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Models of Social Entrepreneurship Profit Maximization and Social Value
Creation

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Abstract:

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How do you save the world? “Treat It Like a Business,” writes NY Times columnist Emily Eakin. Although entities called social entrepreneurs may do just that, understanding how these entities can combine profit maximization and social value maximization goals to generate profit and create social change is what this paper will investigate. Although some literature may disagree, a social entrepreneurship is a profit maximizing entity that simultaneously aims to create social value, generally through innovative methods that rely on the primary good or service that produces a profit. My research is focused on uncovering the fundamental principles that lead to the success of social entrepreneurs in the market (Austin, 2000). The Community Wealth Ventures found that there has been a steady growth in the number of social entrepreneurs in the past four decades, going from around 10,000 to over 70,000 internationally (Common Wealth Ventures, 2008). My research concentrates on the social entrepreneurship phenomenon with the aim of understanding the core economics that enable them to compete and create increased profit and social value. Therefore, the question that my research is trying to answer is what has led to the emergence of social entrepreneurs and how do they continue to compete and thrive in the market (Dave and Woods, 2005).

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1. Introduction:

How do you save the world? “Treat It Like a Business,” writes NY Times columnist Emily Eakin. Although entities called social entrepreneurs may do just that, understanding how these entities can combine profit maximization and social value maximization goals to generate profit and create social change is what this paper will investigate. Although some literature may disagree, a social entrepreneurship is a profit maximizing entity that simultaneously aims to create social value, generally through innovative methods that rely on the primary good or service that produces a profit. My research is focused on uncovering the fundamental principles that lead to the success of social entrepreneurs in the market (Austin, 2000). The Community Wealth Ventures found that there has been a steady growth in the number of social entrepreneurs in the past four decades, going from around 10,000 to over 70,000 internationally (Common Wealth Ventures, 2008). My research concentrates on the social entrepreneurship phenomenon with the aim of understanding the core economics that enable them to compete and create increased profit and social value. Therefore, the question that my research is trying to answer is what has led to the emergence of social entrepreneurs and how do they continue to compete and thrive in the market (Dave and Woods, 2005).

This is an interesting phenomenon since much of the literature describes social entrepreneurs as agents that strive toward social value maximization instead of sole profit maximization (See section 2.2). Logically, the amount of profit they would generate would be less than the profit generated by firms whose sole objective is profit-maximization. The reduced profit for the social entrepreneurship would make them

unable to compete with the firms that focus solely on generating a profit. Dissecting the economic dynamics of social entrepreneurships reveal that they function differently from the traditional businesses thereby allowing them to become competitive in the market. The approach I take breaks down social entrepreneurships into two separate parts for analysis. The first is supply and second is demand. The supply modification that social entrepreneurships induce is caused by economies of scope, economies of scale, and margin reduction that occur uniquely in social entrepreneurships. The demand modification that social entrepreneurships create derives from image enhancement and philanthropic signaling, which again is unique to social entrepreneurships. Analyzing how social entrepreneurships deviate from the traditional business from these two perspectives will allow me to determine some of the economic reasons for their competitive success in the market.

2. Literature Review:

2.1 The Problem and Solution Development

Since the 21st century, social problems have grown in magnitude and complexity, and nonprofit organizations have developed and proliferated to address a number of these issues (Austin, 2000). However, traditional funding sources, institutional capacities, and nonprofit methodologies have not kept pace (Austin, 2000). The search for new resources and more effective organizational approaches was the initial spark that brought nonprofits and businesses together (Austin, 2000). Although many scholars such as Harvard Business School Professor James Austin write papers on the idea that “these alliances [between businesses and nonprofit organization] are also emerging because businesses

are increasingly reexamining their traditional philanthropic practices and seeking new strategies of engagement with their communities that will have greater corporate relevance and higher social impact,” (Austin, 2000) in this paper I’ll show how these businesses may just be after increased profits while creating a positive impact.

2.2 What are Social Entrepreneurships

Despite the growing scholarly interest in social entrepreneurship there is no clear definition of social entrepreneurship (Shaker, 2009). In particular, current conceptualizations of social entrepreneurships fail to adequately consider the unique characteristics of social entrepreneurs and the context within which they must operate (Weerawardena, 2006). The term social entrepreneurship continues to describe nonprofit ventures, social enterprise, social-purpose endeavor, corporate social responsibility, and social innovation.

Since the term social entrepreneurship applies to a diverse range of activities, researchers have attempted to define the term in a number of contexts, including the public sector, community organizations, social action organizations, and charities (Weerawardena, 2006). As a result of categorizing where the term “social entrepreneurship” is used most often, researchers believe the most cohesive definition of a social entrepreneurship is the attempt of simultaneously pursuing both a financial and a social return on an initial input of financial and human resources or otherwise known as the “double bottom-line” (Fuqua School, 2005). Later it was shown that social entrepreneurs apply practical, innovative and sustainable approaches to benefit society in general, with an emphasis on those who are marginalized and poor (Schwab Foundation,

2005).

In this paper, I will define a social entrepreneurship as an entity that is a combination of a profit maximizing business and nonprofit organization. It is important to emphasize that this merged entity is permanently adjoined in order for the production and output processes to come together. In the definitions section below, I elaborate as to what entails a business and what entails a nonprofit organization.

2.3 Why Are Social Entrepreneurships Important

Social entrepreneurship is an idea that bridges the gap between business and social change (Roberts, 2005). Individuals have introduced and applied innovative business models to address social problems previously overlooked by businesses, governmental, and non-governmental organizations (NGOs). These entrepreneurs have played a vital role in ameliorating adverse social conditions, especially in underdeveloped and emerging economies where resource scarcity and corruption among governments and even NGOs severely limit the attention given to social needs (Shaker, 2009). Social entrepreneurships have the capacity to create change in underdeveloped countries as well as developed countries. Social entrepreneurships apply innovative and cost-effective methods to address social problems such as poverty, gender inequality, and healthcare inaccessibility. A social entrepreneurship offers an example of how a good idea can inspire individuals to conceive, build and operate organizations that address important issues (Spear, 2006).

2.4 Conventional Wisdom

Regardless of the verbal quandary associated with the definition of the social entrepreneurship, there still seems to be a universal consensus that distinguishes social entrepreneurs from traditional businesses. Zadek and Thake point out that common across all definitions of social entrepreneurship is the fact that the underlying drive is to create social value, rather than personal and shareholder profit that drives commercial entrepreneurs (Austin, 2006). The main difference between entrepreneurship in the business sector and social entrepreneurship lies in the relative priority given to social value creation versus profit maximization (Mair and Marti, 2006). Many argue that generating a profit for social entrepreneurs is critical to ensure that they are able to continue with social value creation (Mair and Marti, 2006). The dual focus on concurrent profit generation and social value creation has been termed as the “double bottom-line”(Townsend, 2008).

In this paper, I will lay out the economic supply modification and demand modification principles at play in social entrepreneurs and elucidate the root causes for increasingly competitive activity in the market allowing for increased profit generation but also increase social value creation. I will introduce the notion not stated anywhere in the literature that social entrepreneurs may still just be profit maximizing entities uniquely modeled to incorporate providing a social good to make more money. This research is significant because it identifies and highlights the core economics that underlie the increased profit and social value generated by social entrepreneurs as compared to businesses and nonprofit organizations, respectively. This research also debunks thirty years of social entrepreneurship literature and conventional wisdom articulating the position that social entrepreneurs could solely

be innovative profit maximizing entities.

3. Distinguishing Social Entrepreneurships

Traditional Businesses	Social Entrepreneurship	Nonprofit Organizations
Skechers	TOMS Shoes	Soles4souls
Thailand Real Estate	Community Development Institution	Thai Homeless Shelter
Apollo Insurance	Healing Fields Foundation	India Public Health Care
Slaughterhouses and Meat Processing Plants	Global Network for Environment and Economic Development	Clean Air- Cool Planet
India Electricity	Bharti Electricity	-
Retail Shops	Sukanya	SEWA
Wholesale Designers	Conserve	-
Honduran Hospital	Global Brigades	Medical Mission

It is important to discuss the distinguishing characteristics of different social entrepreneurships as compared to traditional businesses and nonprofit organizations. Although generally the idea of a social entrepreneurship goes on to categorize a plethora of organizations, for the purposes of this paper we will focus on three main components. First, is the profit maximizing aspect of the social entrepreneurship. Second, is the social value creation, which is embedded in the business model. Third, is the unique business model that ties together the profit maximizing component with the social impact component. Listed above are a few notable businesses, social entrepreneurships, and nonprofit organizations, respectively. In this section I will detail the differences between each social entrepreneurship and their business and nonprofit counterpart to illustrate how they operate and compete within industries.

In the world of shoes, one of the top brand name businesses is Skechers. A pure profit oriented business, Skechers manufactures a variety of shoes in off shore locations

such as Indonesia, China, and India and sells the shoes for an added margin to the cost of production to locations all over the world in order to generate revenue and maximize profit. TOMS Shoes, a popular American social entrepreneurship, also manufactures its product in China but follows a business model that for any pair of shoes purchased by a consumer, TOMS will match that sale and donate a pair of shoes to an underprivileged child in Africa. TOMS essentially charges the price of producing two shoes with an added margin to the cost. This business model ties together the profit-maximizing component for TOMS with its social value component. Soles4souls is a nonprofit organization that raises money and hosts used-shoe drives to collect unused shoes to donate to underdeveloped regions of Haiti, Jamaica, and Costa Rica. Soles4souls uses a similar marketing campaign as TOMS in that they enlist celebrity marketing to popularize the idea of donating shoes. Notice, however, there is no profit maximizing model incorporated into the plan of Soles4souls, which forces them to rely on volunteer efforts and the pure altruism of individuals.

Community Development Institution is a social entrepreneurship that focuses on the idea of “land-sharing” between squatters and land developers. The organization profits from bringing land developers to marketable squatter sites in Thailand with the agreement that the developers will allow the squatters to live in the building or nearby location for little to no cost. In addition, the squatters also have a chance to negotiate with some leverage. Over the last several decades millions upon millions of poor Asian, African, and Latin American families have crowded into the burgeoning cities, squatting on the only urban land practically available (Ashoka, 2007). These land seizures usually lead to endless conflict, uncertainty, and harm everyone's interests (Ashoka, 2007).

Community Development Institution saw this problem as an opportunity to combine his real estate business and make a difference. The founder, Somsook Boonyabancha, tackles this major problem and generates a profit on land that he does not own by simply putting together deals. Thailand Real Estate is a business that sells properties to land developers that are privately owned. Generally, the business will charge a small percentage of the overall transaction cost between the seller and the buyer in which it generates its profit. Thai Homeless Shelter, is a nonprofit group that provides rudimentary temporary shelter to individuals who cannot afford a place to live. From the example depicted above, it is clear that social entrepreneurs are based on unique business models and capitalize monetarily on social opportunity.

Healing Fields Foundation is the idea of micro financing applied to healthcare insurance with an added bit of cost effective measures. Over 90 percent of India's population lacks access to healthcare financing (Ashoka, 2007). The problem is particularly sensitive for people who are impoverished. Of the many problems facing India's poor, illness is the most expensive, accounting for the largest costs and the greatest loss of income (Ashoka, 2007). Healing Fields Foundation is a branch of ERGO General Insurance Company and basically creates a Diagnostic Related Group (DRG) Model: A payment plan based on the diagnosis of the patient. It proves to be a useful method to control healthcare costs. Unlike other insurance plans, Healing Fields Foundation covers treatment whether or not it requires being admitted into a hospital (Ashoka, 2007). This insures that people with minor problems that include diarrhea can receive treatment without losing wages and saves money for both hospital and the insurer (Ashoka, 2007). Apollo Insurance is a normal insurance company of India. It generates a

profit by charging a premium for financial safety in the case of a medical emergency. India Public Health Care is a governmental organization and nonprofit group that helps impoverished individuals of India pay for medical treatments that are beyond their pocketbooks. Notice, that this is not a sustainable group and is largely ineffective in medical care provision.

Global Network for Environment and Economic Development Research is a social entrepreneurship that uses innovative biotechnology combined with slaughterhouse waste to generate bio gasoline. The social entrepreneurship has combined with Nigerian Slaughterhouses to implement the breakthrough model of “Cows to Kilowatts.” The organization generates a profit in two areas. One, by removing the waste of slaughterhouses and two, by converting the greenhouse gas waste into useable commercially stable biogasoline and selling it at extremely competitive prices. Furthermore, the social entrepreneurship creates social value by addressing the environmental greenhouse gas pollution problem in Nigeria and also by distributing low cost gasoline. We can compare the traditional slaughterhouse businesses and emphasize that the difference is in the handling and disposing of waste products. Alternatively, Clean Air- Cool Planet is a nonprofit organization that focuses on reducing greenhouse emission by spreading awareness and lobbying for governmental regulation. At the level of Nigeria, there aren't many notable nonprofit groups or governmental policies to reduce emissions.

Bharti Electricity is a social entrepreneurship group that distributes electricity using community-based cooperatives to reach India's slum dwellers. Though slums comprise 20 to 40 percent of the population of large cities in India, slum dwellers are not

part of the government's development plans (Ashoka, 2005). The electricity used by slums reaches them through a system, one in which a local mafia "steals" power from a legitimate source and then sells it at high rates (Ashoka, 2005). The quality thus is inferior, causing short circuits and voltage fluctuations, which lead to spoilage of electrical products, hazards like fires, and deaths, and maiming by electrocution (Ashoka, 2005). Bharti Electricity created an alternative delivery structure that generates increased profits by expanding electricity delivery circuits and also by eliminating the cost of stolen electricity. The social value is generated by providing low cost electricity to slums and also bringing the groups together to enhance cooperative capabilities of the slum group. A traditional electric company such as India Electricity, distributes electricity to residential and business areas for a price which varies based on power plant costs and generates a profit by charging higher than cost prices. There are no nonprofit groups that are able to create this type of social value in India.

Sukanya is a social enterprise that is often described as an end-to-end social value chain, created and managed by disadvantaged women. The founder, Aparna Banerjee, has created a global micro retail chain that features disadvantaged women as both suppliers and sellers. The organization almost exclusively hires disadvantaged women, trains them, and brings them in the market of high retail. Although her business model also incorporates using sleek kiosks as a part of marketing, Sukanya generates a great deal of profit from the hiring low cost workers and training them to be high valued marketers. The social value created is in the fact that the trained women can then take on new responsibilities in other job avenues. The thing to note here is that, this is what is referred to as a social enterprise—a business that is inherent in creating social value due

to the nature of the work or location rather than innovative model. Similar retail markets traditionally employ highly trained male workers to do the sales and marketing which creates a higher cost of the work needed to be done and therefore, produces a smaller profit margin. Self-Empowered Women's Association (SEWA) is a nonprofit group consisting of a network of women that help train other women all over India to become educated in areas of business, healthcare, nursing, management, and nutrition. The training provided is on a voluntary basis but really does not substitute the professional development that one receives when working for Sukanya.

Conserve is a social entrepreneurship that uses plastic waste and employment of ragpickers, one of the most marginalized groups in Middle Asia to make high-end retail bags (Ashoka, 2007). In a unique partnership, founder, Anita works with ragpickers in the city of Delhi, raising their income levels and offering them an alternative to the squalor and grime of garbage dumps (Ashoka, 2005). Together with the ragpicker community, she is removes plastic c from the waste stream and builds a social venture that is profitable and sustainable (Ashoka, 2007). The social entrepreneurship focuses on two intertwined issues: Delhi's plastic waste crisis and the community of ragpickers who collect and separate garbage, including plastics. Her entrepreneurship model has two components: Ensuring a regular livelihood for the ragpickers and creating commercially successful products from waste plastic through a technology she developed (Ashoka, 2007). Wholesale Designers is a business that also sells high-end bags but the difference is that they actually have to for some of the main raw materials, which Conserve does not. Furthermore, the plastic conversion process is a smart and innovative method that results the social value of a cleaner environment. Although there are many nonprofit

groups in the world that strive for plastic recycling, India does not have a nonprofit group that specifically promotes this action.

Global Brigades is the largest student run organization in the world. It comprises students from different countries but mainly the US. Under the umbrella of Global Brigades are a variety of groups ranging from medical, dental, water, environmental, law, and business. Of these groups the most established is medical brigades, which is what we will focus on. Although this may not look like a social entrepreneurship at first glance, it most certainly runs in a manner befitting its qualities. The organization has university groups raise funds to purchase medicine that will be used to treat people living in underprivileged areas of Honduras. The amount raised is based on the number of students that are on brigade. Once the medicine is bought, the university group flies out to Honduras during a designated period using students' funds to pay for food, airfare, living arrangements, transportation, and salaries for the coordinators. The university group is also told to bring a few volunteer doctors with them. In Honduras, the students have everything planned for them as far as what they will be doing and where they will be going. The students and doctors go to underprivileged areas and provide medical care, medicinal treatments, and preventative education. This trip only lasts one week and the following week another university comes in to do the same thing at a different location. This business model is very keen on providing pre-med students with valuable medical experience. Global Medical Brigades essentially makes a profit off of the student's ability to pay for this experience. They are also able to provide social value by providing basic healthcare to rural villages of Honduras at the expense of university students. The only businesses that compare to this are local clinics in Honduras that charge a fee to see a

physician and cost for pharmaceutical medicine. Nonprofit organizations include Medical Missions that work on a purely voluntary basis for all costs including food, transportation, and living arrangements, with the exception of medical supplies.

The purpose for this discussion was to elucidate the differences of between real social entrepreneurs, businesses, and nonprofit organizations. It was also to illustrate that these entities do exist in our world today and are proactive in making changes and making money in the process. Please see the references section below for more information.

4. Assumptions/Definitions:

The first assumption is that consumers are altruistic in that they care about good a certain good, X, for example shoes, and they also care about providing a social good, Y, for example providing shoes to underprivileged people.

A traditional business is a firm that converts inputs into outputs and procures inputs in the factor market and sells the outputs on the product market. Selling the output generates revenue and procuring inputs creates a cost. The difference between the revenue and the cost is profit and only goal of a traditional business is to maximize this difference i.e. profits.

A non-profit organization runs similar to a traditional business in terms of the day-to-day operations. A non-profit organization may even function to generate profits, which means reduce costs and increase revenue, however, their sole objective is to maximize social value such as giving shoes to the poor. Generating a profit is simply instrumental or an “intermediate objective” so that it can be re-invested into the non-

profit group in order to create more of a social value later. Now that some of the definitions have been clarified, I will get into the supply modification that occurs with a social entrepreneurship

5. Supply Modification:

For the supply side, I approached the idea of a social entrepreneurship as if it were a merger of a traditional business and a non-profit organization. Evaluating the synergies that would come about from this merger will help explain some of the supply modifications that social entrepreneurships present. The specific synergies are economies of scope, economies of scale, and margin reduction. Each of these synergies contribute to the overall supply change that social entrepreneurships can take advantage of and allow them to be competitive in the market.

5.1 Economies of Scope

Economies of scope refers to the cost of the combined production of two goods being cheaper than the cost of producing those two goods separately. Two potential areas of the cost reduction in producing two goods are shared inputs and shared overhead cost (Panzar and Willig, 1981). In terms of a social entrepreneurship, I will use the example of producing two pairs of shoes and providing one pair to the underprivileged. The cost of producing two pairs of shoes and one pair being donated by a social entrepreneurship is cheaper than the collective cost of buying one pair of shoes from a traditional business and buying a pair of shoes to donate from a non-profit organization. The social entrepreneurship has the same workers under one roof doing the same tasks and already has the machinery to accomplish the task of producing the pairs of shoes and having one

pair be donated. Less labor, less office space, and less machinery for the same tasks done by a traditional business and a non-profit organization in turn reduces the cost to the social entrepreneurship. The reduction in cost passes down to the consumer who is now able to purchase outside his initial budget curve at a higher indifference curve.

Shown mathematically, let the total cost of producing shoes for the profit oriented company be denoted $C_X(X)$ and the total cost of producing shoes for the nonprofit organization be denoted as $C_Y(Y)$. Then, let the total cost of producing the both pairs of shoes, ones to be sold for profit and ones to be donated, under the social entrepreneurship to be denoted as $C(X,Y)$. In figure 1, Economies of scope means that:

Figure 1:
$$C(X,Y) < C_X(X) + C_Y(Y)$$

Written formally, just indicates that the total cost of production of two types of goods, one for profit and one for donation, is less the sum the total cost of production of each individually.

5.2 Economies of Scale

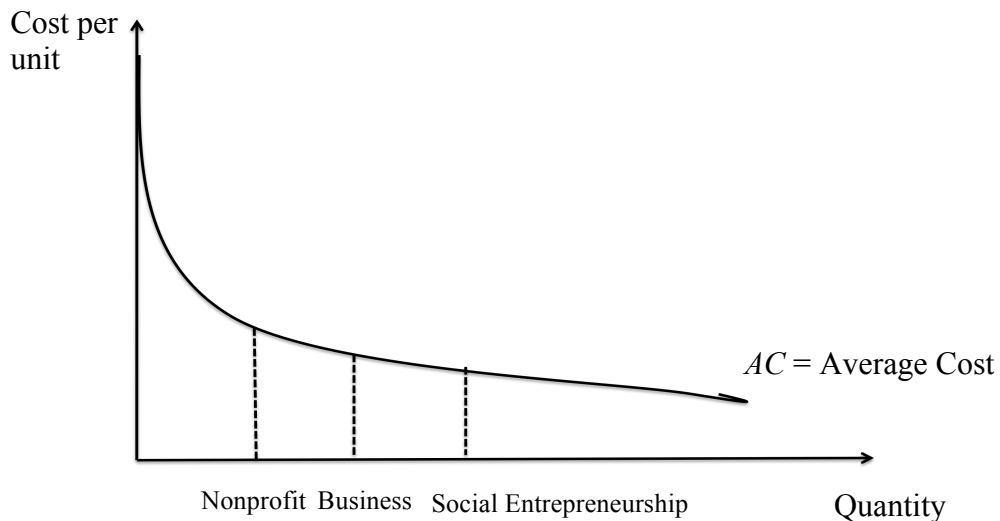
Whereas economies of scope explains the reduction in terms of the relative total cost of producing a variety of goods which applies to the different uses of two products produced together in one firm as opposed to separately in one business and one nonprofit organization, economies of scale is defined as declining average costs.

Economies of scale refers to the cost reduction per product produced as a result of company expansion. Common factors that lead to decreased cost include purchasing inputs in bulk, increasing efficiency of people and machinery, and specialization. If a traditional business and a non-profit organization both produced shoes and they merged

together to form a social entrepreneurship, logically the social entrepreneurship would produce more shoes than the traditional business and the nonprofit organization individually, thereby taking advantage of economies of scope. This is derived from the spreading of fixed costs

Graphically, the effect of economies of scale is in Graph 1. It is clear that the cost per unit decreases as quantity increases as shown by the Average Cost (AC) curve. Combining the quantities of a nonprofit organization and business will equal the quantity of the social entrepreneurship allowing for decreased average per unit cost.

Graph 1:



5.3 Margin Reduction

Margin reduction refers to the loss of one profit margin that the consumer would originally have to pay for. For example, let's assume there is a traditional business that

sells shoes for a profit and there is a non-profit organization that buys shoes to give to children in Africa. An altruistic consumer would buy shoes from the traditional firm and then pay the non-profit organization to buy another pair of shoes from the traditional firm to donate to a child in Africa. The consumer in this situation would have to pay the non-profit organization the cost of producing the shoe plus the profit margin the traditional firm adds to the cost of producing the shoe. However, since a social entrepreneurship is a traditional business combined with a non-profit organization, a consumer could simply pay the traditional business the cost of producing two shoes plus the profit margin of one shoe, decreasing the combined price.

5.4 Supply Modification Model

Two scenarios are described below in order clarify the implications of the social entrepreneurship. A comparison of the separate scenarios illustrates the effects of social entrepreneurships on the supply or technology side of the market. The first scenario involves two entities—a non-profit organization and a business. The second scenario introduces a social entrepreneurship into the market with the business and the non-profit, allowing for a total of three entities to exist. The two graphs illustrate effect of the social entrepreneurship and indicate how the social entrepreneurship competes in a market with both, the non-profit organization and the business.

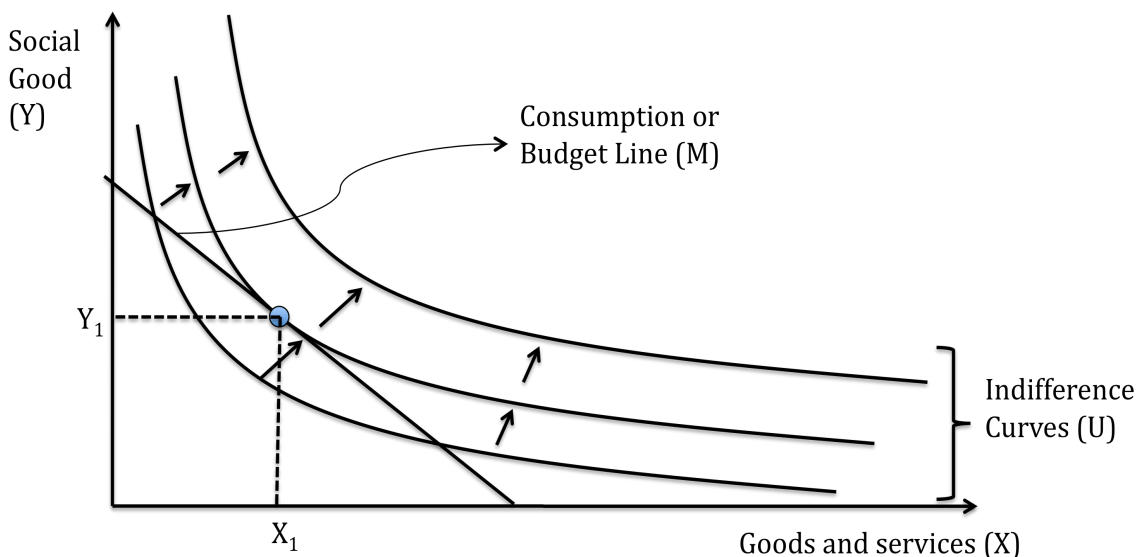
An individual consumer has utility function $U = V(X) + V(Y)$ which denotes that he/she receives value from both goods and services (X) and from the social good (Y) The individual has an individual endowment of M. The individual will use the endowment M to achieve the highest indifference curve he/she can attain given the constraints of M. In

this situation, there exists a non-profit organization that provides social good Y . There also exists a business that provides market goods and services X . Graph 2 indicates the outcome of this situation will yield that the individual consumer will buy X_1 amount of the goods and services and donate Y_1 amount to receive value from social good according to his/her highest achievable individual indifference curve.

(1) Consumer Indifference Curve: $U = V(X) + V(Y)$

(2) Individual Endowment: M

Graph 2:



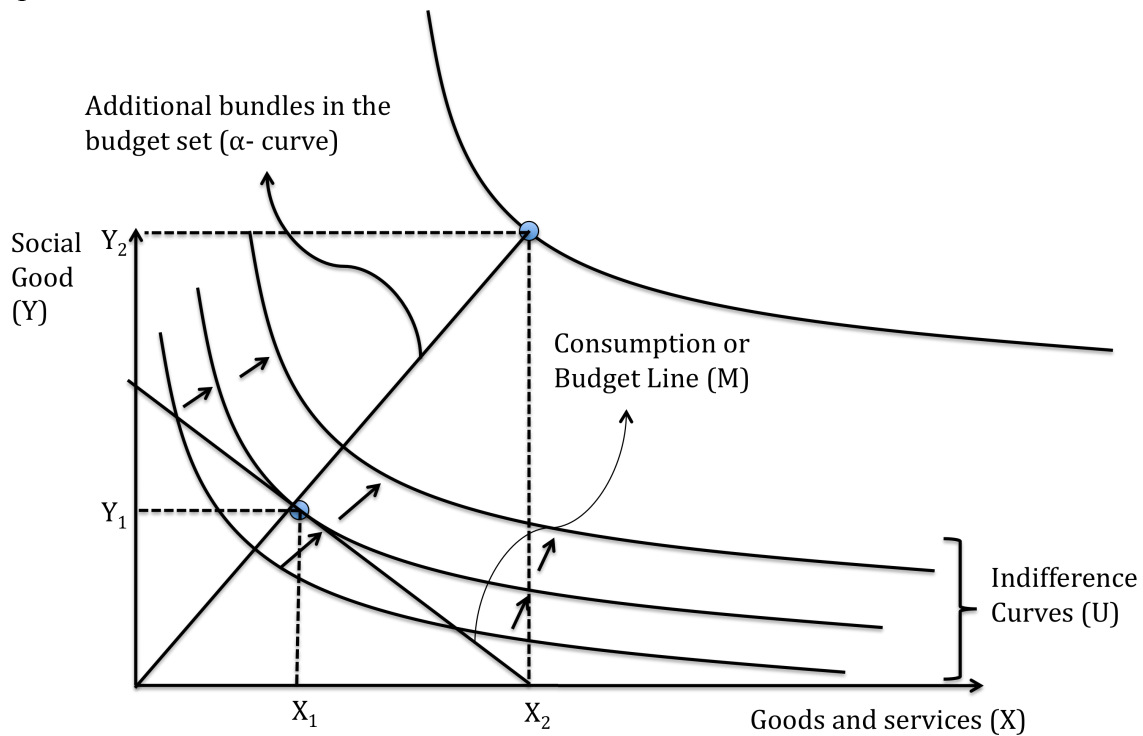
In the next situation, we will introduce a social entrepreneurship into the market that sells goods and services (X) and also provides the social good (Y). The consumer has the option of using his endowment (M) to maximize the value he receives from goods and services, $V(X)$, and the value he receives from the provision of the social good, $V(Y)$, from the business, the non-profit, or the social entrepreneurship, or some combination of the three. The individual will make a rational decision in order to reach his/her highest indifference curve. However, it is important to realize what effects the

introduction of the social entrepreneurship has on the individual budget or consumption line. Since the social entrepreneurship enjoys the benefits of economies of scope, economies of scale, and margin reduction as mentioned above, its total cost of production of goods and services and the social good $C(X,Y)$ is less than the sum total of the individual total cost of production of goods and services $C_X(X)$ and the total cost of production of the social good $C_Y(Y)$. Furthermore, the individual realizes that the social entrepreneurship is an entity that not only provides good and services (X) but also provides the social good (Y), which is dependent on how much X the social entrepreneurship sells. This means that if the individual were to use his entire endowment (M) toward buying goods and services from the social entrepreneurship, the individual would also receive an increasingly proportional value, $V(Y)$, from the provision of the social good (Y). This result would leave the individual on a higher indifference curve than if he/she used any other combination of the endowment (M). We know this because it is a fundamental property of the synergies in the supply modification. What this means is that since $C(X,Y) < C_X(X) + C_Y(Y)$ is true, the individual can receive more goods and services (X), and social good provision, (Y), from the social entrepreneurship than buying X and Y individually because the sum of the costs is greater individually.

Graphically, this effect by the social entrepreneurship creates additional bundles for the individual that has a positive slope referred to as the α -curve. The positive slope is a result of the inherent functionality of the social entrepreneurship since the more goods and services (X) the individual buys from them, the more social good, (Y) they can provide. Therefore, in this situation the individual purchases along the α -curve in order to

receive X_2 units of goods and services and Y_2 units of the social good and a higher indifference curve. Refer to Graph 3.

Graph 3:



This shows why social entrepreneurships are able to compete in the market and how, perhaps unexpectedly, may solely be profit maximizing. Also, notice how the supply modification indicates a mutual benefit for both the nonprofit portion and the business portion. It is important to recognize which component of the social entrepreneurship is benefiting in order to see the holistic picture. The nonprofit portion benefits from receiving monetary assistance and reduced cost of production and the business portion benefits from being able to better compete in the market with competitive pricing due to the synergies acknowledged above. Now, I will go on to explain the demand modification.

6. Demand Modification:

Demand modification or preference change is most likely the idea that people have when they consider why businesses join with nonprofit groups. For example, if I said that Fanta was able to generate more profits after it joined with Water Without Borders, a nonprofit organization that strives to provide potable water to areas of contaminated water, most people would think that it was because people started to see Fanta in a more positive light and wanted support Water Without Borders so they bought more Fanta. Although this is essentially the idea behind demand modification, I will elucidate two specific reasons of how preference change may occur, which are enhanced positive reputation, philanthropic signaling. Each of these reasons individually can explain a shift in an individual's preference for a good provided by a social entrepreneurship but it is most likely some combination of the three. Keep in mind, we have already established that the altruistic consumer cares about receiving some good, X, an example could be shoes and also providing some social good, Y, and an example would be providing shoes to the underprivileged.

6.1 Positive Image/Reputation Enhancement

In comparison to businesses, social entrepreneurs have an enhanced reputation. Once again, this can be best understood by evaluating a social entrepreneurship as a combination of a business and nonprofit organization. Harvard Business School Professor, James Austin, found businesses working with nonprofit organizations to be better received by the public. He explains, "Community service activities enhance a company's image and increases name recognition (Austin, 1998)."

Furthermore, he elaborates that these alliances between businesses and nonprofit organizations create “the feeling that you can trust the company,” which “does sway decisions people make (Austin, 1998).” “The direct service involvement by employees personalizes the company and creates human interactions that have deeper and more lasting reputational effects than standard public relations methods (Austin, 1998).” Social entrepreneurs defined as the combination of a business and nonprofit organization, also enjoy the benefits of an enhanced reputation. In terms of the consumer, an enhanced reputation will increase the preference to support the social entrepreneurship as opposed to the business, all else being equal.

6.1 Positive Image/Reputation Enhancement

Although we assumed an altruistic consumer, it is logical to believe that the consumer would like others to know that they are altruistic. It is much more effective to signal via action that one is altruistic rather than simply claiming that one is altruistic. How a social entrepreneurship is able to provide this signal is explained below.

A traditional business is capable of providing the consumer with a good such as shoes but does not provide any social good. A non-profit organization is able to provide a social good such as provide the underprivileged with a pair of shoes but is unable to provide a good and much less a signal. On the other hand, a social entrepreneurship is capable of providing a good such as shoes and providing a social good such as providing shoes to the underprivileged but is also able to provide a signal via the good purchased, which indicates altruism. The signal can be in the form of a logo, color, or design and it simply comes as apart of the good that is purchased. Social entrepreneurs are in the

unique position to supply the signal better than any other entity because they can modify the good such as shoes. The modified shoes could then be worn, which would serve as the signal. The provision of the signal allows social entrepreneurs to become competitive in the market. Consumers will pay for the signal allowing them to represent the cause or movement they support.

More uniquely, signal modification can allow social entrepreneurs to provide a product that uniquely represents a variety of social issues. In the case of SEA hats, a small company based out of Atlanta, GA, the founders came up with an idea to produce snapback hats in a variety of different colors and each color set represents a different nonprofit organization that the company is working with. Therefore, the customers can choose the nonprofit group that you wish to support and you will receive a specifically colored hat and a portion of that money will go toward the cause chosen. This indicates not only how signals can indicate altruism but also how specific signals can indicate what type of causes one supports.

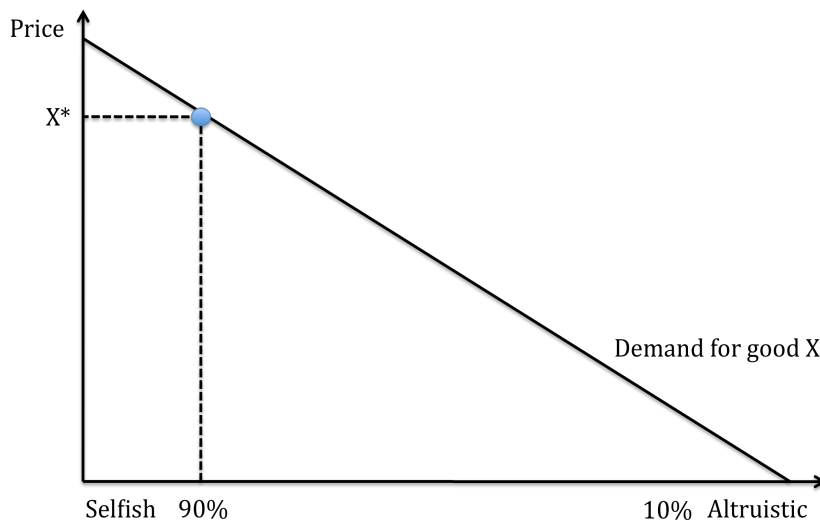
7. Bundling

Another reason that social entrepreneurs can compete against businesses and nonprofit organizations is due to their ability to bundle both the good, X, and the social good, Y, into a singular product for a set price. This set price is higher than what the business or nonprofit group can charge individually for the good, X, or the social good, Y, respectively. This is important as individuals vary in their degree of altruism. Therefore, businesses and nonprofit organizations have to set prices that correspond to the demand for either the good, X, or the social good, Y, since neither one of them can provide both. However, a social entrepreneurship can charge the highest price for both as

it can capture the consumer surplus that businesses and nonprofit groups cannot. This is illustrated below.

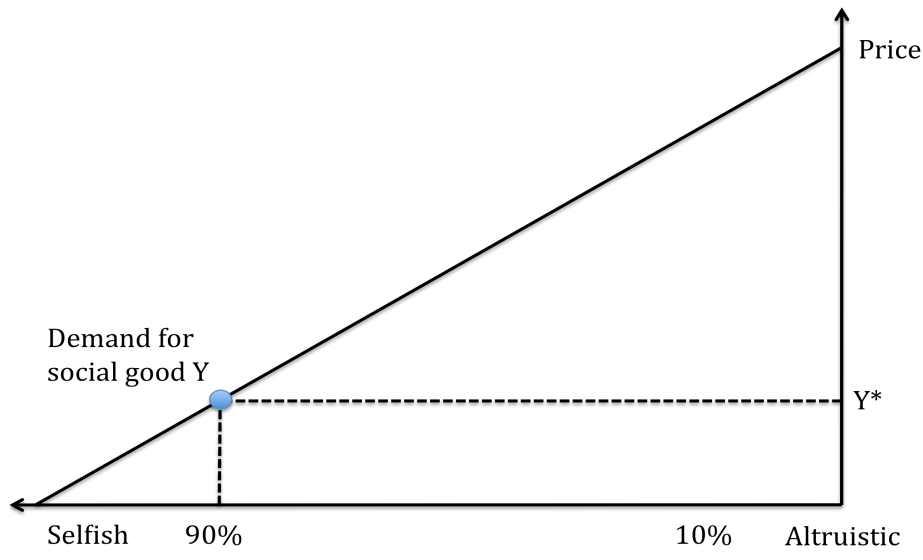
Let's assume that consumers vary in their degree of altruism on spectrum from selfish (purely desire the good X) to altruistic (purely desire the social good Y). There exists a demand curve based on price and degree of altruism for both good X and social good Y. Let's assume there is one Individual S, and he is 90% selfish and 10% altruistic.

Graph 4:



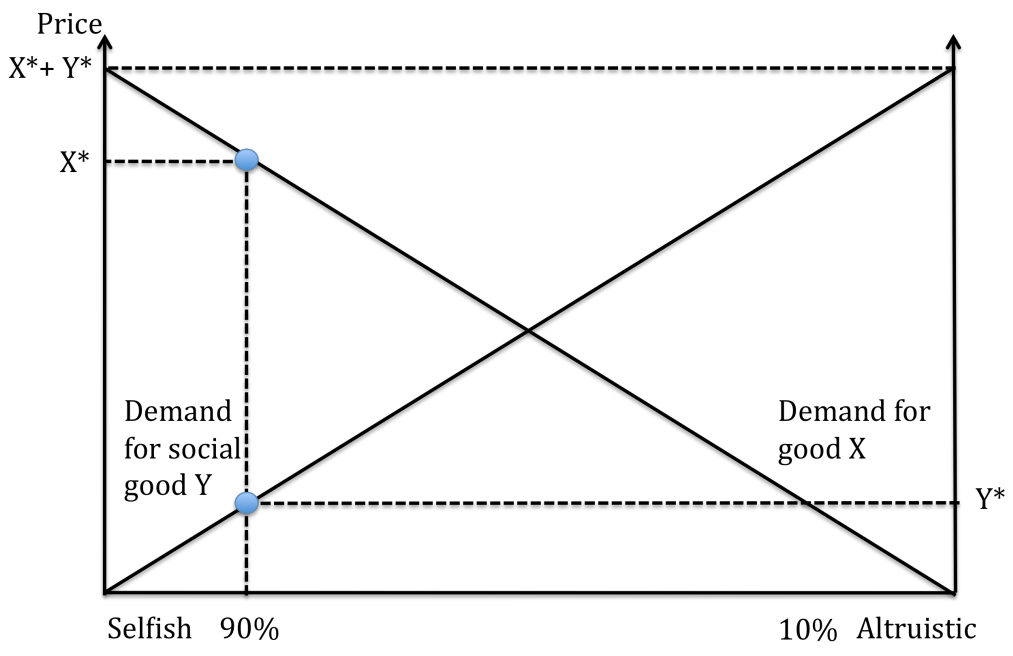
Graph 4 above illustrates the optimal price of Individual S for good X, called X^* based on his level of altruism. Therefore, a business could at most charge X^* for the good X in order for Individual 1 to purchase it, leaving excess consumer surplus that the business could not charge for as that could only be done by providing social good, Y.

Graph 5:



On the side of the spectrum, Graph 5 above illustrates the optimal price of Individual S for social good Y, called Y^* based on his level of altruism. In this case, a nonprofit group could only elicit Y^* amount in funds for provision of social good Y. However, this still leaves a great deal of charitable surplus that the nonprofit group cannot receive, as it would have to provide good X.

Graph 6:



In Graph 6 shown above, both the demand curves came together to formulate one graph to illustrate the bundling capability of the social entrepreneurship. Since the social entrepreneurship is uniquely capable of bundling both the good X and the social good Y, they are able to charge the highest set price level for each product, $X^* + Y^*$, leaving no consumer surplus. This is generalized to include consumers of all degrees of altruism since they would all lie somewhere on the spectrum, yet the interacting demand curves would still show an optimum price set at $X^* + Y^*$.

8. Implication/Results

There are two main implications or insights that this paper provides. First, is that this paper indicates how it is possible for social entrepreneurs to be solely profit driven, and not social value maximizing. Second, is that if a business is striving to increase profits, one potential option to investigate is to become a social entrepreneurship. Although interconnected through the research models and explanations, each implication has its own value to present. Third, the

Despite the ample amount of literature that details the noble intent of social entrepreneurs, this paper proves that some may only be after increased profits rather than positive impacts. This may serve as an insight as to why corporations partner with nonprofit groups or why they adopt a cause to support. However, this is not something insidious or malicious. Becoming a social entrepreneurship, in fact, is an intelligent and progressive decision that companies can make that allows the company to become increasingly competitive in the market.

One of the main objectives of this paper was to highlight the profitable benefits of becoming a social entrepreneurship. Although this entails, more than just donating a large sum of money to a nonprofit organization or cause, there are ways in which any business looking to increase profits can innovatively create a positive impact and generate a larger overall profit. The idea that a business can strive to create social value and as a byproduct increase profits is a counterintuitive thought but one that proves to be true and is worth understanding.

9. Conclusion

Overall, this paper investigates the supply and demand modifications that allow social entrepreneurs to create more social value and increased profits relative to nonprofit organizations and businesses, respectively. In addition, the bundling analysis illustrates how social entrepreneurs maximize producer surplus for a variety of altruistic consumers not seen in either business or nonprofit groups. The implications are that some social entrepreneurs may not be as noble as portrayed in the literature and that businesses looking to generate increased profits should investigate social entrepreneurship avenues. In the end, “Private gain is not incompatible with public benefit, (Austin, 1998)”

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