

# Stanford SOCIAL INNOVATION<sup>Review</sup>

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*Viewpoint*  
**Social Enterprise Is Not Social Change**  
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## VIEWPOINT

# Social Enterprise Is Not Social Change

Solving systemic social problems takes people, politics, and power—not more social entrepreneurship.

BY MARSHALL GANZ, TAMARA KAY & JASON SPICER

**S**ocial enterprise and social entrepreneurship (SEE)—a business-inspired approach to solving social problems—has exploded across the United States and the world in the last decade. It has entrenched itself within a broad spectrum of fields, from economic development and urban planning to health and education policy. Since the Harvard Business School established the first “Social Enterprise Initiative” 25 years ago, SEE has rooted itself in more than 100 colleges and universities, anchored by endowed chairs and new courses in elite universities such as Stanford, Yale, Penn, Columbia, Duke, and the University of California, Berkeley. These institutions have helped turn SEE into an industry, funded by \$1.6 billion in foundation grants since 2003.

However, SEE has done little to solve the systemic social problems it purports to address, many of which have actually gotten worse. In fact, SEE’s rise distracts from and undermines the critical role of an organized citizenry, political action, and democratic government in achieving systemic social change, by offering itself as a private, market-based alternative. SEE is founded on neoliberal ideology: a belief that markets, not government, produce the best social and economic outcomes. SEE advocates construct social problems as *knowledge* problems that can be solved by technical innovation driven by competition among individual social entrepreneurs, operating through for-profit, nonprofit, or hybrid enterprises.

In contrast, a political approach sees social problems as *power* problems. Dealing with them requires collective political action by organized constituencies that use the

power of democratic government to overcome resistance to structural social change. Successful examples of this approach include the social movements that fought for abolition, public education, agrarian reform, labor rights, civil rights, women’s rights, and environmental protection, in the United States and elsewhere.

SEE’s incompatibility with collective, democratic political action is clear in the way its proponents frame their approach. First, they claim that “heroic” individuals are the key to broad social change. As explained in the SEE organization Ashoka’s promotional materials, “Just as entrepreneurs change the face of business, social entrepreneurs act as the change agents for society, seizing opportunities others miss to improve systems, invent new approaches, and create solutions to change society for the better.”

Second, they assert that the organizational form best suited to achieving social change is the entrepreneurial firm, offering organizational flexibility, efficient service delivery, and consumer choice between competing services. SEE firms, however, compete not for “customers” but for private sector donors or “investors” on the promise that they will satisfy the needs of their “end users” (beneficiaries) and “do good” by “doing well.”

Third, SEE promoters seek to minimize government. John Whitehead, a former Goldman Sachs chairman who funded Harvard’s Social Enterprise Initiative, was explicit: “I’m always looking for opportunities to expand the nonprofit sector of our economy to have nonprofits take over functions that are now performed by the government. ... [I]n the work of public schools, charter schools are an example of how the private sector can do it better, or nonprofits can do it better.”

We are not suggesting that SEE never has positive effects, but that its capacity to deal with major social problems is woefully inadequate. The SEE approach turns over major public policy domains to private sector organizations, for-profit or nonprofit, replacing democratic accountability with market discipline. But doing so makes little sense when addressing truly systemic social problems

such as economic, racial, or gender inequality; or health care, education, or criminal justice.

Entrepreneurial capitalism relies on market-based competition among firms for customers and can reward innovation with economic success. No comparable consumer-based reward system exists for SEE, meaning that even successful SEE initiatives rarely scale up. In fact, effectively scaling solutions to social problems usually requires the kind of government engagement that SEE eschews. SEE as a field has gotten to scale not from



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market success but by building a vast network of ideological support and funding for its projects, including attracting talented college students and graduates.

### POPULARITY WITHOUT PROOF

Funding for SEE proliferates in spite of staggeringly little empirical evidence that it can create meaningful social change. Unlike public sector organizations, whose interventions and actions are often identified and tracked, SEE organizations are not subject to stringent regulations and transparency disclosures, and we find little evidence that they engage in rigorous assessments of their own impact, as many nonprofits do. The popular impact reporting and investment standards (IRIS) and social return on investment (SROI) tools promoted by SEEs are not based on rigorous research methods. Although affiliates of EMES International Research Network have attempted to address some of these concerns, the fundamental problems remain.

In the absence of such disclosures or evaluations, most of SEE's numerous failures go unreported. Among the exceptions, however, are two cases that *do* receive wide attention: US charter schools overall have not only failed to reduce educational inequality but have been shown to increase it—and yet significant financial support for them remains widespread. Internationally, a much-hyped South African company's effort, backed by US and UK SEE funders, proposed to use children's play on special merry-go-rounds to pump water in African villages but proved poorly adapted to many areas and inferior to existing solutions. Five years after the project launched, PBS *Frontline* found that many "PlayPumps" were unused or broken, having diverted resources from broader water-access solutions.

SEE's unimpressive track record in many such cases is ironic because its proponents cite government programs' lack of accountability and efficacy as justification for promoting SEE in government's place. In developing countries, the SEE model aspires to help dysfunctional postcolonial governments with

limited resources meet the requirements of multilateral institutions such as the World Bank and the International Monetary Fund. And yet SEE efforts—such as PlayPumps—themselves remain partially dependent on public funding, tax-exempt foundation grants, and procurement contracts.

Given SEE's poor track record, what accounts for its popularity? Its rise is linked to the dramatic renegotiation of the relationship between private wealth and public power over the last 40 years. The consensus view of democratic capitalism that emerged after World War II was that inequality of wealth could only be moderated by equality of political voice among citizens. Democratic government's role was not as a "safety net" for the unfortunate few, but as a publicly accountable institution that could advance the common good in domains as diverse as education, health care, research, and national defense. It was the only mechanism that could employ the rule of law to rein in the power of private wealth.

Since the 1980s, however, elites hostile to constraints on private wealth have succeeded in promoting a neoliberal ideology that rejects government as instrumental in solving social problems and instead casts it as the source of most problems. In this view, efforts should focus not on improving how democratic government functions, but on replacing it with private sector groups.

This minimization of government's role undermines the power of ordinary citizens, democratic politics, and the deployment of public resources to solve social problems. Citizens become customers, and, in the absence of constraints on spending, politics becomes a form of marketing. As a result, organizing the citizenry to demand public solutions to public problems grows increasingly challenging.

There are known solutions to most social problems; what is missing is the *capacity* to put them to work. A global body of knowledge exists on how to reduce inequality, educate children, address climate change, improve our cities, and make decent health care available to all. Absent is the political will to restore labor rights, fund schools

equitably, disincentivize carbon production, provide adequate urban housing and transit, and control health care quality and cost. SEE fails to name, much less address, these core political problems.

### RECLAIMING PUBLIC VOICE

SEE's construction of social problems as deriving from a lack of technical knowledge, rather than from a power imbalance, has serious political implications. Economist Albert Hirschman argued that in a system undergoing dynamic change, members can, in return for loyalty to a shared purpose, use their voice within the system to affect the trajectory of its change, or they can exit the system in search of another that can better meet their needs. The SEE approach promotes both individual and collective exit from the public sphere in favor of private approaches to social problems. SEE thus rejects innovation in how to employ collective voice and generate the social power needed to redirect public institutions to solve what are fundamentally political problems. In doing so, it undermines citizens' commitment to political engagement on which democracy is based.

In a democracy, creating social change requires sustained interaction between the state and a vigorous civil society. SEEs, however, redefine civil society as a space in which to create parallel, private institutions that circumvent the state and citizens' claims to its resources. Constructing the disadvantaged as clients or customers, rather than citizens, undermines development of an active, engaged citizenry that can use its voice to participate in public institutions and democratic processes that reflect its will and needs.

Real change and equality that all citizens deserve, and that the public good requires, can be achieved only when citizens can effectively use their political voice and do not exit the public sphere. The neoliberal assault on democratic government creates an opportunity to renew our democracy—if we can put aside distractions like SEE, step up, and join our fellow citizens to do the educating, organizing, and mobilizing that are needed to reclaim the power of public voice. ■