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# **Creativity, Social Benefit and Job Creation: The Potential for Social Entrepreneurship in Ontario**

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## **Creativity, Social Benefit and Job Creation: The Potential for Social Entrepreneurship in Ontario**

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Social entrepreneurship is a creative and innovative force in the economy that should be considered as a key building block for Ontario's agenda of sustained economic development

- **The Definition: What Social Entrepreneurship Is**
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  - Getting to scale: the link between entrepreneurship and economic growth
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- **The Payoff: Maximizing Economic and Social Value**
  - Economic value: job growth, program savings, economic expansion
  - Social value: social capital, program outcomes, community economic development
- **The Roadmap: How To Foster Social Entrepreneurship in Ontario**
  - Culture of entrepreneurship
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**Conclusion:** There is opportunity and incentive for government to foster the growth of social entrepreneurship in Ontario as part of its economic development agenda

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Social entrepreneurship is an emerging economic model that focuses on a double bottom line of economic and social returns. It relies on entrepreneurial business models, supported by innovative solutions and sustainable financing mechanisms, to deliver widespread social change.

This paper will make the argument that social entrepreneurship, in all of its organizational forms, will be an important driver of economic and social growth. It will also consider the conditions needed for social entrepreneurship to reach its growth potential in Ontario.

## The Definition: What Social Entrepreneurship Is

Although social entrepreneurship is still a new and largely undefined concept, there is a growing recognition that it has as important a role to play in the development of societies as business entrepreneurship has in the development of our economy.<sup>1</sup>

Social entrepreneurship was recognized as important to 'improving the state of the world' by the World Economic Forum in 2002 when the global leaders' network included an international group of leading social entrepreneurs at their forum in Davos, Switzerland.<sup>2</sup>

In 2006, social entrepreneur Muhammad Yunus and his organization, the Grameen Bank, were awarded a Nobel Peace Prize for their leadership in micro-credit financing. The prize was awarded to recognize Yunus and Grameen for their 'efforts to create economic and social development from below' and for allowing 'large population groups (to) find ways in which to break out of poverty'.<sup>3</sup>

And in 2007, George Bush recognized the importance of social entrepreneurship to the US economy in his State of the Union address with his reference to Juli Aigner-Clark, founder of the Baby Einstein line of educational baby products.<sup>4</sup>

### **An entrepreneurial business model that creates both economic and social value**

Social entrepreneurship uses an innovative, sustainable business model to drive large-scale social change. Its entrepreneurial business model contrasts it with corporate philanthropy and the risk-based approach of traditional corporate social responsibility.

In fact, the attraction is that social entrepreneurship, with its sustainable funding model and drive for innovation, promises the double bottom line of economic growth and social solutions. It is this potential for lasting, transformational benefit to society that has captured the enthusiasm of people associated with the field.

#### *Entrepreneurial business model:*

An example of successful social entrepreneurship is micro-credit financing. In Bangladesh, the Grameen Bank loans small amounts of money to individuals who would not otherwise get access to credit. This serves an unmet social and economic need but, through innovative business practices, also produces a profit for the bank. This profit allows Grameen not only to sustain operations but to expand into other impoverished communities. It is based on a social innovation that has now been widely replicated by other banks and community foundations including several in Ontario<sup>5</sup>.

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<sup>1</sup> U.S. Small Business Administration, Office of Advocacy, The Small Business Economy: Social Entrepreneurship and Government: A New Breed of Entrepreneurs Developing Solutions to Social Problems, 2007, 156

<sup>2</sup> <http://www.weforum.org/en/index.htm>

<sup>3</sup> [http://nobelprize.org/nobel\\_prizes/peace/laureates/2006/press.html](http://nobelprize.org/nobel_prizes/peace/laureates/2006/press.html)

<sup>4</sup> <http://www.whitehouse.gov/stateoftheunion/2007/>, in reference to Julie Aigner-Clark of Baby Einstein

<sup>5</sup> Including: ACCESS Riverdale Community Loan Fund (in cooperation with the Metro Credit Union), Canadian Youth Business Foundation, Community Futures Development Corporations, GEODE: Stepping

Another example of a successful social enterprise is Bullfrog Power, a renewable energy provider that is based in Ontario. Bullfrog Power uses an entrepreneurial business model to resell renewable energy to individuals and businesses through Ontario's electricity grid. Bullfrog Power passes on the higher generation costs to the customer through higher prices which protects their profit margin while achieving their social objective of increasing the amount of renewable power in Ontario's electricity grid.

As seen in both of these examples, social entrepreneurship is based on an entrepreneurial business model that can and often does operate with a profit motive. In fact, a profitable or high-performing business model<sup>6</sup> is important to rewarding innovation, ensuring sustainable financing and, in turn, promoting large scale adoption and social impact.

*Large-scale social impact:*

In their 2007 paper, Roger Martin and Sally Osberg clarify the definition of social entrepreneurship by differentiating it from social activism and social service provision.<sup>7</sup> This paper further focuses the definition on direct, large-scale service delivery. To illustrate the differences, we extend the authors' framework to look at the opportunity to increase the use of renewable energy in Ontario:

- *Social activism* acts as a catalyst or lobby to influence large-scale system change but does not deliver the service directly to beneficiaries. An example in renewable energy in Ontario could be Pollution Probe's work to influence government energy policy.<sup>8</sup>
- *Social service provision* delivers service directly to citizens but lacks the innovation and entrepreneurial business model needed to deliver large-scale change. In Ontario, this could be the effort by local electricity companies to promote the use of renewable energy through incentives: an admirable effort but likely not to drive system change.
- *Social entrepreneurship* uses innovation to deliver direct, large-scale change. An example of this in Ontario could be Bullfrog Power, a reseller of renewable electricity. After only three years, Bullfrog now operates in two provinces, Alberta and Ontario, and has a client base of almost 7000 customers and more than 700 businesses.<sup>9</sup>

Another example of a social enterprise that delivers large-scale social impact in Ontario through an entrepreneurial business model is Options for Homes. They are Canada's largest private affordable housing developer with 1500 units complete and others under construction. Options for Homes partners with builders to develop 'no-frills', low cost

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Stone Loan Program, Ottawa Community Loan Fund, PARO: A Northwestern Ontario Women's Community Loan Fund <http://www.canadabusiness.ca/>

<sup>6</sup> In areas where government dominates spend, such as education and healthcare, a high performing business model is one with strong social return on investment

<sup>7</sup> R. Martin and S. Osberg, "Social entrepreneurship: The case for definition", Stanford Social Innovation Review, Spring 2007

<sup>8</sup> <http://www.pollutionprobe.org/Whoware/Index.htm>

<sup>9</sup> <http://www.bullfrogpower.com/about/about.cfm>

housing that is made further accessible through an innovative down-payment arrangement that provides assistance to buyers.<sup>10</sup> The model is being considered by the Canadian Mortgage and Housing Corporation (CMHC) for broad roll-out to increase the stock of privately-financed affordable housing in Canada.

### **Getting to scale: the link between entrepreneurship and economic growth**

Business entrepreneurship has long been recognized as an important driver of innovation and economic growth. Research by James Brander and his colleagues at UBC's Sauder School of Business makes this case through analysis of the venture capital industry.<sup>11</sup>

Entrepreneurship is about creating something that did not exist before by exploiting an innovation. Innovation, in this case, is defined broadly as new products, new processes, new services, new organizations, new markets or new skills.<sup>12</sup> Brander concludes that it is this relationship between entrepreneurship and innovation that makes entrepreneurship such a powerful economic lever.

He goes on to point out that it is not entrepreneurship in general that is valuable for economic growth, but rather the small sub-class of highly innovative ventures that provide the most important contributions. It is this small sub-class of business operating at scale that captures the attention of the venture capital industry.

Studies of Silicon Valley suggest that to be successful, innovation requires not only ideas but also capital and talent to develop the ideas.<sup>13</sup> This translation from idea to economic development is driven by the resourcefulness and energy of entrepreneurs to the extent that the Global Entrepreneurship Monitor published an international study in 2000 showing that, at the country level, the direct correlation between the level of entrepreneurial activity and economic growth, as measured by employment, is greater than 70%.<sup>14</sup>

Like venture capital, which targets businesses with the most potential to create economic value, it is important for governments and funders<sup>15</sup> to focus limited resources on the social entrepreneurs and their organizations that are most likely to create large-scale societal value.

This focus on supporting organizations that have the capacity to get to scale is an important one for government as they look to focus scarce resources to deliver large-scale social change and economic development.

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<sup>10</sup> <http://www.optionsforhomes.ca/>

<sup>11</sup> J. Brander, E. Egan and T. Hellmann, "Government Sponsored versus Private Venture Capital: Canadian Evidence", Sauder School of Business, 2008

<sup>12</sup> F. Zhou, "Entrepreneurship and Innovation in E-business", RMIT University, Australia 2008

<sup>13</sup> G. Hamel, "Bringing Silicon Valley Inside", Harvard Business Review Onpoint, May 2000

<sup>14</sup> P. Reynolds, M. Hay, W. Bygrave, S. Camp, and E. Autio, *Global Entrepreneurship Monitor*, Babson College, Kauffman Center for Entrepreneurial Leadership and the Erving Marion Kauffman Foundation, London Business School, 2000

<sup>15</sup> Gates Foundation Guiding Principles include: 'We identify a specific point of intervention and apply our efforts against a theory of change.' and 'We take risks, make big bets, and move with urgency. We are in it for the long haul.' <http://www.gatesfoundation.org/about/Pages/guiding-principles.aspx>

## The Vehicle: How Social Entrepreneurship Happens

In their 2004 study for the Universidad de Navarra in Spain, Christian Seelos and Johanna Mair recognize social entrepreneurship as a business model that can exist in both nonprofit and for-profit businesses.<sup>16</sup>

### Increased nonprofit accountability

Since the 1990s, the nonprofit sector has been working to increase their accountability both in how they spend their funds and the impact that they delivery.<sup>17</sup> This heightened performance culture has been influenced by increasing competition for donations and more savvy financiers and foundations.

In 2003, a Harvard Business Review article further accelerated the modernization of the sector when it sized a \$100B opportunity if the nonprofit sector could become more efficient.<sup>18</sup> In effect, this is about infusing an appreciation for economic value in a business model traditionally consumed with delivering social value.

This shift of focus to a more balanced 'double bottom line' led nonprofits to find alternate sources of revenue and deliver measurable results while managing their costs. The shift has been dramatic and in Canada nonprofits now rely more on earned income (48%) more than government funding (39%) and private philanthropy (12%).<sup>19</sup>

In Canada, nonprofit (defined here as excluding hospitals, universities and colleges) is an important sector. It accounts for 2.5% of Canada's GDP and is growing faster than overall GDP – at 7.4% annual growth since 1999 versus overall economic growth of 3% over the same period.<sup>20</sup> It employs 1M people or about 5% of Canada's working age population, not including the 0.5M full-time equivalent of people that volunteer their time.<sup>21</sup>

The UK has accelerated the modernization of the nonprofit sector. Their 55,000 social enterprises represent about one quarter the size of the charity sector, represents 5% of all businesses, 3.2% of the working age population (1.2 M adults) and constitutes a total turnover of nearly £27 billion. Assuming that social enterprises represent a similar proportion of Canadian charities suggests that UK social entrepreneurship is 4-5 times

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<sup>16</sup> C. Seelos and J. Mari, "Social Entrepreneurship: The contribution of individuals to sustainable development", Anselmo Rubiralta Center for Globalization and Strategy Center for Business in Society, University of Navarra, WP No. 553, 2004

<sup>17</sup> A. Grossman, W. Ryan and C. Letts, High Performance Nonprofit Organizations, John Wiley & Sons, 1998

<sup>18</sup> B. Bradley, P. Jansen and L. Silverman, "The Nonprofit Sector's \$100 Billion Opportunity", Harvard Business Review, 2003

<sup>19</sup> M. Hamdad and S. Joyal, Statistics Canada, Satellite Account of Nonprofit Institutions and Volunteering, December 2007, 13-015-XIE

<sup>20</sup> M. Hamdad and S. Joyal, Statistics Canada, Satellite Account of Nonprofit Institutions and Volunteering, December 2007, 13-015-XIE

<sup>21</sup> M. Hall, C. Barr, et al., John Hopkins Comparative Nonprofit Sector Project, 2005

larger than that of Canada even though UK has only double the population, leaving a lot of room for additional growth – and economic value – in the Canadian market.

### **Increased corporate social responsibility**

In 1999, at the World Economic Forum, United Nations Secretary-General Kofi Annan sparked increased emphasis on corporate social responsibility (CSR) when he expressed concern at growing social problems and appealed to global business leaders in an effort to draw private sector attention and resources to the need for fundamental social change.<sup>22</sup> Corporate social responsibility business models vary by company depending on the degree to which they integrate economic and social value into their mission.

#### *Businesses with a social mandate:*

In some cases, business entrepreneurs with strong social convictions have always sought out investors and customers willing to accept the possibility of lower returns in exchange for social outcomes. For credit unions, crown corporations and cooperatives, this was made easier from their inception given their shareholder mandate to balance of economic and social return.

For example, Vancity in British Columbia is the largest English-language credit union in Canada. They manage their business against a balanced scorecard that includes economic, social and environmental performance indicators. Vancity is a successful bank with 2600 employees and \$14B in assets and an 8% return-on-equity. They are responsible to their 391,000 members who have made them a leader in customer satisfaction surveys in part due to their community investments, environmental commitments and innovative financial services products.<sup>23</sup>

Similarly, crown corporations like the Export Development Corporation (EDC) and consumer cooperatives like Mountain Equipment Co-op have chosen to balance economic objectives with social and environmental responsibility. By design, their strong social mandate has made it easier for them to deliver ‘double bottom line’ benefits and suggests an opportunity for government to lead by example with strong social mandates across its operations.

#### *Business focused on short term value creation:*

Other companies have focused on what David Baron, of Stanford, refers to as ‘strategic CSR’ – activities undertaken by a firm in the name of CSR that increase both its economic and social value. This type of CSR is more likely to rely on the principles of social entrepreneurship – innovation, sustainable financing and widespread social impact – to be successful. In these cases, the short term value of the companies is enhanced by the opportunity for them to either carve out profitable market share or decrease their cost of doing business.

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<sup>22</sup> G. Kell and D. Levin, “The Global Compact Network: An Historic Experiment in Learning and Action”, *Business and Society Review* 108(2), pp. 151-181, 2003

<sup>23</sup> [www.vancity.com](http://www.vancity.com)

Examples of businesses that have found this 'sweet spot' that builds both social and economic equity are increasing. Small Ontario companies like Bullfrog Power, The Big Carrot, Menova Energy, ZeroFootprint and many others have been able to deliver social value by tapping into consumer demand for more responsible products or services. Their efforts are now focused on finding at-scale commercial opportunities, financing and talent to help them to grow to the next level.

Larger companies have also found innovative, profitable ways to deliver social value. Loblaw's, for example, has an increasing line up of innovative products that protect the environment. IBM has made a long term investment to bridge the digital divide in Africa through innovative education and training programs. GE has dramatically reduced its own energy costs through investments in its infrastructure and sells its eco-solutions to its wide customer base.

*Businesses seeking long term value creation:*

In addition to the short term benefits of increasing market share by appealing to socially responsible consumers and/or reducing costs through strategic investments in energy efficiency, there is a growing recognition that a strong corporate social responsibility program creates long-term economic and social value.

Ian Davis, worldwide managing director at McKinsey, is one of many leading thinkers, however, that recognizes the value of CSR<sup>24</sup>. In a 2005 article in the Economist, he argues that long-term business success, including brand value and reputation, risk profile and customer acquisition, depends on how a company manages environment, social and governance (ESG) issues.

There is also increasing evidence in other research that shows that a blended value proposition drives economic value. One of the most cited is a 2006 UNEP Finance Initiative report, entitled 'Show Me the Money'<sup>25</sup>, looked at existing investment house research to confirm the link between material environmental, social and governance issues and stock performance. The report summarized supporting analysis done a range of investment banks including: Deutsche Bank, Goldman Sachs, Morgan Stanley, UBS, West LB and JP Morgan.

We have begun to see this shift in strategic CSR that works on the principle that responsible management is good business and will be rewarded in the markets.

Examples include:

- *The UN Principles for Responsible Investment*. Launched in April 2006 by Secretary-General Annan and global investors at the NYSE, these voluntary principles now count 381 institutional investors with \$14 trillion in assets under management as signatories.
- *The Equator Principles*. Based on the UN Principles, financial institutions use these principles to assess and manage social and environmental risk in project financing. The Equator Principles are used in 85% of global project finance sector worldwide.

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<sup>24</sup> I. Davis, "The biggest contract", The Economist print edition, 26 May 2005

<sup>25</sup> UNEP Finance Initiative, 'Show Me the Money: Linking Environmental, Social and Governance Issues to Company Value', 2006

- *The Carbon Disclosure Project (CDP)*. This international effort collects carbon usage data from 3000 of the world's largest companies, providing information to 385 international institutional investors with a combined \$57 trillion of assets under management.

This shift in investment criteria creates an opportunity for more hybrid models that balance social, economic and environmental bottom lines by starting to attach market value to the non-economic outcomes of their business model – in effect, recognizing the double bottom line.

## The Opportunity: Reinventing Government

Social entrepreneurship holds tremendous opportunity for the province not only for its potential contributions to economic development but also its ability to deliver social returns.

In his article 'Reinventing Government: The imperatives of innovation and quality', Duke University's Dennis Rondinelli comments that the challenge facing today's governments is to create a system of governance that promotes and supports efficient economic interaction and at the same time advances the health, safety, welfare and security of its citizens.<sup>26</sup>

Although social service delivery is still primarily delivered by governments, researchers have documented a shift by the public sector as it seeks to increase the efficiency and effectiveness of its social spend.<sup>27</sup> Described as a shift to a more citizen-centered, results-oriented and market-based model, this shift marks a departure from the traditional approach where government assumed the dominant service-delivery role.<sup>28</sup>

### The opportunity for Social Service Delivery

In 2003, the OECD report on public social spending<sup>29</sup> shows that Canada's gross public social expenditure on direct service programs was 9.5% of GDP or \$115B in direct social service expenditures.

This sizes government's direct social service expenditures at nearly 5x the size of nonprofit's GDP contribution of 2.5% and recognizes the importance that government still plays in this area. Government's spend in this area, however, is growing at only 3% per year as compared to the 7.4% growth seen in nonprofit expenditures – despite what is recognized as increasing need for social services.

This gap in growth highlights a trend to privatization of government social services. In their book 'Reinventing Government', David Osborne and Ted Gaebler describe the

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<sup>26</sup> D. Rondinelli, 'Reinventing Government: The Imperatives of Innovation and Quality', 2004

<sup>27</sup> D. Osborne and T. Gaebler, *Reinventing Government*, Boston, MA, 2007 Report to the President, Small Business Administration, Office of Advocacy

<sup>28</sup> U.S. Small Business Administration, Office of Advocacy, *Report to the President*, 2007

<sup>29</sup> OECD, *Society at a Glance: OECD Social Indicators*, 2006 edition.

government as increasingly ‘steering rather than rowing’ in an effort to balance budget pressures with increasing needs<sup>30</sup>.

John Donahue, a professor at Harvard University’s Kennedy School of Government, confirms this trend. By looking specifically at the distribution of wages, he argues that the structure of government, particularly public hostility to high salaries for government employees, is leading to increased outsourcing of complex programs precisely because government cannot attract and retain the best people<sup>31</sup>.

### **The Implication for Social Entrepreneurship**

Government downsizing and outsourcing creates an opportunity for both nonprofits and private sector to deliver social services in an entrepreneurial way.

In their book, Osborne and Gaebler outline the most frequent ways that governments cooperate with private sector to deliver their programs, ranging from contracting with private companies for the provision of goods or services to public-private joint ventures to ‘off-loading’ of responsibility for services or infrastructure to the private sector<sup>32</sup>.

Although private sector contracts are not specifically tracked in Canada, a look at the increase in overall private sector sourcing by Public Works and Government Services Canada (PWGSC) confirms the trend. In 2007, PWGSC purchased \$20B in goods and services on behalf of government departments and agencies – nearly double the amount of \$11.4B in 2003<sup>33</sup>. As a comparison, in the US where private federal contracts are tracked and reported in the Federal Procurement Data Systems, the work outsourced by the federal government also almost doubled from about \$207 billion in 2000 to about \$400 billion in 2006<sup>34</sup>.

Outside of procurement budgets, there is also evidence of increased ‘off-loading’ of government responsibility. Climate change, human rights and community development are just a few areas where businesses are being held to a higher standard by consumers and shareholders – and where government regulations lag international performance standards.

Ian Greene of York University notes that although the shift to more non-government delivery of social services is still dominated by the private sector, there is an opportunity for privatization of service delivery to nonprofits.<sup>35</sup>

Drawing on his experience with the Alberta government and the work of other researchers, he argues that it is worthwhile for governments to investigate the transfer of the delivery of services to the nonprofit sector wherever feasible because of the

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<sup>30</sup> D. Osborne and T. Gaebler, *Reinventing Government*, Boston, MA, 2007 Report to the President, Small Business Administration, Office of Advocacy

<sup>31</sup> John Donahue, “The Warping of Government Work”, Harvard University Press, 2008

<sup>32</sup> D. Osborne and T. Gaebler, *Reinventing Government*, Boston, MA, 2007 Report to the President, Small Business Administration, Office of Advocacy

<sup>33</sup> PWGSC website <http://www.tpsgc-pwgsc.gc.ca/services/chts-bng-eng.html>

<sup>34</sup> Federal procurement data systems, 2007 <https://www.fpds.gov/>

<sup>35</sup> Ian Greene, ‘The Potential for Government Privatization to the Nonprofit Sector’, *The Innovation Journal: The Public Sector Innovation Journal*, Volume 12(3), 2007, article 8

possibility of more effective service delivery to citizens and greater local accountability at competitive costs and with higher employee morale.

He recognizes that there are challenges with this 'agency model' and suggests a number of conditions that should be in place to maximize the chance for success. These include the quality of staff and the Board of Directors, adequate training programs and funding and good governance and monitoring of services.

This privatization of social services suggests an opportunity for government to use existing social service budgets to invest in social entrepreneurship.

## **The Payoff: Maximizing Economic and Social Value**

Social entrepreneurship, both through nonprofits and corporate social responsibility, has an opportunity to contribute to by delivering economic and social returns.

This blended value proposition, promulgated by Jed Emerson<sup>36</sup>, underlies the growing Socially Responsible Investment (SRI) movement. SRI challenges the traditional view of value (i.e. purely economic or purely social) and suggests that investors and organizations are working to maximize the overall value equation.

### **Economic value**

As discussed earlier in this paper, there is strong evidence that entrepreneurial activity creates economic value by creating jobs. The same is true for social entrepreneurship – both in for-profit business and the nonprofit sector. Social entrepreneurship also creates economic value given its social mandate – by reducing the burden on government for service delivery and, in some cases, stimulating employment for economically disadvantaged regions or individuals.

#### *Job growth:*

The strong contribution of nonprofits to employment and GDP, as well as its above-market growth, suggests that private sector is not the only source of economic development in Ontario.

The Conference Board<sup>37</sup> notes the growth of nonprofits in the US in a 2007 report that highlights the growing need for high skilled employees at all levels of the organization to allow nonprofits to keep pace with expected growth in demand for their services.

Growth in demand is also expected in Canada as the socially oriented organizations in the private sector, nonprofits and governments struggle to compete for skilled individuals with the entrepreneurial skills and public sector experience to run the next generation of nonprofits.

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<sup>36</sup> J. Emerson and S. Bonini, "The Blended Value Map", William and Flora Hewlett Foundation, 2003

<sup>37</sup> J. Casner -Lotto, 'Boomers are ready for nonprofits', The Conference Board, May 2007

Will the extension of the principles and practice of social entrepreneurship lead to new jobs? Certainly, increased social needs, the strength of the business model and growth in its practice today suggest that this is likely – and an attractive option.

At a local level, this means an opportunity to both increase the productivity and impact of existing social service jobs and stimulate community economic development efforts. The job growth at the community level is particularly important as Ontario faces an economic downturn.

In their research, Johns Hopkins researchers highlight that nonprofit employment levels are growing even in regions where overall employment declined due to economic recession.<sup>38</sup> A 2005 survey by the Global Entrepreneurship Monitor (GEM) in the UK shows a similar pattern for social entrepreneurship and shows that despite overall declining employment in rural locations, these areas are more socially entrepreneurial than urban regions.<sup>39</sup> The role of social entrepreneurship principles in job creation at the community level has also been embraced in Canada by small-scale regional development efforts.<sup>40</sup>

It also provides the opportunity for Ontario to attract non-local jobs by becoming an international hub of creative, socially responsible solutions and workers. There is significant competition for these types of creative jobs and it will be important for Ontario to position itself as a hub for this kind of work if it is to build the cluster of knowledge, expertise and infrastructure needed to attract leading companies.

#### *Program savings:*

An added benefit of social entrepreneurship is that by valuing social as well as economic returns, there is incentive to target areas of social need. Therefore, in addition to the benefit of job creation for the individuals working for the social enterprise there is the added contribution of improved conditions for beneficiaries and lower program costs for government.

Of particular interest are areas where social benefits align with market opportunity. For example, the value of food safety is increasingly seen by the public as a responsibility of individual companies as is, for example, energy efficiency and product innovation in the areas of climate and social responsibility. This may allow the government to shift their role for social service delivery to a regulatory or monitoring role.

In order to do this, however, the government will need to create a regulatory and public policy environment that values and facilitates social outcomes. The United Kingdom's decision to create an 'Office of the Third Sector' has led to numerous policy changes and streamlined funding to the voluntary sector.<sup>41</sup> As well, the UK Department for Business Enterprise and Regulatory Reform (BERR) has included a comprehensive corporate responsibility legal and regulatory framework as part of its sustainable development strategy.<sup>42</sup>

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<sup>38</sup> L. Salamon, Employment in America's Charities: A Profile, The Johns Hopkins Center for Civil Society Studies, 2006

<sup>39</sup> R. Harding, The Social Entrepreneurship Monitor, Global Entrepreneurship Summit, 2006

<sup>40</sup> The Community Economic Development Network <http://www.ccednet-rcdec.ca/>

<sup>41</sup> [http://www.cabinetoffice.gov.uk/third\\_sector/about\\_us/strategy.aspx](http://www.cabinetoffice.gov.uk/third_sector/about_us/strategy.aspx)

<sup>42</sup> <http://www.berr.gov.uk/whatwedo/sectors/sustainability>

*Economic expansion:*

There is an ongoing debate about whether by maximizing the overall or blended value results in lower economic returns. This could suggest that by investing in social entrepreneurship, although governments may stimulate the start-up of new businesses, they may be compromising other economic development as measured by contribution to overall GDP.

At the heart of the argument is Milton Friedman's 1970 statement that the responsibility of corporation is 'to conduct the business in accord with [shareholders'] desires'<sup>43</sup>. His conclusion is based on the belief that there is a cost to corporate social responsibility that reduces financial returns. Recent research, however, draws a link between management of material economic, social and environmental risk and long term performance. The most cited is UNEP's Finance Initiative study entitled 'Show Me the Money' which underlies the effort by institutional investors to increase transparency around these issues and their management.<sup>44</sup>

Social entrepreneurship is a business model that allows companies and nonprofits to become more sophisticated and innovative in the way that they maximize economic and social values. For nonprofits, this often means more professional management and scaled operations with a tight focus on both economic and social objectives. For business, corporate social responsibility is increasingly not about 'random acts of kindness' but about finding the balance between social and economic value that enhances their value proposition.

**Social value**

In addition to the economic benefits of the industry of social entrepreneurship, there is the potential for a range of social benefits.

*Social capital:*

Research done by political-economist Robert Putnam<sup>45</sup> highlights the value of building 'social capital' in the form of a robust, reinforcing network of social and civic institutions that contribute to the capacity of society to facilitate economic and social development. Putman's research looked at 41 regional economic development regions in Italy and demonstrated that the regions with strong and extensive networks of social and civic organizations were more successful at stimulating and sustaining economic and social progress.

Putman explains that civic networks create norms of behaviour around social interaction, reciprocity and trust. They create a governance structure that relieves the pressures on government and social agencies to fix broad reaching social problems by facilitating integrated political, economic and social action.

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<sup>43</sup> M. Friedman, 'The Social Responsibility of Business is to increase its profits.' The New York Times Magazine, 1970

<sup>44</sup> UNEP Finance Initiative, 'Show Me the Money: Linking Environmental, Social and Governance Issues to Company Value', 2006

<sup>45</sup> R. Putnam, 'Bowling Alone: America's Declining Social Capital', Journal of Democracy, January 1995

Social entrepreneurship, therefore, creates societal value both with its individual, high profile successes and in by investing in a culture of social responsibility with a critical mass of social capital.

*Program outcomes:*

A culture of social entrepreneurship also creates day-to-day impact which, although incremental in some cases, advances important societal values and outcomes. Each organization that works in the area of poverty reduction or lowering high school drop out rates makes a societal, and often economic, contribution.

One example of a program that maximizes both the economic value of its social mission is Pathways to Education, a program whose mission is to reduce the high school drop out rate of at-risk youth. It highlights the need for social entrepreneurship and innovation even in areas where the government is likely to continue to play a dominant funding role like education and healthcare.

For example, the Pathways to Education program used social economics and a business approach to highlight its success in keeping inner city kids in school. The social value was well-documented – a reduction in the drop out rate from 56% to 10% -- but given the cost to administer the program, the economic value to the government and society was less clear.

A study by Boston Consulting Group shows that for every student enrolled in the program, the government gets a return on investment of \$400,000 which equates to an internal rate of return (IRR) of 9.4%<sup>46</sup>. This social return on investment (SROI) calculation looks at increases in education to understand the economic impact of increased income and sales taxes collected by the government, reduced payout of transfer payments and avoidance of costs associated with lower rates of incarceration and teenage pregnancy.

The success of this type of program is its roots in the impacted community and its ability to innovate until it finds a successful model. The challenge and opportunity, faced by many grassroots organizations, is its ability to operate at scale. Social entrepreneurship, in this example with its focus on reframing the value of the offering, has allowed the organization to attract funding to expand to five additional communities. By focusing resources on growing and supporting high potential social entrepreneurs, society has the opportunity to scale innovative programs to have even greater social impact.

*Community economic development:*

Another social benefit of social entrepreneurship is to engage with groups of people who are less likely to be full participants in society and the economy. The Global Entrepreneurship Monitor (GEM) survey from the UK finds, for example, that:

- Although men are still more likely to be entrepreneurs of any type, women are proportionately more likely to be social entrepreneurs than mainstream entrepreneurs
- Younger people are more likely to be entrepreneurs

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<sup>46</sup> Boston Consulting Group, “BCG Assessment of Pathways to Education, Executive Summary”, 2007

- Those who are labour market inactive are marginally more likely to be social entrepreneurs than mainstream entrepreneurs.
- The most socially entrepreneurial ethnic group are Black Africans at 10.9% of the population. This is more than three times higher than the rate of social entrepreneurial activity in the White population.
- Black Caribbean people are more than twice as likely as White people to be social entrepreneurs (6.5% compared to 3%).

The United Kingdom offers an example that illustrates the potential for large scale community economic development.

In 2000, the Labour government recognized that social entrepreneurship could be used to encourage economic development in economically disadvantaged regions. The government asked prominent venture capitalist Sir Ronald Cohen to lead a taskforce on Social Investment.

By 2005, the task force recommendations were credited with:

- Creating a capital base of £400 million for community development finance sector
- Financing 9,500 businesses in under-invested communities
- Creating 10,000 jobs and sustaining an additional 85,000
- Leveraging £160 million in financing from other sources
- Improving net income of 210,000 households<sup>47</sup>

## The Roadmap: How To Foster Social Entrepreneurship in Ontario

A synthesis of research suggests that social entrepreneurship is the intersection of social need, entrepreneurial individuals and resources. Given wide recognition of the increasing social need, this section will focus on opportunities to

- Build and reinforce a culture of entrepreneurship, and
- Mobilize financial and human resources.

### Culture of entrepreneurship:

MIT researcher David Birch is recognized as a pioneer in the area of entrepreneurship and its role in economic development.

When asked about entrepreneurship in Canada, Birch states that 'it is apparently very hard to get from small to big in Canada'. He cites the large role of small and large companies in our economy but describes a 'trap in the middle that the Canadian companies are not able to get through'<sup>48</sup>

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<sup>47</sup> Enterprising communities, 'Wealth beyond Welfare', July 2005

<sup>48</sup> S. Butler and W. Dennis. Jr.(editors) Entrepreneurship: The Key to Economic Growth. Heritage Foundation,1985

This statement is echoed by Bill Buxton in his work as a part of a special panel with the Ontario Jobs and Investment Board in 1997<sup>49</sup> as well as the resulting *Roadmap to Prosperity* document. In this document, the panel reports that Ontario has a smaller share of firms in the mid-size (100-499 employees) and large (500+ employees) categories than many competitor economies. They also note that Ontario's business sector research & development spending rates and per capita researchers lag other OECD countries.

In an interview in 2004, Birch talks about three needed areas of emphasis to build a culture of entrepreneurship that are consistent with research in other areas:

- entrepreneurial education and training
- networking and community
- recognition and reinforcement of entrepreneurial skills<sup>50</sup>

This list also reflects needs identified by a cross-section of social entrepreneurs at the Social Entrepreneurship Summit held in Toronto in November 2007<sup>51</sup> and is relevant both to stimulate entrepreneurship within organizations and at the industry level.

#### *Entrepreneurial education and training:*

David Birch outlines three necessary skills – selling, managing people and creating a new product or service – needed to build and grow thriving entrepreneurial businesses. He points to the lack of these courses on education curriculums and chides business schools for focusing on creating generations of workers more comfortable with taking orders than taking risks. He also recognizes the lack of hands-on, technical assistance programs needed to provide basic entrepreneurial skills.

International survey data from a 2006 survey by the Global Entrepreneurship Model (GEM) confirms that, as with mainstream entrepreneurship, social entrepreneurial activity appears to be heavily influenced by access to training – with social entrepreneurs needing even more training than entrepreneurs given the relative newness of the field. In fact, where individuals have taken training, either at school, as part of a college or university course, workplace training or a government program, GEM survey data shows that rates of social entrepreneurship activity doubles.<sup>52</sup>

Specific opportunities raised by social entrepreneurs at the Social Entrepreneurship Summit in November 2007 are to:

- **Integrate social entrepreneurship into education curriculum** by developing resources and degree programs, creating internships/secondments/fellowships/research partnerships/placements/exchanges/case competitions, and expanding into existing community programs like Junior Achievement and McConnell/McGill type programs

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<sup>49</sup> B. Buxton, B. Purchase and K. Knox, *Creating an Innovation Culture*, Ontario Jobs and Investment Board, 1997

<sup>50</sup> M. Aronsson, "Education Matters—But Does Entrepreneurship Education?" *An interview with David Birch. Academy of Management Learning and Education*, 2004, Vol. 3, No. 3, 289-292

<sup>51</sup> Social Entrepreneurship Summit, Toronto, MaRS Centre, December 4, 2007

<sup>52</sup> R. Harding, *The Social Entrepreneurship Monitor*, Global Entrepreneurship Summit, 2006 n=27,296 randomly selected 18-64 year olds living in the UK

- **Expand technical support for nonprofits** by collaborating on training, providing targeted coaching and guidance, sharing a common base of research and information, and adapting existing entrepreneurship training in priority areas (i.e., finance, leadership, talent management, marketing, technology)
- **Establish a mentoring network** by formalizing knowledge sharing and support for new entrants, linking social entrepreneurs with existing businesses, extending partnerships across sectors and industries, and learning from established entrepreneurs in different sectors

### *Networking and community:*

Research in this area concludes that ‘to a great extent, you can’t really teach entrepreneurship. You have to model it’<sup>53</sup> and the importance of the institutional environment needed to foster and sustain entrepreneurship behaviour.

As a developed economy operated as a liberal democracy and based on the rule of law, Ontario has many of the building blocks needed to build a supportive environment. Although specific gaps in government policy and regulation are addressed in other sections, it is important to highlight the need for network and community support as Ontario works to reinforce, extend and grow social entrepreneurship.

These networks are easy and relatively low cost to construct but provide critical support mechanisms for social entrepreneurs. This is seen as particularly important given some of the barriers that social entrepreneurs perceive and their relative psychological need for reassurance when contrasted with mainstream entrepreneurs<sup>54</sup>. These networks also play an important role in bridging social entrepreneurship from different organizations, making it critical that networks and hubs include participants from government, business and nonprofits.

In absence of a formal mentoring program, many social entrepreneurs have joined together to develop networks and communities. By creating a cluster or hub of social entrepreneurship activity, leaders could support and accelerate innovation and translation of that innovation into the market place.

Bill Drayton, an early leader of social entrepreneurship, recognized this and responded by creating the Ashoka Foundation, a nonprofit focused on finding and fostering a network of social entrepreneurs around the world. Similarly, organizations such as the Skoll Foundation and Schwab Foundation dedicate themselves to identifying leading social entrepreneurs and fostering best practice and idea sharing.

Organizations exist in Canada, including the Social Innovation Group, Community Economic Development network, Centre for Social Innovation and Canadian Business for Social Responsibility among others. Many exist without government funding, relying on membership or user fees, while others receive funding from government or donors.

Specific opportunities raised by cross-section of social entrepreneurs at the Social Entrepreneurship Summit in November 2007 are to:

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<sup>53</sup> M. Aronsson, “Education Matters—But Does Entrepreneurship Education?” An interview with David Birch. *Academy of Management Learning and Education*, 2004, Vol. 3, No. 3, 289-292

<sup>54</sup> R. Harding and D. Harding, “Profiling social entrepreneurs”, Coactive, 2005

- **Develop and work towards a shared agenda** by establishing a common cause, fostering collaboration with others who share similar priorities, encouraging cooperation on common issues, and building social entrepreneurship priorities into other civic projects
- **Establish an umbrella group** to coordinate the sector by managing interest groups for key topics, coordinating sector events across the country, creating a central 'Chamber of Commerce', and ensuring ongoing collaboration
- **Recognize and reward social entrepreneurship behaviour** by profiling and promoting champions and visionary leaders, creating virtual networks to connect organizations across the country, and holding social networking events
- **Promote best practice sharing** by sharing business models, engaging with private sector entrepreneurs, running cross-sectoral workshops on collaboration, learning from specialists within the sector, promoting multi-generational and cross-community networking, and encouraging involvement of social entrepreneurs in local initiatives
- **Support sharing of resources** in order to leverage support/services/space by creating a common directory of social enterprise organizations, sharing business models, merging to build scale, and creating more incubators/collaboration centres

*Recognition and reinforcement of skills:*

The recognition of Julie Aigner-Clark as a social entrepreneur in George W. Bush's State of the Union address was an important acknowledgement to all social entrepreneurs of the value of their work.<sup>55</sup> Unfortunately, mainstream references to social entrepreneurs are still uncommon.

David Birch argues that the only way that children will want to grow up to be entrepreneurs is if they see them in leadership positions in their communities and have the requisite support and direction as they grow up and make their career decisions.

This reinforcement and recognition happens in an ad hoc way in Ontario through awards such as Canada's first 'Social Entrepreneur of the Year' award announced by the Schwab Foundation last year but there is opportunity for deliberate efforts by politicians, business leader, media and other key influencers to embrace and promote social entrepreneurship in Canada.

Specific opportunities raised by cross-section of social entrepreneurs at the Social Entrepreneurship Summit in November 2007 are to:

- **Engage key opinion leaders** through systematic and sustained outreach. Promotes social entrepreneurship success stories with media, corporate leaders, politicians, foundations and other stakeholders
- **Partner with the private sector** by letting business know of ways it can get involved, creating secondments and internship placements and sharing 'success stories' that demonstrate the business value of social and environmental sustainability

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<sup>55</sup> <http://www.whitehouse.gov/stateoftheunion/2007/>

- **Encourage government support of social enterprise** by developing a shared agenda of agreed upon national and provincial priorities, facilitating government procurement of socially responsible goods and services, and offering government internship placements in social enterprises

### Availability of resources

Absent from Birch's list is resources to fund entrepreneurial ideas. He, like other researchers, often works on the assumption that funding is there for the most innovative, resourceful entrepreneurs.

As we have seen in the UK, however, there is an opportunity to accelerate development of the sector through direct government investment in social venture capital funds and value-added management guidance and training provided to the most promising business models.<sup>56</sup>

#### *Finance and funding opportunities:*

As outlined above, significant resources are already dedicated to social services in Ontario. Despite that, access to financing continues to be a concern for social entrepreneurs. This is reflected in numerous studies, including the 2006 GEM study where social entrepreneurs are proportionately more likely than mainstream entrepreneurs to have failed to gain access to finance because of the nature of their business.<sup>57</sup>

### Social venture capital:

In their 2007 study of the role of public versus private funded venture capital, James Brander and his colleagues at the University of British Columbia<sup>58</sup> highlight the importance of government funding where there is particular information asymmetry or external societal benefits that are under-valued in typical risk-reward analyses. Both circumstances apply in the case of social entrepreneurship.

Information asymmetry points to circumstances where investors have insufficient information on a business to accurately assess its value. This can be the case in:

- early-stage funding where the most of the value resides with the innovator
- technically complex or rapidly developing sectors where investors lack specific knowledge, or
- less sophisticated markets where investors are not aware of new innovation.

The value of external social benefits is often not fully captured in economic analyses. This value can be both economic (i.e. the value of innovation, research and development,

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<sup>56</sup> J. Brander, R. Amit, and W. Antweiler, 'Venture-Capital Syndication: Improved Venture Selection vs. The Value-Added Hypothesis', *Journal of Economics & Management Strategy*, 2002

<sup>57</sup> R. Harding, *The Social Entrepreneurship Monitor*, Global Entrepreneurship Summit, 2006 n=27,296 randomly selected 18-64 year olds living in the UK

<sup>58</sup> J. Brander, E. Egan and T. Hellmann, 'Government Sponsored versus Private Venture Capital: Canadian Evidence', *Sauder School of Business, Review*, Spring 2007

spin off impact of job creation, reduced cost of government programs) or social (i.e. smaller carbon footprint, community economic development, poverty alleviation).

These two market failures, information asymmetry and undervalued externalities, could lead to underinvestment in innovation and suggest a role for public investment in social venture capital funds.

Social venture capital funds exist – most with the blended value proposition of social and economic return. Like traditional venture capital funds, they can be privately or publicly funded and the fund can take a range of financing roles from loans to equity partnerships.

Research on venture capital funds in Canada<sup>59</sup> suggest that the better opportunity is for government to subsidize the venture capital sector by directing funding to specific areas to reduce the finance costs and increase availability of funding. This approach has the multiple benefits of: extending the reach of government funds, sharing the downside risk with private sector partners and removing the government from the role of ‘picking winners’.

The UK government has had some success with this type of subsidization model. One example is Bridges Ventures, a private equity/venture capital company with a social mission. Its first fund, created in 2002, was funded to 40M £ with 50% private and 50% government money. It raises funds to finance businesses that have a social or environmental purpose and focuses its investment in the 25% most economically disadvantaged communities in the UK. Its success led to the raising of a second fund of 75M £ in 2007 that was entirely privately financed.<sup>60</sup>

### **Leveraging current investment in social services:**

Given the large investment by government, private sector and nonprofits in social services, there are also opportunities to apply the principles of social entrepreneurship to existing spending.

As discussed above, much of this is happening organically with the blurring of government, business and nonprofit service delivery. There are opportunities in the way that public sector money is allocated and spent to reinforce this move to a shared responsibility for outcomes by emphasizing more formal collaboration with nonprofit and business in service delivery and faster adoption of social innovation into public programs.

Learnings from the UK task force on social innovation provide additional opportunities to stimulate spending on social entrepreneurship in the absence of government appetite for direct funding of social venture funds or programs. These include initiatives to:

- Develop a community investment tax relief (CITR) credit
- Encourage bank disclosure on lending in under-invested areas
- Encourage greater social investment by foundations and charitable trusts

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<sup>59</sup> J. Brander, E. Egan and T. Hellmann, ‘Government Sponsored versus Private Venture Capital: Canadian Evidence’, Sauder School of Business, Review, Spring 2007

<sup>60</sup> <http://www.bridgesventures.com/>

- Nurture community development financial institutions (CDFIs)

Specific opportunities raised by cross-section of social entrepreneurs at the Social Entrepreneurship Summit in November 2007 are to:

- **Provide incentives for social investment** by creating new tax incentives for investors and to top up salaries (i.e., pay equity), using social/environmental screens to qualify any corporate subsidy or tax benefit, and establishing government/business/individual incentives to encourage socially responsible purchases and investments
- **Improve access to existing financing** by filling the gaps in funding with new financing alternatives, making it easier to combine funding from different sources, coordinating fragmented sources of funding and managing them centrally, educating traditional funding sources on social enterprise business models, increasing government investment in social enterprise and community redevelopment, and freeing up endowments to fund programs
- **Increase access to bank funds** by educating social entrepreneurs on how to access small business loans, encouraging banks to allocate and disclose dollars for loans to social enterprise, and helping banks to better structure products for social enterprise
- **Create innovative financing mechanisms** by expanding robust social venture funds and patient capital funding, creating models for high risk/early stage investment, attracting new investors interested in socially conscious investments (i.e., foundations, pension funds, unions), finding models to fund larger scale enterprises (i.e., initial public offering (IPO) at community level), creating funding models that share risk between funder and entrepreneur
- **Establish 'pro bono' exchanges of in-kind services** including secondments, volunteer opportunities and second career opportunities
- **Promote socially responsible investment** by developing user-friendly products to encourage investment (i.e., RRSPs), developing measures for social and environmental impact, attracting qualified financial experts to structure financial products, and managing expectations on blended return investments

#### *Talent and diversity:*

As the nexus of social entrepreneurship grows, there is recognition that these roles will need to be filled by a cadre of managers that combine bring the strengths of both private sector and civil society experience.

A study by the nonprofit consulting and executive search firm Bridgespan<sup>61</sup> projects that there will be a need for more than 640,000 new nonprofit leaders in the US by 2016 – nearly 2.4 times the number currently employed. This growth can be attributed to baby boomer retirement and overall sector growth and is likely to be the most limiting constraint to growth.

In their report, Bridgespan suggest three areas that will need to be addressed:

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<sup>61</sup> T. Tierney, 'The Nonprofit Sector's Leadership Deficit', The Bridgespan Group, March 2006

- Investment in leadership capacity even if it means directing a greater proportion of funding to overhead,
- Refinement of management rewards to retain and attract top talent, and
- Expansion of recruitment horizons and fostering of individual career mobility.

Specific opportunities raised by cross-section of social entrepreneurs at the Social Entrepreneurship Summit in November 2007 are to:

- **Highlight social entrepreneurship as a viable career option** by profiling successful social entrepreneurs, communicating benefits of working in the sector, and disclosing the salary potential of different business models
- **Improve management of talent** by supporting flexible hiring terms and conditions, sharing potential candidates if skills don't match current needs or business model, and rewarding talent with intangibles like public recognition of their work
- **Increase compensation for key positions** by communicating the value of strong candidates, understanding the market value of the skill set required, defending 'costs' needed to get programs to scale, and lobbying for incentives to subsidize wages to keep top talent in the industry
- **Improve sector diversity** by intentionally recruiting outside of 'traditional' labour forces, nurturing the involvement of youth, involving marginalized communities, and participating in civic efforts to increase leadership diversity

## Conclusion

There is an opportunity for the government to anticipate and support the growth of social entrepreneurship, in all of its organizational forms, as a mechanism to deliver economic and social benefits. The two broad opportunities to support the industry are by working with the sector to foster an environment that promote entrepreneurial culture and provides access to financial and human resources.

A synthesis of research highlights the overall consensus among social entrepreneurs of what work is needed to reach critical mass in the Ontario economy. Also reassuring is the success that governments in other jurisdictions, particularly the UK, have had in stimulating social entrepreneurship.

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## Working Paper Series

This working paper is part of the *Ontario in the Creative Age* series, a project we are conducting for the Ontario Government. The project was first announced in the 2008 Ontario Budget Speech, and its purpose is to understand the changing composition of Ontario's economy and workforce, examine historical changes and projected future trends affecting Ontario, and provide recommendations to the Province for ensuring that Ontario's economy and people remain globally competitive and prosperous.

The purpose of the working papers in this series is to engage selected issues related to our report: *Ontario in the Creative Age*. The series will involve a number of releases over the course of the coming months. Each paper has been reviewed for content and edited for clarity by Martin Prosperity Institute staff and affiliates. As working papers, they have not undergone rigorous academic peer review.

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