MANHATTAN INSTITUTE FOR POLICY RESEARCH

William E. Simon Lecture

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The *Real* Social Entrepreneurs

William A. Schambra

William E. Simon Lecture

Annually, since 2007, the Manhattan Institute has sponsored the William E. Simon lecture on philanthropy and social entrepreneurship. This lecture series seeks to provide a framework—historical and current, scholarly and personal—for understanding the traditions and trends in American charity and charitable enterprises. Our first three lectures have ranged widely across these fields, including the 2007 talk by a distinguished historian, the 2008 talk by a renowned public policy essayist, and the 2009 lecture by the founder of the nation's most prominent management consulting firm for nonprofits.

William A. Schambra is the director of the Hudson Institute's Bradley Center for Philanthropy and Civic Renewal. Prior to joining the Hudson Institute in January of 2003, Schambra was director of programs at the Bradley Foundation in Milwaukee. Before joining Bradley in 1992, Schambra served as a senior adviser and chief speechwriter for Attorney General Edwin Meese III, Director of the Office of Personnel Management Constance Horner, and Secretary of Health and Human Services Louis Sullivan. He was also director of Social Policy Programs for the American Enterprise Institute, and co-director of AEI's "A Decade of Study of the Constitution."

From 1984 to 1990 Schambra served as a member of the National Historical Publications and Records Commission, to which he was appointed by President Reagan. From 2003 to 2006 he served on the board of directors of the Corporation for National and Community Service.

Schambra has written extensively about the U.S. Constitution, the theory and practice of civic revitalization, and civil society in publications such as *The Wall Street Journa*l, *The Washington Times*, *Policy Review*, *Christian Science Monitor*, *Nonprofit Quarterly*, *Philanthropy*, *The Chronicle of Philanthropy*, and *Crisis*. He is the editor of several volumes, including *As Far as Republican Principles Will Admit: Collected Essays of Martin Diamond*.

Howard Husock is vice president for policy research at the Manhattan Institute, where he is also director of its social entrepreneurship initiative. He is a *City Journal* contributing editor. From 1987 through 2006, Husock served as director of case studies in public policy and management at Harvard University's Kennedy School of Government, where he was also a fellow at the Hauser Center on Nonprofit Organizations. His publications on the nonprofit sector have appeared in *The Wall Street Journal*, *National Affairs*, *Society Magazine*, *The Chronicle of Philanthropy*, *The Public Interest*, and Townhall.com. In addition, Mr. Husock has written widely on housing and urban policy, including in his book *The Trillion-Dollar Housing Mistake: The Failure of American*

Housing Policy (Ivan R. Dee, 2003) and his monograph *Repairing the Ladder: Toward a New Housing Policy Paradigm* (Reason Foundation, 1996). His work has also appeared in the *Journal of Policy Analysis and Management*, *Philanthropy*, and *The Wilson Quarterly*. Husock is a former broadcast journalist and documentary filmmaker whose work at WGBH-TV in Boston won three Emmy awards. He is a graduate of the Boston University School of Public Communication and was a 1981–82 mid-career fellow at Princeton University's Woodrow Wilson School of Public and International Affairs.

The Manhattan Institute gratefully acknowledges the William E. Simon Foundation for its generous support of this lecture series.

The *Real* Social Entrepreneurs

Howard Husock: Good evening and welcome to the Manhattan Institute's annual William E. Simon Lecture on Philanthropy and Social Entrepreneurship. I'm Howard Husock, vice president for policy research at the Manhattan Institute and director of our social entrepreneurship initiative. It's a program that's part of our Center for State and Local Leadership—a center which, although it generally focuses on public policy, always remains aware that there are some things, make that many things, which are better done outside of government, through the work of social entrepreneurs and with the support of philanthropists.

It's a great pleasure for me to introduce William Schambra, this year's Simon lecturer and the fourth in a distinguished series which has included City University of New York historian David Nasaw, biographer of Andrew Carnegie, Thomas Tierney, founder of Bridgespan, the nation's leading consulting firm to nonprofits and social entrepreneurs, and the Institute's own Heather Mac Donald. I'd like to extend our thanks to the William E. Simon Foundation, represented here tonight by co-chair Peter Simon and president James

Piereson, for its support for both this series and our annual social entrepreneurship award program, a number of past winners of which are with us this evening. They include Adam Greene of the South Bronx youth program Rocking the Boat, David Umansky of the charter school construction program Civic Builders, and two winners of the William E. Simon Prize for Lifetime Achievement in Social Entrepreneurship, Dan Biederman of the Bryant Park Restoration Corporation and George MacDonald of the Doe Fund's Ready, Willing, and Able homelessness prevention program. In this season of giving, they all richly deserve your support.

Bill Schambra has served for many years as part of the Manhattan Institute's selection committee for our annual social entrepreneurship awards—where I've come to know him as a thoughtful and principled colleague, deeply-versed in the history of American philanthropy and charitable enterprise.

Bill's own work is done at the Hudson Institute in Washington, where he heads the Bradley Center for Philanthropy and Civic Renewal. I doubt I'd inspire much disagreement in this room by saying that there is not much about the cultural life of Washington that should inspire envy on the part of New Yorkers: not the theater, not the restaurants, not the architecture. But there's at least one exception, and that's the series of forum events which Bill runs at the Bradley Center, a speaker and debate series which explores the most subtle issues of philanthropy, public policy, and civil society better than any other program I'm aware of. Consider some of the Center's recent events: *Is Philanthropy a Profession? Should it Be?; To the Rescue? Foundations' Grantmaking Response to the Finance Crisis; Too Close for Comfort? Obama and the Foundations;* and *Creative Capitalism: Can it Meet the Needs of the World's Poor?* Through the combination of his own writing, such as his regular columns in *The Chronicle of Philanthropy*, and this outstanding series, Bill is framing the central issues for philanthropists, nonprofit organizations, and their government regulators. Tonight, he will focus his analysis, informed by history, on the contemporary social entrepreneurship movement, and particularly on those who see the new generation of nonprofit leaders as representing a sharp and justifiable break from America's Tocquevillian tradition of effective—but mainly small and local— charitable enterprise.

Please join me in welcoming Bill Schambra.

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William A. Schambra: I'm deeply honored and grateful to the Manhattan Institute for the opportunity to deliver a lecture named for William E. Simon. I never met him personally, but I had the privilege of working with two of his students and good friends, Jim Piereson and the late Michael Joyce, and I've tried to master the philosophy of giving that they passed on from Bill Simon.

This is a particularly propitious moment to reflect on the future of social entrepreneurship. That is because over the past several months, one of its proudest achievements—the microfinance industry—has sailed into some very rough waters. Ever since microfinance's founder, Muhammad Yunus, received the Nobel Peace Prize in 2006 for his work with the Grameen Bank in Bangladesh, he has been the exemplar of the social entrepreneur in the world's imagination. His is indeed an inspiring story: a charismatic figure works tirelessly to transform the world with his visionary idea—in this case, the conviction that the poor can work their way out of poverty through small loans to support their own village microenterprises.

Since 2006, a veritable *macro*-enterprise has sprung up to locate, study, nurture, and replicate similarly inspiring figures. It has spawned countless university programs, books, journal articles, and consultants aimed at refining the theory and practice of social entrepreneurialism. Over the past two years, though, further analysis has taken some of the bloom off the microenterprise rose. Researchers have found that many of the microloans don't fuel enterprise but rather are used by the poor to address immediate food, health, or education needs. No wonder, then, that the aggregate impact on poverty in places like Bangladesh seems to be negligible.

Two months ago, a grave challenge to the vast microfinance industry arose in the Indian state of Andhra Pradesh, where authorities sought to end what they considered harsh practices. Interest rates were too high; loan officers from multiple lenders pressured villagers to take out multiple loans and then bullied them when payments were late. The resulting downward spiral of indebtedness ended in suicide for many.

There is another side to this story, however, and it is every bit as inspiring as the legend of Muhammad Yunus. Vikram Akula, a native son of Andhra Pradesh who grew up in the United States, has devoted his life to extending microcredit far beyond the limited amounts that could be funded by miserly international donors. He insists that "the only place you can get the amount of money that is needed to help the poor is in the capital market." When his organization, SKS Microfinance, went public in August, it raised some $358 million from wealthy investors, including George Soros. But critics, including Yunus himself, denounced

the profit-making approach as exploitation of, rather than relief for, the poor—an argument that fueled the hostility of Andhra Pradesh authorities.

This complicated story, though still unfolding, enables us to understand a central point: for all its popularity, microlending is built over a deep and treacherous fault line between the demands of compassion and capitalism. This does not daunt the social entrepreneur, though, for his champions assure us that he is a veritable colossus bestriding the narrow world—or, at least, bestriding the boundaries separating compassion, capitalism, and politics, on the way to revolutionizing entire social systems to get to the root causes of our problems.

If this sounds utopian, it is. And in that utopianism lies the central problem of social entrepreneurialism. Consider the inflated expectations for it that are raised by its leading promoters. David Bornstein maintains—in a book tellingly titled *How to Change the World*—that social entrepreneurs possess "powerful ideas for attacking social problems" and are "unwilling or unable to rest until they have spread their ideas society-wide." Bill Drayton, founder of the Ashoka fellows program, notes that the social entrepreneur "in the core of his or her personality, absolutely must change an important pattern across her or his whole society" and, indeed, "cannot stop until he or she has changed the whole society."

J. Gregory Dees adds that social entrepreneurs are "reformers and revolutionaries" with a social mission. "They make fundamental changes in the way things are done in the social sector. Their visions are bold. They attack the underlying causes of problems, rather than simply treating symptoms." In Paul Light's words: "[S]ocial entrepreneurship focuses on changing the underlying dynamics that create the demand for services in the first place. Instead of treating society's distress, social entrepreneurship holds hope for eliminating the distress altogether."

Attacking the root causes of social problems, particularly poverty, means to many observers that social entrepreneurs must become masters of the marketplace as well as the nonprofit sector. Dees and Beth Anderson argue that "we should focus on social entrepreneurs who carry out innovations that blend methods from the worlds of business and philanthropy to create social value." The Schwab Foundation suggests that social entrepreneurship "captures a unique approach to economic and social problems, an approach that cuts across sectors and disciplines."

How have efforts to blend business and philanthropy worked out? Not so well, according to Stephanie Strom of the *New York Times*, who likens the hybrid to Dr. Dolittle's fabulous pushmi-pullyu. Sooner or later, it seems, the uneasily

conjoined profit motive and social motive come to blows, and one or the other is driven from the partnership.

Social entrepreneurs typically tackle this utopian admixture with very little sense of just how rigorous and demanding the marketplace can be. In 2005, William Foster and Jeffrey Bradach surveyed nonprofits that had undertaken “social enterprises” and found that 71 percent reported being unprofitable. (Of the 24 percent claiming profitability, half were not fully accounting for indirect costs.) The authors concluded that the “lion’s share of earned-income ventures do not succeed at generating revenues beyond their costs.”

Two fairly recent institutional failures illustrate the difficulty of reconciling social and marketplace principles. In the late 1990s, and with the applause of the social entrepreneur community ringing in it ears, the Nature Conservancy decided to put its considerable nonprofit resources behind an environmentally conscious commercial venture on Virginia’s Eastern Shore—a classic “triple-bottom-line venture” meeting economic, social, and environmental ends all at once. It included dozens of business start-ups, an “eco-friendly” waterfront development of homes and farms, and a twelve-room inn built around a historic lighthouse specially barged in at the cost of $3 million. Despite massive spending and even more massive hype, the project went belly-up in 1999. An analysis by the Ford Foundation—one of the disappointed investors—concluded: “[T]he fact is that very little is known about how to create enterprises that meet a triple bottom line.”

More recently, one of social entrepreneurialism’s favorite projects, Chicago’s famous ShoreBank, failed as well. (Its motto was “Let’s Change the World.”) As an article in *Fast Company* noted, the news was “quite depressing to many people across the globe,” for ShoreBank had “come to represent the enduring success of capitalism serving the needy” through commercially viable lending in low-income neighborhoods. That is, it captured perfectly the combination of compassion and profit that social entrepreneurship values. But after the collapse of the housing market, ShoreBank could not bring itself to foreclose on its many troubled loans, as the marketplace—but not social purpose—would have demanded. One bank analyst posed this query: “Was this bank managed as well as it could have been? Or were they too much into the social-welfare thing?” A former board advisor suggested that ShoreBank “suffered from an overly zealous commitment to its original mission.”

Again, it seems that reconciling banking and the “social-welfare thing,” or market and charitable principles, is not as easy as social entrepreneurialism’s definition suggests. It is also possible, of course, that market principles might come to

displace the charitable impulse. This is precisely the charge leveled by Muhammad Yunus against Vikram Akula, when he condemns SKS Microfinance for reversing Grameen Bank's original subordination of profit-making to poverty fighting. Another much-admired social entrepreneur, Martin Eakes, similarly condemns commercial lenders for swooping into the subprime mortgage market with toxic products, after his North Carolina nonprofit had helped create a national market for nonconforming loans. In both cases, social entrepreneurs claim that they created markets for social purposes, only to find the market principle morphing into a monster and swallowing the initial charitable impulse.

It seems that social entrepreneurs may indeed stride boldly across sectors but only to trigger powerful market forces over which they then have no control. We see once again that markets and social purpose make for an unstable compound, which even the most skilled entrepreneur finds difficult to maintain.

Social entrepreneurialism's sector-bending is not confined to its relationship with the marketplace. It also has its eye on the realm of public policy, knowing that government is typically the most dominant and wealthy player in its areas of interest. In former presidential advisor David Gergen's words: "If you could unite the energy, ideals, and innovativeness of social entrepreneurs with the resources of government, you would have a powerhouse." So over the past two years, many of America's leading social entrepreneurs—including City Year, America's Promise, Teach for America, and Youth Villages—have come together in an effort called America Forward, in order to attract government support for their efforts.

America Forward, too, is a sector-bender, arguing that "by connecting all sectors—government, business, nonprofit, academia, and philanthropy—we can garner the human and capital resources to solve some of our country's most pressing social problems." Arguing that government should be "organized effectively to identify innovation, invest wisely, and release civic energy," America Forward's efforts culminated in the establishment of the Obama administration's Social Innovation Fund.

But this effort to marshal government resources behind entrepreneurial initiatives has yet to answer a question posed recently by the Manhattan Institute's own Howard Husock. Why is it likely to end any differently from the countless other joint ventures between nonprofits and government undertaken over the past half-century? We know that in the past, government has frequently reached out with its money to capture the flexibility and innovativeness of social entrepreneurs. But as Steven Rathgeb Smith and Michael Lipsky point out in *Nonprofits for Hire*,

along with the funding came reams of regulations that effectively strangled the very entrepreneurial qualities it sought.

As happened when social entrepreneurialism flirted with markets, its foray into politics is likely to quickly involve it in entanglements for which it is ill prepared. Social entrepreneurialism's cross-sector ventures at first sound so appealing, so sensible: Let's combine the efficiency of the marketplace and the resources of government with the compassion of the nonprofit sector, keeping only the good qualities of each while leaving behind all the bad qualities! Whenever we see that glib formulation, we should suspect that it is born of utopian wish rather than realistic expectation. In the real world, such blends seldom preserve only the virtues while avoiding the vices, even if they are engineered by world-beating social entrepreneurs. We are just as likely to end up with the resources of charity, the efficiency of government, and the compassion of the marketplace.

Social entrepreneurialism believes that its utopian aspirations are radically new. But, in fact, they are mere echoes of the enthusiasms of the first modern American philanthropists. John D. Rockefeller claimed early in the last century that "the best philanthropy is constantly in search for finalities—a search for cause, an attempt to cure the evils at their source." Charity could only put Band-Aids on problems, while philanthropy would solve them once and for all by getting at their root causes through the new sciences of society that it generously supported.

Like today's social entrepreneurs, the early foundations did not hesitate to stride boldly across sectoral boundaries in their determination to transform entire social and economic systems. The Russell Sage Foundation, for instance, experimented with social enterprise when it tackled a substantial market-oriented housing project at Forest Hills Gardens. And the Rockefeller Foundation partnered very closely with government when it funded the salaries of federal officials to promote scientific agriculture as well as those of Southern state officials to promote the development of high schools.

Yet after a full century of aspirations to solve social problems in grand, trans-sector fashion, today's social entrepreneurs can arrive on the scene, look about them at the evident lack of progress, and conclude that surely, such aspirations must be altogether new and peculiar to themselves. One hundred years after John D. Rockefeller declared the need to transcend charity's Band-Aids in order to "cure the evils at their source," Paul Light can proclaim with all the enthusiasm of discovery that "[i]nstead of treating society's distress, social entrepreneurship holds hope for eliminating the distress altogether."

Today's social entrepreneurs follow modern philanthropy's unfortunate path in yet another respect. The progressives who staffed the first foundations believed that social affairs could be handled efficiently and objectively only if taken away from everyday citizens and put into the hands of professional experts trained in new scientific techniques. Today as well, we are asked to place an inordinate amount of trust in a handful of charismatic, sector-bestriding colossi to solve our social problems. In Light's words, we should try to "identify potential social entrepreneurs, give them the training and support they need, and increase the odds that their work will succeed."

Scholars of social entrepreneurialism are even confident that it can be distilled into a set of professional principles and practices. Indeed, in Bill Drayton's view, "social entrepreneurship needs to be the first worldwide operationally integrated profession," presumably like all professions open only to the chosen few.

The determination to professionalize and elevate the role of social entrepreneurialism bespeaks the same elitism that we found in the progressive philanthropists—a quiet contempt for lesser beings who address the immediate human problems of those directly in front of them through mere charity. To establish rigorous standards for social entrepreneurs, Roger Martin and Sally Osberg want to distinguished their efforts from those that "never break out of their limited frame" and whose impact "remains constrained, their service area stays confined to a local population, and their scope is determined by whatever resources they are able to attract." Millions of such efforts exist around the world, and the authors concede that they are "well intended, noble in purpose, and frequently exemplary in execution—but they should not be confused with social entrepreneurship."

I would argue, to the contrary, that such efforts represent the *real* social entrepreneurs. As much as we can and should admire grand figures like Muhammad Yunus, it's a mistake to put our welfare into their hands. The glory of American civil society is precisely that it permits and encourages everyday citizens to build countless smaller, limited, local projects to address the problems immediately before them. This kind of social entrepreneurship—let's call it *citizen* entrepreneurship—is not a rare, exclusive form of social practice that seeks to revolutionize entire systems at once or to stride boldly back and forth across the boundaries of philanthropy, the marketplace, and politics. But as Alexis de Tocqueville pointed out, the sum of countless such efforts spread across the face of society generates an astonishing level of social energy, cultivating the values essential for democratic freedom along the way.

Let me frame some concluding thoughts around one citizen entrepreneur, Bob Coté, whom I met through Bob Woodson of the Center for Neighborhood Enterprise. Bob Coté, whom I've come to know and admire over the years, is the founder and director of Step 13, an addiction program located on Larimer Street in downtown Denver. He had no grand, society-transforming vision for Step 13. It was, rather, a classic manifestation of Tocqueville's "self-interest properly understood." One day, he simply found himself—a bankrupt businessman—leaning against a building on Larimer with a few drops of vodka left in his bottle, staring at his two drinking buddies passed out on the street, realizing that this would soon be his fate as well. He started his recovery program in a building nearby.

Over the years, he has come to employ the principle of "constructive envy" to draw addicts off the streets and back into society. They begin their time at Step 13 with nothing more than a dormitory bed; with progress in recovery, they work their way up to having their own cubicle, ending upstairs in their own private room. Unlike thirty-day "spin-dry" rehab programs, this program allows residents to stay as long as is necessary to ensure lasting sobriety.

To be sure, Bob is determined to earn enough income someday through his T-shirt screening and auto-detailing businesses to be self-supporting. But that's not because he has some grandiose vision of combining compassion and capitalism. It's just because he hates to go hat-in-hand to potential donors. As for political engagement, the last thing Bob wants is government funding. At any rate, Denver's larger, professional recovery programs would never permit it; he has a stringent zero-tolerance policy, while the latest fad calls for providing addicts with all the comforts of home, hoping that they will realize over time that drinking and drugging may be counterproductive activities. "Bunks for drunks," Bob calls those programs.

Bob Coté's story can be replicated hundreds of times in Denver alone and thousands of times across America. His story does not rely on the rare qualities of a global professional elite but rather on the common qualities of everyday citizens who are drawn into community activity by the modest virtue of self-interest properly understood. This is precisely the sort of effort that Martin and Osberg would wish to exclude from their definition of social entrepreneur. But that kind of exclusiveness is not only patronizing and arrogant; it's also profoundly ill-advised in a democratic political system. Democracy persists only so long as most of its citizens have a deep sense of civic agency and are convinced that they truly govern themselves.

A civil society that welcomes the commitment of civic energies to projects such as Bob Coté's contributes to the flourishing of democracy. A social entrepreneurialism based on the cultivation only of the noble, select few as agents of utopian systemic revolution necessarily undermines the spirit of American democracy. As Irving Kristol pointed out thirty years ago in a memorable speech to the Council on Foundations, we really have no idea how to produce social good on the scale called for by the promoters of social entrepreneurialism. Our brief look at such attempts to mash sectors together to get at the root causes of problems only confirms his wisdom.

But we do know how to do good on a small scale, through much-maligned charities like those established by Bob Coté and the other citizens celebrated each year by the Manhattan Institute's Social Entrepreneurship Award. We should pursue that small, doable good through our support for the real social entrepreneurs—the citizen entrepreneurs—rather than hope for grand, systemic revolutions by rarefied elites that get us nowhere.

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2009 **How Philanthropy's Bad Habits Shortchange America**
Thomas J. Tierney
Chairman and cofounder of the Bridgespan Group

2008 **In Defense of Philanthropy As We Know It**
Heather Mac Donald
John M. Olin fellow at the Manhattan Institute and a contributing editor to City Journal

2007 **Philanthropy and Social Entrepreneurship**
David Nasaw
Arthur M. Schlesinger, Jr. professor of history at the Graduate Center of the City University of New York

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52 Vanderbilt Avenue • New York • NY 10017
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