"Social Enterprise: Meaning, Scope, Potential"

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Thank you very much for your kind introduction, Dr. Rhee. I'm honored to lead off the first of the six panel sessions organized by the Conference Steering Committee. I know that Dean Hubbard and the rest of my Columbia Business School colleagues also are grateful for the opportunity to deliver keynote remarks at this International Social Enterprise Conference. We hope our efforts are helpful to all of you who are considering how to grow social enterprise in Korea.

Before addressing the meaning, scope, and potential of social enterprise, I'd like to acknowledge and thank some very special people who made this conference possible.

In 2004, a gentleman by the name of Chull-Young Lee showed up at my office door, introduced himself as an alumnus of Columbia Business School, and declared his interest in learning more about social enterprise. This began a close friendship and a fruitful journey for all of us who are interested in how business schools and business skills can help to make the world a better place. It is no stretch of the truth to say that we would not be gathered here today were it not for Chull-Young's unflagging support for the development of social enterprise, not only in Korea but in other nations of the world, including the U.S.

The next major link in the chain of events leading to this Conference was a gift to the Korea Foundation by Chull-Young and two other Korean businessmen who are also alumni of Columbia Business School, Woo Taik Kim and Sookil Oh. That gift supported a two-year venture with Columbia's Social Enterprise Program designed to help leading Korean business schools develop social enterprise programs of their own.

The gift made it possible for Columbia Business School to host two visiting scholars from Korean business schools in 2008, Professor Hun-Joon Park of Yonsei and Professor Yoon-Suk Baik of KAIST. During their term-long visits they attended a range of social enterprise courses, conducted research and wrote case studies on social enterprise with Columbia faculty, learned about administrative issues by attending meetings of our social enterprise staff, and began planning this Conference.

My Columbia colleagues and I very much enjoyed getting to know both Hun-Joon and Yoon-Suk, and I am pleased to report to their respective deans how hard they worked during their visits. And I know they have continued to work hard since returning to Seoul, as evidenced by the fact that Professor Park is Co-Chair of the Conference Steering Committee and Professor Baik recently sent me a draft of a paper we began working on during his visit last fall.

Last but certainly not least, I want to acknowledge our co-host, the Korea Development Institute, and in particular the contributions of Dr. Sang-Dal Shim. In addition to serving as Co-Chair of the Steering Committee, Dr. Shim took the lead in working out with me, in person in New York City and by email from Seoul, many complicated Conference details. I've very much enjoyed

getting to know Sang-Dal, and all of us in the Columbia delegation appreciate the contributions he and the Korea Development Institute have made to the Conference.

Now let me turn to the topic at hand by asking three questions which organize the remainder of my remarks: First, what does social enterprise mean? Second, how broadly should social enterprise programs be defined? And third, what is the potential of social enterprise to make a meaningful contribution to the solution of social problems?

The Meaning of Social Enterprise

The term “social enterprise” began showing up with some regularity in the U.S. in the 1990s. It was the subject of a few academic articles, of some conferences and other programmatic initiatives in business schools, a smattering of foundation reports, and, as the decade went on, an increasing number of newspaper and magazine articles about individuals and organizations that were “making a difference” in the world. The term was also gaining common usage in other countries, particularly in Europe, but with a few exceptions, India being one, social enterprise was a largely unknown concept in the rest of the world.

Things have changed dramatically in the past decade. Conferences on social enterprise abound. It’s hard to read all of the books on the subject being published today. Leading newspapers employ specialized journalists who report regularly on developments in the field. And social enterprise programs, or like-minded programs with kindred titles, are offered in nearly every major business school in the U.S.

The rapid growth in business school programming in the past decade reflects two related phenomenon: first, increasing demand by increasingly idealistic business school students, and second, increases in the number of good jobs that are available to business school graduates with training in social enterprise.

Social enterprise is no longer a small part of American business education. At Columbia, for example, about 40% of the MBA students belong to one of the three student clubs served by the Social Enterprise Program, and enrollments in the Program's 13 elective courses exceed the school-wide average.

While the U.S. remains the center of the movement, it has become a truly international phenomenon. Within Asia, social enterprise is well developed in India, is spreading like wild fire in China, and is becoming a part of business education and business practice in Korea. Witness this conference. Witness the beginnings of courses and programs at some of Korea's leading business schools. Witness the growth of socially responsible investing. Witness the development of corporate foundations.

I'll discuss the reasons behind the growth in social enterprise when I turn to its potential to solve societal problems. Now I want to get to the task at hand, which is to offer a definition of social enterprise.

To me, social enterprise means, simply put, the application of business skills (or tools or methods if you prefer) to the solution of social problems. I include environmental problems within social problems because global warming is likely to be our ultimate social problem if we continue to "do business" in the future as we have in the past.

This is a pragmatic definition, to be sure. I prefer it to "creating social value," which is commonly used as a definition of social enterprise, because solving problems is easier to understand than creating value. Also, value is a more contentious concept within business schools, particularly when social enterprise is celebrated as a higher calling than private enterprise because the latter is merely focused on making money.

New programs are hard enough to initiate without insulting the mainstream of business educators. Defining social enterprise as the application of business skills to the solution of social problems facilitates programmatic entry. It is hard for faculty members, even for the most devout believers in the market's invisible hand, to oppose using the skills they teach to solve social problems. Social enterprise means business, and social enterprise programs need to rest comfortably within business schools.

How Broadly Should Social Enterprise be Defined?

A second and in some ways more important issue to be considered in developing social enterprise programs revolves around whether they should be defined narrowly or broadly. Put somewhat differently, what are the institutional vantages from which business school students can practice social enterprise? Should training focus on developing socially responsible business leaders? Or effective managers of nonprofit or nongovernmental organizations. Or successful social entrepreneurs? Or innovative government officials? One, some, or all of the above?

<u>Corporations</u>

With the exception of one issue, discussed below, it is difficult to argue that a social enterprise program in a business school should not focus on training students to be socially responsible in the conduct of their business careers—all the more so in a nation like Korea where major corporations play such an influential role in society. Consider the ways that business leaders, potentially at least, are able to use their skills to better society.

They can be ethical leaders, thereby raising the bar of corporate performance beyond minimal legal requirements. They can integrate social responsibility into their main business lines and thereby sustain social gains and profit at the same time. They can allocate corporate funds to needy charities or create corporate foundations to serve this purpose. They can return their fortunes to society by becoming private philanthropists. They can volunteer their time and expertise by serving on nonprofit boards or public commissions. They can initiate volunteer programs for the employees of their firms. They can be socially responsible investors. The list goes on and on.

Given the high level of human and financial resources within society's major firms, their senior executives have great potential to make major contributions to society beyond those that accrue from creating jobs and paying taxes. But the word "potential" needs to be underscored. Big businesses are often highly inertial, often capable of dulling even the most idealistic, innovative, and well-trained business school graduates.

Nonprofit Organizations

Earlier I said that the field of social enterprise was growing rapidly. In the U.S. a major reason for this is the explosive growth of the nonprofit sector, which for the past two decades has been

growing twice as fast as the governmental sector and half again as fast as the private sector. Good data on the growth of nonprofit or nongovernmental organizations internationally is hard to come by, but my sense is that the nonprofit sector is growing relatively rapidly in many nations, China second to none. In Korea I believe it is an emerging sector that will continue to grow in prominence in the years ahead.

The growth of the nonprofit sector suggests that society's stake in its performance is also growing. While I disagree with the popular view that businesses are well managed because they are subject to the discipline of the market, and the corollary that nonprofits are poorly managed because they are not, it is true that many nonprofits are very poorly managed.

And while there are important differences in the way businesses and nonprofits operate, most of the skills taught in business school are readily applicable to nonprofits. This is certainly true of the "soft" side of business education—leadership, management, strategy, negotiations, and marketing for example. But the other side (notice I didn't say "hard") is also relevant—operations, accounting, performance evaluation, and even finance.

Nonprofit managers who are able to adapt the trainings of business school to their institutions can have a major positive impact, if only from using their rapidly growing resources more efficiently. Even a modest 10% productivity gain in the nonprofit sector, and there is more to be had than that, could have a major impact on social welfare by freeing up resources for other worthwhile purposes and/or improving the volume and quality of services provided.

Social Entrepreneurship

My sense is that this facet of social enterprise currently is attracting as much if not more interest than corporate social responsibility or nonprofit management. The social payoffs of using energy-efficient light bulbs in business establishments or achieving a 10% productivity gain in a nonprofit are not nearly as exciting as founding a new organization with a new way of attacking an enduring social problem. The founders of such organizations, call them social entrepreneurs, face few of the start-up problems that would-be innovators in big business, nonprofit, and government agencies face.

While social entrepreneurs may start nonprofits as well as firms, it is the latter that capture the most attention because revenues derived from sales are thought to be more sustainable than revenues derived from the beneficence of others. I think there is considerable evidence that this is a faulty assumption, but be that as it may, it is clear that the tools of entrepreneurship, a mainstay of business education, are readily applicable to the tasks facing social entrepreneurs.

The factor more than any other that clouds the potential of social entrepreneurs is the difficulty of bringing the organizations they found to scale, sustainable scale. The inability to attract sufficient resources converts many would-be entrepreneurs into salaried employees of larger organizations and many successful founders into failed developers.

One of the enduring issues in the field of social enterprise is that the organizations with the resources to make things happen—major corporations, major nonprofits, major government agencies—tend to resist change, while the entrepreneurial organizations that embrace new and better ways of doing business often die on the vine for lack of resources. Fortunately, as my colleagues Antony Bugg-Levine and Bruce Usher will discuss, there are developments in the

field—new institutions and new ways of using the market—that promise to bring resources, financial and human, to promising social start-ups.

Government Agencies

For many people the idea that social enterprise might play a role in government is oxymoronic, witness the long line of outstanding business people who have been recruited by public officials to make government more efficient, or accountable, or, in a word, more business-like. And witness the same long line who failed to accomplish anything. Why, one might ask, should any attention be paid to training business school students for careers, or stints, in the public service?

The answer is resources, resources, and resources. If any institution has the financial, human and legal resources required to make fundamental changes in society it is government. If, as I'll argue in conclusion, the energy crisis is providing "clean-energy" businesses with a huge opportunity to make money and clean up the environment at the same time, it is worth remembering that this opportunity will not come to pass without government intervention whether in the form of subsidies or establishing the price of carbon emissions.

As you might expect from my review of the vantages from which social enterprise can be practiced, we have defined the field broadly at Columbia Business School. But let me say that the decision to define the field broadly, and to train our students in a variety of ways, was reached in a Columbia-specific context. It would have been hard to do otherwise.

Applicants to Columbia Business School are a diverse group with various career ambitions. The Social Enterprise Program morphed out of an earlier and longstanding program that trained

business school students who sought careers in the public and nonprofit sector. We continued to serve that group of students while we broadened our mission to include training socially responsible business leaders and social entrepreneurs. The broad focus also meshed nicely with a larger mission of the School, which is to train students for a lifetime rather than a first job. Many of the School's alumni begin their careers in business but then move to public and nonprofit positions later in their careers, and many of those who stay in business throughout their careers become philanthropists and serve on nonprofit boards.

In other words, those of you who are responsible for thinking through how social enterprise might be developed in Korea need to consider the extent to which the Columbia model is appropriate to Korea because our contexts, or cultures if you will, are somewhat different. This is an issue I'll return to shortly and which I'm sure we'll discuss in this panel and throughout the Conference.

The Potential of Social Enterprise

Is social enterprise a fad, one of those passing fancies in business education, like quality circles or management by objective? Or does it have staying power?

I believe it has staying power, or I would not have devoted so much of my professional life to the social enterprise movement. The forces that have propelled the growth of the movement in the U.S. and internationally are not likely to disappear, including the threat global warming poses to our environment and thus our established ways of doing things; the persistence of widespread social ills, like poverty, disease, and a wide variety of discriminations; and the tidal force of globalization that spreads good ideas and new institutions around the world.

I'm concerned, as we all are, about the effects of the world financial crisis on the social enterprise movement. It will be a setback to the movement if we revert to a dog-eat-dog, beggar-thy-neighbor world. We can't let social enterprise be considered a luxury to be provided only in good times. If anything, the movement is more important in times like these.

While social enterprise remains a relatively young social movement in the U.S., I'm convinced it has the potential to help solve a wide range of social and environmental problems. I'm quite confident the same potential exists in Korea, but as I've tried to emphasize throughout my remarks, apparent differences in our cultures, institutions, and business schools undoubtedly argue for somewhat different approaches than the Columbia Business School model.

That said, I don't want to close by caving in entirely to cultural relativism. Here in closing are a few words of advice that perhaps we'll have a chance to discuss on our panel.

First, keep in mind that the meaning of social enterprise, at least as I have defined it as the application of business skills to the solution of social problems, dictates that business schools play a central role in its development as a social movement. In light of this it is important to develop programs that fit easily within the established orders of business school.

Second, I think it is useful to think of social enterprise as an umbrella broad enough to cover a range of organizational forms and individual desires. There is, to use what is probably an ill-suited American adage, more than one way to skin a cat. There are many ways graduates of business schools can make the world a better place.

However, my sense is that your effort to develop the field of social enterprise would be remiss if it did not focus initially on preparing students to be socially responsible business leaders, but some programmatic activities should also focus on social entrepreneurship and even public service. In this connection, I urge you to listen carefully to my colleague Sandra Navalli, who will be addressing the range of curricular and extra-curricular activities that might be developed to attract students and faculty to the field.

Third, I take note of the fact that the Korea Development Institute is a co-sponsor of this Conference. This adds an important voice to those who otherwise would be responsible for moving the agenda further, including university presidents, business school deans, interested faculty members, corporate leaders and foundation officials.

I would think the time is right, assuming the Conference reaches a degree of consensus, for a concerted effort that would bring together all of the stakeholders in a strategic planning process that would identify where you are, where you want to be, and what it will take to get you there. I hope the Conference is a first step in this process.