, Szerkes established an assisted living center that after three years and layers of applications was legitimized through the totalitarian government by its Ministry of Welfare. She still operated “discreetly” until in 1994 the Hungarian government passed a law that allowed private foundations to operate residential care facilities. Szerkes started a foundation and secured government funds to build apartments and group homes, some 20 plus facilities exist today. Again, a bottom up approach to social innovation was conceived by an entrepreneur that was then brought to large-scale effectiveness via governmental institutions.

Finally, in South Africa Veronica Khosa a nurse working at Pretoria an AIDS testing center began to see what might hold for this country in future. After years of working at Pretoria and caring for AIDS patients that, Khosa got the idea that she needed to train others to take care of this growing population of AIDS sufferers. She took early retirement and set aside half of her own funds, and later all her savings, to set up Tateni Home Care Services. Khosa’s goal was to “complement the formal healthcare system, seek partnerships with all organizations in the community, enhance home care skills of family members and neighbors, including school children, [and] involve the community in all major decisions concerning Tateni’s activities” (Bornstein, 2007, p. 198). As Khosa trained others how to care for family members and loved ones with chronic diseases, she caught the attention of the World Health Organization (WHO) and health officials from her local province Gauteng. Soon this attention led to her first outside funding, and the Gauteng Department of Health realized that by using Tateni’s model they could reach many others that needed care. Large-scale change in caring for those with terminal diseases started with one
woman in South Africa who utilized her entrepreneurial vision and caught the attention of both local and global governmental organizations.

The cases above are just a few of the myriad examples of bottom-up entrepreneurial decision-making that began with people entrenched in local communities and then grow to large-scale social change with the help of the enabling institutions of government. The role of institutions that provide structure for entrepreneurs to discover opportunities is paramount to the process of economic development. Additional, these entrepreneurial ventures help to evolve the institutional framework within country or region where they operate. It is clear from the cases review above that this dual institutional role has been realized throughout the developing world.

Conclusion

A problem with researching the role of social entrepreneurship as a vehicle for social change and economic development is the paucity of theory applying entrepreneurial behavior to the non-market sectors. We believe that by understanding the process over the instrumentality of entrepreneurship researchers can extend the classical theories of entrepreneurship to include entrepreneurship in various non-market contexts. We argue that this theoretical extension is perfectly consistent with the classical Kirznerian and Schumpeterian theories and thus provides a robust foundation for understanding this widely growing phenomenon.

Social entrepreneurs provide innovative solutions that lead to social change and subsequently economic development in low-growth countries. These entrepreneurs seek out answers to the problem of under provision, notice gaps, and generate new organizations to meet these needs. It takes entrepreneurs who are ‘on the ground’ searching for ways to promote change, and these opportunities arise due to the institutional environment in which they occur. Once social entrepreneurs fulfill the functional role of catalyzing even small social change, they very often rely
on government and the institutional framework therein, to amplify their innovation leading to large-scale change. Large-scale social change is needed to spur entrepreneurial ventures in all sectors, which is a primary cause of economic development throughout the world.

References


