

Recognizing Social Opportunities

AIM/PURPOSE

Generating ideas for a social venture and assessing those ideas for their potential to be true opportunities is the focus of this chapter. As part of this discussion, the chapter explores the role of innovation in social entrepreneurship and presents several tools for assessing social opportunities.

LEARNING OBJECTIVES FOR THIS CHAPTER

1. To recognize the sources of ideas for social entrepreneurship.
2. To be able to assess an idea for its viability as a true opportunity to add social value.
3. To understand the forms innovation takes and the role it plays in opportunity recognition and implementation.
4. To recognize forms of resistance to social innovation and to devise strategies for overcoming them.
5. To grasp the nature and importance of a social value proposition (SVP).
6. To understand the function of mission in social entrepreneurship and how to write an effective mission statement.

In Chapter 2 the process of generating ideas for pursuit as a social entrepreneur is touched upon and placed in the larger context of a complete social entrepreneurship process. It is also emphasized that if a social entrepreneur is to be successful, he or she must assess their initial idea's potential as a viable opportunity to address a social or environmental need—a process that is known in the entrepreneurship field as opportunity recognition. This is to say that good ideas are not necessarily true opportunities to add social value. Each idea must be intentionally examined to ascertain the

likelihood that it can produce positive social change, that there is a market for it, and that a social venture built to pursue the idea is sustainable over time (Dees, Emerson, & Economy, 2001). Even if this is not done formally, successful social entrepreneurs informally evaluate their opportunities—they think them through—as was the case with Allison Lynch of the New York Women's Social Entrepreneurship Incubator featured in the "Voices from the Field" section at the end of this chapter.

In this chapter we discuss social ideas and where they come from. We explore the process of assessing an idea to determine whether or not it represents a genuine opportunity. Along the way, we introduce the concept of innovation and the role it plays in opportunity recognition and implementation. We also discuss typical forms of resistance to innovation and how those might be addressed and overcome. We conclude with a discussion of the social value proposition (SVP) and the mission of the social venture that pursues the identified opportunity.

SOCIAL IDEAS

Every social venture begins with an idea for improving society in some way. *Webster's New Collegiate Dictionary* defines an idea as "an indefinite or unformed conception." It is important to understand that ideas are merely "grist for the mill" of entrepreneurship. They represent a starting place, but they lack the finish to build an enterprise around. Timmons and Spinelli (2007, pp. 116–122) assert that ideas are "inert" and have no real value, in and of themselves. This may be a bit of an overstatement, but it is certainly true that ideas represent unrealized potential value in their original state. They are the "commodities" of the entrepreneurship process. Just as is the case with commodities, ideas have a value as the raw materials from which opportunities are made and ventures are launched. In this way, they are important and worthy of our deeper consideration.

Entrepreneurs are often credited for their creativity and ability to generate new ideas for meeting customer needs. One of the authors of this text knew an entrepreneur operating in a city in the southern United States who came up with 100 new business ideas every month. There is the often-told story of Anita Roddick, founder of The Body Shop, who generated new ideas every time she walked down the street, observing her surroundings. But where and how do ideas for meeting needs actually originate for most entrepreneurs?

The following are general sources of ideas. Most of these apply to both business and social entrepreneurs (Fiet, 2002; Longenecker, Moore, Petty, & Palich, 2006; Timmons & Spinelli, 2007):

- personal experiences—these may include experiences at work or at home;
- hobbies or avocations—activities people enjoy engaging with during their free time;

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- serendipity or accidental discovery—something that is identified in the course of seeking something else;
- systematic or intentional search—a deliberate effort to find an idea through research;
- awareness generated by media, personal and professional networks, etc., with the prospective entrepreneur learning about an issue or a problem through a newspaper account, a television report, or a session at a conference.

Personal experiences are a common source of entrepreneurial ideas. The would-be entrepreneur encounters a problem or need in her or his life that she or he believes is common to many people and in need of addressing. An example from social entrepreneurship might be a mother whose child suffers from a learning disability and is not getting the help he needs from the local public school, so the mother finds an organization that provides specialized assistance to children who share this particular disability. The case of Madecasse, presented in the "Voices from the Field" section of Chapter 2, is another good example of a social idea generated from personal experience. In that case the founding entrepreneurs got their idea for making chocolate in Madagascar through their Peace Corps experience in that country and their professional knowledge of the chocolate industry.

Sometimes, social entrepreneurs draw their ideas from their own hobbies. One of our former students was an avid rock climber. She loved the sport for the healthy way it made her feel and for the opportunity it gave her to interact with nature. It struck her that many inner-city youth never got the chance to enjoy an experience like this and that it could benefit them. She proposed to build an enterprise that would provide equipment, training, and transportation to disadvantaged youth who wanted to experience rock climbing.

There are numerous stories in the business world about entrepreneurs whose ideas came to them purely by a lucky accident. The inventors of a blood coagulant called Quick Relief originally set out to develop a method for purifying water. By accident, they created a product that is now widely used to stop bleeding caused by sports injuries. Its customers include several professional sports franchises (Longenecker et al., 2006, p. 530). In the social entrepreneurship arena, Kate Davenport, who is currently the Green Business-Green Jobs Program Director for Eco-Ventures International (a group that assists green enterprises), went to an event several years ago with the express purpose of hearing Nelson Mandela speak. When she got to the venue, however, she became absorbed in some informational literature she just happened to see on environmental sustainability, which inspired her so much that she went on to found a recycling business in Washington, DC.

Some entrepreneurs generate their ideas very intentionally; they search for them. Some look through lists of unused patents. Others immerse themselves in what are sometimes called "idea baths." These are gatherings of experts in a particular

field or industry who discuss trends and, in so doing, tease out ideas that might be pursued by value-adding enterprises (Lichtenstein & Lyons, 1996).

Prospective entrepreneurs can emulate the results of an idea bath by engaging in their own trends analysis. They can look for what Timmons and Spinelli (2007) have called "sea changes." This is a nautical reference going back to the days when sailors did not have elaborate navigational systems at their disposal. Instead, they had to rely on the diligent monitoring of changes in wind patterns and velocity, the color of the sky, wave action, and so forth. These "sea changes" were the precursors of the challenges they would face to charting their course, maintaining it, and keeping their ship upright in a storm. This is a useful metaphor for thinking about trend or pattern analysis.

If entrepreneurs carefully monitor changes in their environment, they will see patterns that will help them to predict arising challenges or needs to be addressed. When the "window of opportunity" for acting on an identified need opens, they will be positioned to take maximum advantage of the timing. But what do entrepreneurs look for?

Strategic planners talk about four major areas of society to monitor when looking for sea changes, which they have given the acronym PEST (Bryson, 1995). The "P" stands for the political arena—changes in regime, ideology, leadership, and so forth. "E" is economic and involves changes in structure, monetary policy, trade policy, etc. The "S" stands for social, which may include demographic and cultural shifts. The "T" is technology, which accounts for a host of changes stemming from the development and implementation of new technologies. Within these major areas the entrepreneur is looking for shifts in perception, process, structure, or new knowledge (Longenecker et al., 2006). Embedded within any of these changes may be an idea for a new product, service, process, and so forth.

Social entrepreneurs, in particular, may find the media to be a source of ideas. Hearing about or seeing a social problem elsewhere in the world can trigger thinking about what might be done to solve that problem. Professional and social networks may also be sources of ideas, as word of social needs is widely spread. In short, vehicles of mass communication have shrunk the world and helped to make a problem in one corner of the world everyone's problem. An individual in the United States who hears about human rights abuses somewhere in Africa may become a social entrepreneur who builds a venture to bring a solution to that problem to its source.

Longenecker et al. (2006) offer another perspective on the generation of entrepreneurial ideas. They classify ideas as falling into three categories. Type A ideas are those that involve identifying a new market for an existing product or service. Type B ideas are those that represent the creation of an entirely new product or service, often through a technological breakthrough. Ideas that involve creating new processes for producing and/or delivering existing products or services are called Type C ideas. This conceptual framework for thinking about the

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creation of enterprise ideas is rooted in the field of innovation, which we take up next.

THE ROLE OF INNOVATION

A discussion of the ideas that underlie entrepreneurial ventures, and social enterprises in particular, would not be complete without a discussion of innovation. In order to fully understand innovation, an important distinction must be made between the terms “creativity” and “innovation.” These terms are often used as synonyms, but they are not. Creativity is the development of original ideas, or inventions. Innovation is the implementation of those inventions. Entrepreneurs, by definition, are innovators, but they are not always inventors (though some are). The social entrepreneurs behind Madecasse (Chapter 2) did not invent chocolate, nor did they invent the process for curing cocoa beans that they teach the cocoa farmers with whom they work. They did, however, find a way to produce chocolate in a developing African country that can compete in a global marketplace; this is their innovation.

Dees et al. (2001, p. 162) observe that “innovation involves establishing new and better ways for accomplishing a worthwhile objective.” In social entrepreneurship the identified “worthwhile objective” is the creative idea; the innovation is the implementation of that idea.

The Austrian economist Joseph Schumpeter identified five types of innovation, and Dees has added two more that are specific to social entrepreneurship (Dees et al., 2001):

- The creation of new products or services. In social entrepreneurship this might also include new programs or projects. This is a bit confusing because it blurs the line between creativity and innovation. It might more usefully be stated as the *implementation* of new products, services, programs or projects—that is, the delivery to market of things that had not previously been conceived of.
- A new process for producing or delivering an existing product, service, program, or project. For example, throughout much of the twentieth century, affordable housing for low-income households was delivered by government through the construction of public housing projects, which employed multiple family dwelling units for rental. Habitat for Humanity introduced a new process model by which low-income households, with the help of volunteers, could build their own detached, single-family dwelling, which they then owned.
- Delivering an existing product, service, program, or project to a new or previously underserved market. When Muhammad Yunus created the idea of micro-lending, he implemented it with low-income entrepreneurs in his native Bangladesh. The concept has since been exported to countries around the

world. In the United States it has undergone substantial adaptation to accommodate itself to a very different economy (e.g., the need for much larger loan amounts).

- Utilizing a new source of labor or other production inputs. Greyston Bakery of Yonkers, New York, operates a bakery that produces high-quality baked goods for restaurants and hotels using ex-convicts and other "unemployable" individuals as bakery workers. In a social entrepreneurship situation such as this one, the focus is on putting unemployed people to work, as opposed to a business entrepreneurship model that might seek to hire these individuals as inexpensive labor or, more commonly, to not hire them at all. As Greyston Bakery puts it, "We don't hire people to bake brownies; we bake brownies to hire people."
- Implementing a new organizational or industrial structure. Community development banks are private banks, like their commercial banking cousins; however, they do not offer checking accounts or access to safe deposit boxes. Instead, they sell certificates of deposit to their investors and use the money to invest in the development of their communities in a variety of ways. They typically invest where private banks will not (e.g., loans for the creation of minority-owned small businesses and for projects that benefit disadvantaged members of the community). As an example, the Louisville [Kentucky] Community Development Bank made a substantial loan to a nursing home for elderly, low-income, minority individuals so that the home could make major repairs to its leaky roof.
- Implementing new ways of engaging "customers" or target beneficiaries. A relatively new nonprofit social venture in New York City called Blue Skies (now part of the Robin Hood Foundation) uses the Internet to consolidate information on social service programs in the area and streamline the application process for its users. This system engages social service beneficiaries in very different ways than the highly fragmented traditional system has.
- The utilization of new funding models. As is discussed in Chapter 6, the funding of nonprofit social ventures, in particular, has departed dramatically from a dependence on the traditional philanthropic sources to a greater reliance on the generation of earned income.

Innovation provides the link between ideas and opportunities. Innovation involves the implementation of ideas. This implies, of course, that those ideas are implementable. Opportunities are implementable ideas. But, how do we know whether an idea is implementable? The short answer to this question is that we test the idea in advance of pursuing it further. This reduces the chance of failure and its consequent wasting of resources—financial, physical, human, and social. The longer answer follows.

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OPPORTUNITY RECOGNITION

Clearly, opportunity recognition involves movement from an idea to an opportunity. Timmons and Spinelli (2007, p. 116) describe this process as “transforming caterpillars into butterflies.” We know what an idea is, but what is an opportunity? If opportunities are implementable ideas, what makes them implementable?

To begin to answer these questions, we attempt to establish a working definition of “opportunity.” Timmons and Spinelli (2007) describe the key characteristics of a business opportunity as including:

- the ability to add value for the customer;
- adding value by solving a customer problem or fulfilling a customer need;
- the ability to capture a market and generate profits; and
- compatibility with the skill set of the entrepreneurs who pursue them.

Mariotti (2007, p. 18) simply defines an opportunity as “an idea that is based on what customers need or want.” Barringer and Ireland (2008, p. 38) state that “[a]n opportunity is a favorable set of circumstances that creates a need for a new product service, or business.” These latter authors go on to identify the “essential qualities” of an opportunity: attractiveness, timeliness, durability and basis in a product that adds value for the customer (Barringer & Ireland, 2008, p. 39).

Common to all of these definitions is the idea of adding value for the customer. Marketing experts call this the value proposition—that aspect of the product or service that causes customers to choose to buy it over its competitors. This, in turn, suggests that the product or service in question is addressing a need or want of the customer that the competition is not attending to. While crucial, adding value for the customer is not the only criterion that must be satisfied in order to judge an idea to be a true opportunity, however. The ability to financially sustain the enterprise must be apparent (i.e., a large enough market that it can cover its costs and generate a profit) and the timing must be right (an open “window of opportunity”).

With these things in mind, our working definition of *opportunity* might look something like this:

An opportunity is a business concept for a product or service that adds value to the lives of its customers by uniquely addressing an identified need or desire in a way that takes advantage of existing market conditions and the skill set of the entrepreneur(s) and ensures the financial viability of the enterprise delivering the product or service.

To this point, we have been discussing opportunity from the perspective of business entrepreneurship. How might this be translated for the social entrepreneurship world? Like business entrepreneurs, social entrepreneurs need to identify


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the needs and wants of their "customers"—the target beneficiaries of their efforts. Clayton Christensen, a Harvard business professor, refers to this as a "job" that the customer needs to have done for them (Christensen & Raynor, 2003). Presumably, this is a job that the customer is either unable or unwilling to do for themselves. In social entrepreneurship it is most likely the former; therefore, the question for the social entrepreneur is "How can I do this job for this target beneficiary in a unique way that improves her or his life?"

Like business opportunities, social opportunities have a "window of opportunity." This is the time period within which the social entrepreneur can provide maximum benefit to her or his customer before circumstances change, diminishing the value of the service. A window of opportunity might be opened by an event, a change in political regime and accompanying policy, a demographic shift, or an emerging trend. The earthquake in Haiti in January 2010 was a single event that opened the window of opportunity for social entrepreneurs who sought to help the victims of that disaster. The Reagan administration's decision to close government-funded facilities for the mentally ill and effectively put many of them on the streets in the 1980s presented an opportunity for social entrepreneurs to devise new ways to help these individuals. The trend toward an increasing number of single-parent households in the United States has created opportunities to fulfill the needs of both these parents and their children through social entrepreneurship. Windows of social opportunity may be closed when the given need has been fulfilled and new needs emerge, when an identified trend ends or is reversed, when a political regime changes, or when a particular idea or perspective is no longer in good currency.

Social opportunities are also like business opportunities in that they must be financially sustainable for the enterprise that pursues them. While social ventures that are nonprofit in structure do not need to turn a profit, they do need to at least break even and, better still, generate excess revenue. With the rise of for-profit social enterprise, there really is no difference between social and business entrepreneurship in this regard. Thus, our working definition of opportunity would seem to work for both types of entrepreneurship.

Having defined opportunity, we can now turn our attention to "recognizing" it. In fact, a big part of recognition lies in knowing what it is that you are looking for. The real challenge lies in systematizing the recognition process so that it can be repeated with some measure of consistency in its predictive power. This must be done with the understanding, however, that there is no foolproof way to forecast the success of an entrepreneurial endeavor before it begins. This is due to the fact that entrepreneurship is an organic process, not a mechanistic one. The road from point A to point B is not a straight line but a circuitous path. An entrepreneur is laying the tracks just ahead of the train (Lichtenstein & Lyons, 2010). With this acknowledged, we will look at some of the tools that have been created for helping entrepreneurs to reduce their risk in their efforts to ascertain whether or not an idea is an opportunity.

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Opportunity Recognition Tools

SWOT

Tools for the purpose of assessing ideas to determine their potential as an opportunity tend to fall into two broad categories: (1) tools that evaluate the internal and external contexts within which the enterprise pursuing the opportunity operates and the tangible and intangible resources necessary and available; and (2) tools that attempt to comprehensively evaluate the attractiveness of the idea relative to criteria such as industry, market, economics, competition, management, and the personal goals of the entrepreneur. We explore each of these types of tools for assessing business opportunities in turn, and then apply them to social opportunities.

The environmental scan, more commonly referred to as the SWOT analysis, from strategic planning is a common tool for evaluating ideas. It is commonly prescribed in books on business planning as a way of offering a rationale for a business concept being proposed in the plan. It permits the entrepreneur to examine the implementation of the idea by strengths and weaknesses that are internal to the operations of the enterprise that will pursue the idea and by threats and opportunities presented by the external environment in which the enterprise operates.

Strengths and weaknesses may include a wide variety of factors: the skill set of the entrepreneur and/or her or his team, organizational structure, available financial and physical resources, and so forth. These are current strengths and weaknesses. Strengths and weaknesses are often two sides of the same coin—as the ancient Greeks observed, one's greatest strength may also be one's "Achilles heel." Listing an idea's strengths and weaknesses helps the entrepreneur to think these things through systematically, reducing the probability that an important consideration will be missed.

Similarly, a list of the future threats and opportunities potentially afforded by the context can be quite varied: changes in the industry, changes in the economy, changes in the political landscape and resultant policy and regulatory alterations, market shifts, and the like. Accounting for these forces the entrepreneur needs to think about contingencies and whether or not the enterprise could survive the contextual shift. Again, certain events may harbor both an opportunity and a threat.

A complete SWOT analysis must not stop with a mere listing of strengths, weaknesses, opportunities, and threats. It must also examine the interactions. For example, how might a particular strength be used to thwart an impending threat or leverage an emerging opportunity? If an idea holds up to this scrutiny and still looks viable, it may well be an opportunity.

Drawing extensively on the SWOT analysis model is the Outside-In/Inside-Out Analysis model (Longenecker et al., 2006). This latter model assesses ideas for their potential as opportunities by looking at the prospective impact of the outside context (defined as the "general environment" and the "industry environment") on the proposed enterprise and at the internal capacity of the enterprise to act (Longenecker et al., 2006).

In the Outside-In Analysis the general environment includes the following factors: political/legal, socio-cultural, macroeconomic, global, and technological (Longenecker et al., 2006, p. 56). The industry environment takes into account Porter's five competitive factors: new competitors in the industry, products or services that can be substituted for those of the enterprise under analysis, rivalry among competitors, the influence of suppliers, and the influence of buyers (Porter, 2008). All of these things will either positively or negatively influence the ability of an idea to be attractive and sustainable.

Outside-In Analysis tells us how opportunities might be shaped, but this is only half of the assessment. It is also important to understand how capable the entrepreneur and the enterprise are of carrying the idea forward to the market. Such an understanding involves an assessment of internal resources (tangible and intangible) and capabilities (skills and core competencies). The results of the Outside-In and the Inside-Out analyses can then be blended and assessed using a standard SWOT analysis (described above).

The more comprehensive opportunity assessment tools seem to find their origins in the work of entrepreneurship educator and researcher William D. Bygrave. Bygrave (Bygrave & Zacharakis, 2004) established a set of criteria to be evaluated relative to the "attractiveness" of the idea being assessed. For each criterion, he provided a brief profile of what that criterion would look like if it were to achieve either its highest potential or its lowest potential. In this way, Bygrave created a spectrum within which to assess each criterion within a comprehensive evaluation of an idea. For example, one of his market criteria was "Customers." He identified the highest potential of this criterion to be "Reachable; purchase orders" and the lowest to be "Loyal to others or unreachable." Presumably, many ideas will fall somewhere between these two end points, where the customer base is not entirely reachable but not without hope of being reached.

Bygrave identified seven major areas for assessment: Industry and Market, Economics, Harvest Issues, Competitive Advantage Issues, Management Team, Personal Criteria, and Strategic Differentiation. He broke each of these areas down into several specific criteria. As an example, Industry and Market comprised the criteria Market (which was further disaggregated into Customers, User Benefits, Value Added, and Product Life), Market Structure, Market Size, Growth Rate, Market Capacity, Market Share Attainable (Year 5), and Cost Structure (Bygrave & Zacharakis, 2004). Thus, he provided a very thorough tool for assessing a business opportunity.

Timmons and Spinelli (2007, pp. 170–171) adapted Bygrave's model into a tool they called QuickScreen. QuickScreen follows the Bygrave approach of nested criteria, with a higher potential to lower potential range for each. However, QuickScreen, as its name implies, takes a more streamlined approach. There are only three major assessment areas: "Market and Margin Related Issues," "Competitive Advantages: Relative to the Current and Evolving Set of Competitors," and "Value

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Creation and Realization Issues." The parameters on each criterion are more concise and sharper. For example, one of the Market and Margin Related Issues criteria is "Need/want/problem/pain-point." It is considered higher potential if the Need is "Identified" and lower potential if the Need is "Unfocused." QuickScreen also offers higher average/lower ranges for some criteria (e.g., "Exit/Liquidity," "Timing," and "Barriers to Entry"). Finally, QuickScreen allows the entrepreneur doing the assessment to consider the idea's "Overall Potential" and make "Go," "No Go," and "Go, If" decisions.

Bygrave and Zacharakis (2008) offer another variation on the Bygrave model, which they call the Opportunity Checklist. They use many of the same criteria but add a few unique ones of their own: "Psychographics" (under "Customer"), "Stealth Competitors" (under "Competition"), and major assessment areas of "Government" and "Global Environment." Another interesting feature of the Opportunity Checklist is the scale for assessment for each criterion. Rather than providing a range from higher to lower, Bygrave and Zacharakis simply permit the entrepreneur to evaluate the idea as a "Better Opportunity" or a "Weaker Opportunity."

While business entrepreneurs have several opportunity recognition, or assessment, tools from which to choose, social entrepreneurs have substantially less guidance in this area. Kitzi provides an opportunity assessment model for nonprofit social ventures (Dees et al., 2001, pp. 53–54). It is a version of Bygrave's model that has been substantially stripped down, in terms of the number of criteria, and modified to reflect a focus on social mission. The Kitzi model evaluates social ideas on three broad dimensions: social value potential, market potential, and sustainability potential. It assesses each criterion as falling in a range of high to low. While the model is very useful for assessing opportunities for social ventures with a nonprofit structure, it no longer reflects the rapidly changing nature of social entrepreneurship, which places a new emphasis on for-profit ventures and earned income activities by nonprofits.

In light of this reality, we offer a new opportunity assessment model that reflects both Kitzi's and Bygrave's thinking as well as insights from other models based on Bygrave's. Our model attempts to capture both the pursuit of social value and the market-driven aspects of business opportunities. This model, which we call the Social Opportunity Assessment Tool, can be found in Figure 3.1.

USING THE SOCIAL OPPORTUNITY ASSESSMENT TOOL

A quick perusal of the Social Opportunity Assessment Tool reveals that it has four major assessment categories: Social Value Potential, Market Potential, Competitive Advantage Potential, and Sustainability Potential. Within each of these categories are five criteria by which to evaluate the idea under study. The tool then permits the prospective social entrepreneur to develop composite ratings for each

Social Value Potential

| Criterion | Strong Opportunity | Weak Opportunity |
|------------------------------------|---|---|
| Social need | Service or product directly addresses an identified need | Service or product addresses need only indirectly |
| Mission alignment | Service or product is in direct alignment with mission | Service or product is only indirectly aligned or is misaligned with mission |
| Achievable impact | Service or product can fulfill identified social need in a measurable way | Service or product will only minimally address the need |
| Social return on investment (SROI) | A strong effectiveness to cost ratio | A weak effectiveness to cost ratio, or costs exceed impact |
| Community support | Service or product will be positively perceived and endorsed by the community | Service or product will not be well accepted by the community |

Market Potential

| Criterion | Strong Opportunity | Weak Opportunity |
|-------------------------|---|--|
| Customer need or want | Target beneficiary both needs and wants the service or product | Target beneficiary is indifferent to the service or product |
| Window of opportunity | Timing is good | Timing is poor |
| Investor interest | Evidence of philanthropic, government, or private-sector financial interest | Evidence of little or no interest by philanthropic, governmental, or private investors |
| Market size | Large | Small |
| Market share attainable | An open market, with little or no competition | Very competitive market, with several substitutes |

Competitive Advantage Potential

| Criterion | Strong Opportunity | Weak Opportunity |
|---------------------------------------|--|---|
| Barriers to entry | High, many | Low or nonexistent |
| Prospective partnerships or alliances | Many potential partners | Few potential partners |
| Control over costs | Substantial control | Little or no control |
| Compelling mission | Highly compelling; widespread sympathy | Less compelling; little understanding or sympathy |
| Management team | Strong, complete skill set | Incomplete skill set |

Sustainable

| Criterion |
|-------------------|
| Venture |
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| Investor |
| Ability to income |
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Sustainability Potential

| Criterion | Strong Opportunity | Weak Opportunity |
|-----------------------------------|---|--|
| Venture capacity | Sufficient physical resources to start and maintain the venture | Insufficient physical resources to start and maintain the venture |
| Venture capability | Sufficiently skilled entrepreneur(s), staff, and board | Insufficiently skilled entrepreneur(s), staff, and board |
| Investor interest | Evidence of philanthropic, government, or private-sector financial interest | Evidence of little or no interest by philanthropic, governmental, or private investors |
| Ability to generate earned income | High potential for charging user fees and/or selling goods or services | Low potential for charging user fees and/or selling goods or services |
| Compelling mission | Highly compelling; widespread sympathy | Less compelling; little understanding or sympathy |

Overall Potential

| | | | |
|---------------------------------|------|--------|-----|
| Social value potential | High | Medium | Low |
| Market potential | High | Medium | Low |
| Competitive advantage potential | High | Medium | Low |
| Sustainability potential | High | Medium | Low |
| Composite potential | High | Medium | Low |

FIGURE 3.1 The Social Opportunity Assessment Tool

assessment category and for the four categories combined. This should provide ample guidance for deciding whether or not to proceed with creating the social venture.

Before we look more closely at the tool, interpret the assessment criteria, and discuss where to find or develop the data for conducting the assessment, we would emphasize that this is intended to be a pre-launch test. Therefore, the idea is being assessed in advance of any action being taken on it. It is intended to force entrepreneurs to think through their idea before investing time and resources on it. If the assessment yields a positive result, they can proceed with relative confidence to pursue their genuine opportunity. If the results of the assessment are negative, they can abandon the idea before incurring any losses. In order for this to work, however, a social entrepreneur must be willing to be honest with her- or himself in carrying out the assessment. It is very easy for entrepreneurs to fall in love with their idea and delude themselves into believing that it will work despite strong evidence to the contrary.

That said, it is entirely possible to derive a "false negative" from this process. This could, in turn, scare an entrepreneur away from a social opportunity the weaknesses of which might be overcome through motivation and resourcefulness. As Tim McCullum of Madecasse observed in Chapter 2, sometimes it's better not to know what you can't do. Nevertheless, we urge prospective social entrepreneurs to put their ideas through an opportunity assessment because the systematic process will likely open their eyes to unanticipated strengths and weaknesses. The choice as to whether or not to proceed is the prospective entrepreneur's alone.

Whenever we ask a class of our social entrepreneurship students to put a social idea through an opportunity assessment, we have observed an interesting and recurring phenomenon. Invariably, one or more students in the class will express frustration with the assignment. They will ask the following question: Because my idea is about something new that no one has ever done before, how can I be expected to predict how it will work, and where will I be able to find data to test it? This is a fair question.

The answer lies in understanding that such an assessment must be handled as a "what if" scenario. If I pursue this idea, what is likely to happen? Is it likely to have customers? Will investors want to put their money behind it? Will the community in which it is implemented support it? Will it have a measurable social impact? Obviously, none of these questions can be answered definitively; however, by examining the experiences and outcomes of comparable efforts, we can draw some preliminary conclusions about their likely answers.

Where can this kind of information be found? It can be discovered in articles and books about the social problem(s) to be addressed; in case studies of similar social ventures; from relevant industry associations (e.g., housing groups, education associations, literacy groups, associations of foster children); from the financial records of nonprofits (which are a matter of public record and can be found on the Internet); from other social ventures in the same industry that are not competitors; by conducting interviews with prospective customers; in directories of foundations and other philanthropic sources; and so forth.

While most of this information will not be a precise fit with the situation of the proposed social venture, it will be close enough to allow informed assumptions to be made and to permit interpolation and extrapolation of data to better fit the circumstances being tested. The important idea here is that prospective entrepreneurs who engage in opportunity assessment should perceive themselves not as describing the present but, instead, as predicting the future based on a comparable past. When this latter mind-frame is accepted and adopted, the work becomes easier.

What follows is an examination of the Social Opportunity Assessment Tool itself. This examination is broken down by major assessment factors, with a discussion of the criteria within each factor.

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Social Value Potential

In order for an idea to be a viable social opportunity, it must have the potential to create social value for the customers, or target beneficiaries. The five criteria for assessing the social value potential of an idea are social need, mission alignment, achievable impact, social return on investment, and community support.

First, the idea must meet a true social need. This is a need that has been clearly identified as such. One way to determine the relevance of a perceived need is to survey the prospective target beneficiaries. Their response can help to determine whether or not to move forward with an idea. For example, one of our students had an idea for a social venture that would help to prepare economically disadvantaged urban youth for college. She proposed to start her efforts in a particular neighborhood in New York City. She conducted a survey of a representative sample of high school students in that neighborhood. The response of the high school students was strongly supportive of this idea, which suggested to our student that her idea, if implemented, would be addressing a true social need. A word of caution is appropriate here, however. Target beneficiaries' responses to anything that may be of benefit to them tend to be skewed to the positive. A more accurate determination of need in this case involved surveying high school teachers and administrators and college admissions officers as well.

Another way to determine customer need is to study the results of secondary research on the subject. Books, articles in academic and professional journals, and technical reports can all be sources of information on a given need. A prospective social entrepreneur who is assessing an idea for a system to address illiteracy in the rural United States could look at studies of literacy in rural communities or regions to determine how many people are affected by the problem, their attitudes toward learning to read, and efforts to date to address the issue.

Another measure of social potential is alignment with the social venture's mission. This is probably most germane to social ventures that are already in operation and are exploring new opportunities to pursue. The rule of thumb is that if an idea will not distract the venture from its mission (i.e., will not result in what is referred to as "mission creep"), it is worth exploring as an opportunity. If it will draw human, financial, and physical resources away from the mission, it should be approached with considerable caution.

Mission alignment for start-up social ventures works in the opposite direction. Once an idea is determined to be a genuine opportunity, a mission can be clearly articulated for a venture whose purpose is to pursue that opportunity (or fulfill the identified need). That is, a mission can be created that aligns with the initial opportunity. We discuss mission and the mission statement in more detail later in this chapter.

An idea for a social venture cannot be a viable opportunity if it will not yield an achievable impact. It must produce a transformation—a deep and lasting social

change of some kind. This performance must be demonstrable in some way. It is not enough to say that it is your intention to end homelessness; you must be able to show that your efforts as a social entrepreneur can be directly linked to a lower rate of homelessness in your community and that the people you remove from the street do not return.

Obviously, there is no way to guarantee that an idea will have impact before it is pursued, but, at the least, there should be the ability to put a system in place to measure and report on progress toward the stated goal. There should also be a reasonable expectation that the idea, once implemented, can have a positive impact on fulfilling the identified need. Looking at comparable social entrepreneurship efforts with an eye to understanding how and why they did or did not succeed is one approach to determining the reasonableness of your own expectations relative to your idea. If, for example, the idea under consideration is a program for teaching obese children how to cook, using healthy ingredients, as a way to address the problem of childhood obesity in the United States, the prospective social entrepreneur will want to do some research on the impacts of other programs that address childhood obesity as well as the efficacy of cooking classes for children.

Going hand in hand with achievable impact as a criterion for social value potential is social return on investment (SROI). In business entrepreneurship, every investor in an enterprise expects a return on investment (ROI). That is, for each dollar they invest, they do so with the hope that they will receive more than a dollar in return. This is the incentive to invest. No investor in a business invests with the idea of breaking even or of losing money. The same should be true for social investments; they should "pay off" by producing social gains that exceed the value of the initial investment.

The difficult aspect of SROI is that, unlike ROI, it cannot always be measured in dollars. How does one accurately monetize lives saved or quality of lives improved? Nevertheless, there must be a return to the social investor, or the idea being assessed must be considered to lack an important element of social value. It is a major challenge for social entrepreneurs to demonstrate the return that their value propositions can produce, especially in advance of putting their ideas into action (Austin, 2006). Much thought has been, and continues to be, given to how to think about and measure SROI (Sawhill & Williamson, 2001; Campbell, 2003; Emerson & Bonini, 2004; Wei-Skillern, Austin, Leonard, & Stevenson, 2007). See Chapter 7 for a more detailed discussion of both measuring impact and SROI.

The final criterion for determining an idea's social value potential is community support. A true social opportunity has the support of the community (however this term is defined) where it is being pursued. The community must believe in the idea philosophically, must believe in its ability to be effective, and must be willing to, at least, provide political support. This is because the community is a stakeholder in the opportunity in the sense that the social entrepreneur's success in addressing the need will impact quality of life in the community. The social entrepreneur should

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research the history of the community's support for similar social opportunities and may want to survey community leaders for their reactions to the idea under evaluation. Community resistance will, at best, make pursuing the idea difficult and, at worst, destroy the idea and divide the community. For example, an idea for addressing teen pregnancy through birth control is unlikely to receive support from a community where the majority of residents believe in abstinence for religious and ideological reasons.

Market Potential

The first criterion for determining the market potential of a social idea is its ability to address a customer need or want. As was noted earlier in this chapter, in business an important aspect of a viable opportunity is the ability of the product or service to add value to its customers by satisfying a need they have. This is no less true for a social opportunity. If the real need of the youth in a particular community is for better access to training for the skilled trades, a would-be social entrepreneur with an idea for helping these youth go to college does not have a genuine opportunity because she or he would not be meeting the needs of the intended customers.

Even meeting a customer *need* may not be enough if the customers do not *want*, or desire, the service being offered. In the case of the social entrepreneur with an idea for addressing childhood obesity through cooking classes for children, noted previously, there may be clear evidence that obesity among children in the community is a problem. Experts may agree that there is a need for viable ways to address this problem. The parents of obese children in the community may even agree that something should be done. However, if the children don't want to attend cooking classes, or if their parents want to try managing their diets at home rather than sending them to cooking classes, the idea has failed this test.

This latter example raises another level of complexity in assessing this criterion. Who is the actual customer in this case? Is it the parents, who make the ultimate decision as to what is best for their child? Is it the child, who has a sense of what she or he likes or dislikes? The answer: the customers, in this case, include both the parent and the child. The child may be the one who directly benefits from the service, but the parent is an indirect beneficiary. Thus, both must need and want this service in order for it to represent a true social opportunity.

There have been too many instances of would-be social entrepreneurs attempting to ride to the rescue of people who they perceived needed and wanted what they were offering, only to find that this was not the case. Just like a business person who tries to sell a product for which there are no customers, a social entrepreneur who does the same will soon be out of business.

An important concept in entrepreneurship is that of the window of opportunity. Every opportunity has one—a specific period of time in which conditions are ideal

for a favorable reception of the good or service. The window may be opened by a specific event or pattern shift. The 2010 oil spill in the Gulf of Mexico was a catastrophe that opened a window of opportunity for social entrepreneurs seeking to help natural wildlife, businesses, and entire communities negatively affected by it. How long this window will be open is presently unknown; however, as life along the Gulf returns to normal, the window will surely close. The trick is to enter this market space as close to the time the window of opportunity opens as possible. This will maximize the impact of your social venture.

In order for a social idea to have market potential, it must be able to attract investor interest. This is because social investors represent a market as well. Social entrepreneurs must be capable of selling investors on their product's or service's ability to meet the needs and desires of its intended customers. This is true whether the investors are philanthropic organizations, government agencies, or private entities.

Market size is another important consideration when evaluating market potential. True social entrepreneurs, like business entrepreneurs, must "think big" about their opportunities. They should seek to maximize mission achievement by reaching as many customers as possible. As was noted in Chapter 2, a goal of growth for her or his venture is a hallmark of a serious entrepreneur. The larger the market, the greater the SROI will be, in most cases. This will, in turn, attract more investors.

A large market does not necessarily ensure a large market share for the social venture, however. How much of that large market the venture captures will depend on how open the market is and how much competition exists in the market ecosystem. These two factors generally work together. In some markets a strong competitor may dominate the market, with many customers who are loyal to that competitor and unlikely to change their allegiance. An example from the world of business is what sometimes happens among competing automobile manufacturers. Many people in the market may develop a loyalty to a particular make of car because of considerations like cost, reliability, and appearance. Thus, a large segment of the market becomes loyal to a particular manufacturer—say Honda. It is very hard for Ford, Nissan, Toyota, or Hyundai to take that market share away from Honda. An example from social entrepreneurship might be the dominance of Habitat for Humanity in the market for providing affordable housing for low-income households through homeownership. If a social entrepreneur was seeking to enter this market with a new offering, she or he might find it very difficult to capture market share because of loyalty to Habitat's mission and model by prospective customers and investors.

Sometimes there are so many competitors in a given market that no matter how open the market is to new entrants, there is very little, or no market share left to be had. In business entrepreneurship such a situation would likely result in fierce competition among companies to take market share away from each other. This is problematic in social entrepreneurship, however, because competitors typically

share similar social missions. Running another social venture out of business in order to corner the market on helping the homeless is hardly in keeping with the ethos of social entrepreneurship. It is much more likely that competitors would find ways to pool resources and work together to help the homeless in the given community. Of course, for most social problems there is far more demand than there is supply; therefore, markets overcrowded by competition are a rarity. Prospective social entrepreneurs simply should be sure that they can capture adequate market share to sustain their ventures.

Competitive Advantage Potential

Pursuant to the discussion of market potential, including an assessment of competitive advantage may seem redundant. However, carefully examining the criteria relative to competitive advantage can prove very useful to a better understanding of one's opportunity.

A very important competitive advantage criterion is barriers to entry. As the name implies, these are obstacles that make it difficult for new ventures to enter a market. This acts as an advantage for those ventures that have already entered the same market; the higher the barriers to entry, the longer the venture already in the market has to capture market share before competition emerges. This is why being "first to market" is a highly sought-after position among ventures serving a given customer segment. This suggests, of course, that the early entrants to a market have the ability both to overcome existing market barriers and to use those barriers as a weapon, of sorts, to thwart competition.

Robinson (2006) identifies five types of barriers to entry that have relevance to both business and social entrepreneurship: economic, social, institutional, formal (public), and cultural. Economic barriers to entry usually involve not having access to resources that can build a company up to a place where it can thwart the competition. Such barriers might include not having access to certain intellectual property (e.g., patented technology), sufficient financial capital, or specialized equipment, and so forth.

Social barriers to entry prevent an entrepreneur from having access to social networks in the market that are crucial to success. In particular, these include such resources as labor markets, civic organizations, business organizations, political networks, and other business owners (Robinson, 2006, p. 101).

Barriers to entry that are institutional in nature involve not having access to knowledge about the norms, rules, and values of the community in which business is to be done. This precludes necessary relationships between the business entering the market and public and private actors in the community (Robinson, 2006).

Formal barriers to entry are those that involve the lack of formal institutions for governance, legal interactions, market interactions, and financial capital provision in

the context that the company is trying to enter (Robinson, 2006, p. 103). Most developed countries have these institutions in place; however, many developing countries do not.

While formal barriers to entry are created by a lack of formalized institutions, cultural barriers are characterized by informal institutions in the context to be entered that present obstacles to the entrepreneur. These include cultural norms, such as dress, etiquette, legends, superstitions, and language and slang, that affect the ability to establish trust (Robinson, 2006, p. 103). These things must be learned and understood if the entrepreneur is to successfully enter the market—something that is extremely difficult.

Prospective social entrepreneurs should research the barriers to entry in their proposed opportunity's market. What are these barriers? What is the entrepreneur's capability for overcoming them? Information for this analysis can be derived from sources that cover the market and context in which the entrepreneur would be operating. If, for example, the idea being assessed involves creating an organization that facilitates the adoption of orphaned children in Nepal by parents from other countries, the would-be social entrepreneur must understand Nepalese adoption laws, cultural norms regarding orphaned children and adoption, the language of the country, international laws regarding adoption, the human capital (skill sets) required to operate such an organization, physical facilities required, and many other barriers to entering this market. The social entrepreneur must then attempt to realistically determine whether or not she or he can overcome these barriers and establish a venture in this market.

As is discussed in the subsection "Market Potential" (pp. 57–59), social entrepreneurs are not typically engaged in direct competition for market share. In fact, competition in this world is more often for resources. Because of this, successful social entrepreneurs are more likely to collaborate to compete by sharing resources. Therefore, competitive advantage might be thought of, at least in part, as the ability of the social venture to attract and build strategic partnerships. Prospective social entrepreneurs should ask themselves what the likelihood of developing partnerships and alliances in their market is. If alliance building is likely, that bodes well for their competitive advantage.

Social entrepreneurs' ability to compete also will be affected by the amount of control over costs they have, including control over costs, prices, and distribution channels (Bygrave & Zacharakis, 2004). The more control the better, because that allows them to make favorable deals with their suppliers and raise or reduce their prices as necessary. However, many social entrepreneurs are limited in their control. For those whose customers are low-income, pricing options are limited, which means that they must rely heavily on subsidy to cover their costs. This puts them in direct competition with those seeking the same kind of philanthropic investment. Those who operate in a market with a dominant competitor may be at a disadvantage in developing favorable supplier relationships equivalent to those of the

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major competitor, resulting in higher relative costs. This factor of competitive advantage is closely linked to that of prospective partnerships or alliances noted above. For many social ventures, being able to maximize their control over costs and prices is a function of their ability to develop strong networks with suppliers and other social ventures.

Because competition in social entrepreneurship is often over resources, the ability of the social venture's mission to attract investors, suppliers and customers is very important. A mission that is highly compelling can be a powerful competitive advantage. Memorial Sloan-Kettering Cancer Center in New York City is a large nonprofit cancer research hospital. It has been very successful in its ability to attract donors, partners, and customers because of its mission aimed at cancer research and treatment, a social issue that touches the lives of millions of people around the world.

In the case of for-profit social ventures, competition is most likely to be for customers. Newman's Own, Inc., a food distribution company founded by the late actor Paul Newman that gives all of its after-tax profits to charity, is a good example. Newman's Own makes a concerted effort to let its customers know that when they purchase one of its products, they are making a contribution to charity in addition to acquiring a high-quality food item. This allows Newman's Own to compete effectively in a crowded and challenging market (Wei-Skillern et al., 2007).

The ability to effectively articulate and communicate the social venture's mission to the other players in its market—customers, investors, suppliers, partners—is crucial to success in that market. This can be done by crafting a clear and compelling mission statement. We will discuss this later in this chapter.

The final factor in determining the competitive advantage potential of an opportunity is the management team of the social venture. A strong team that represents the complete skill set necessary to effectively operate the venture can be a decided competitive advantage. Lichtenstein and Lyons (2001) describe the skills necessary for successful entrepreneurship as lying within four dimensions: technical, managerial, entrepreneurial, and personal maturity skills. Technical skills are those needed to effectively operate in a given industry. For example, social entrepreneurs who provide affordable housing to low-income households must possess skills in real estate development and law, building construction, finance, and other relevant areas. Managerial skills permit the daily operation of the venture on a successful basis: administrative, management, bookkeeping, marketing, and related skills. Entrepreneurial skills include those addressed in this text: the ability to recognize and act on opportunities, bootstrapping, and risk management skills, among others. Personal maturity includes such skills as the ability and willingness to take responsibility, self-awareness, the management of emotions, and creativity. A competitive management team will embody all of these skills. While no individual is likely to possess all of them, the individuals on the team each will bring some of them and, in so doing, complement each other.

is this still fine in 2012? Do today's consumers know about the Charity focus or has the brand been established w/o it? When people no longer remember Paul Newman, will the brand remain relevant?

Sustainability Potential

Starting a social venture is of little use if it cannot be sustained over time. Therefore, an idea is not an opportunity unless its financial sustainability is likely. There are five factors that can be assessed to determine an idea's sustainability potential.

The proposed venture's capacity is an important consideration regarding its sustainability. Capacity refers to the physical resources necessary to operate the venture over time. Physical resources might include facilities, equipment, inventory, and the like, depending on the industry in which the venture is operating (Dees et al., 2001). The question here is whether or not these resources are sufficient for starting and maintaining the venture. Answering this question will require the prospective social entrepreneur to think through the activities necessary to accomplishing her or his mission and the physical resources required to carry out each activity (Dees et al., 2001).

Another important factor in determining sustainability potential is venture capability, which represents the combined skills of the entrepreneurial team, the staff, and the board of directors and/or board of advisors. Does the entire organization have a sufficient skill set to start and maintain itself over time? In a similar way to the assessment of capacity, the would-be social entrepreneur must ascertain the activities necessary to launching and maintaining the venture and link those to the skills required to carry out those activities.

Just as it was important to assessing market potential, investor interest is a useful indicator of sustainability potential. It is one factor in the financial sustainability of the proposed venture. There must be sufficient evidence of philanthropic, governmental, and/or private-sector financial interest if the venture is to be sustainable. The findings of the assessment of investor interest relative to an investor market for the venture can be applied here, with a shift of focus from merely ascertaining whether potential investors exist to estimating how much they might be expected to invest. This can be determined by looking at what a particular prospective investor has put into similar efforts in the past. This information can be gathered from a variety of sources including foundation and corporate giving directories, the *Federal Register*, and the websites of social venture philanthropic organizations.

An increasingly important indicator of the financial sustainability of an opportunity is its ability to generate earned income, a phenomenon that is frequently referred to as "social enterprise." This is an issue for both for-profit and nonprofit social ventures. Obviously, for-profits must have an opportunity that produces earned income through sales or they do not have a viable business model. For these social ventures, assessing financial sustainability using this factor is a matter of determining whether or not there is an adequate market that is willing to pay for their product or service to the extent that they can cover their costs and generate a profit. This is no different than for a commercial business.

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For a nonprofit social venture, however, the issues are slightly different. Nonprofits can draw upon both philanthropic financing sources and earned income. Traditionally, these kinds of social ventures have relied heavily on the former, rarely or never drawing upon the latter. As philanthropic dollars have become harder to come by, a clear shift is under way toward the pursuit of earned income by nonprofits. This is becoming viewed as a necessity. Nevertheless, earned income strategies represent uncharted waters for most nonprofits, with considerable concern about the impact of these activities on the tax-exempt status of these ventures. This latter issue will be discussed in more detail in Chapter 6.

Suffice it to say that generating earned income has become an important sustainability issue for all social ventures, be they for-profit or nonprofit. If a social venture cannot generate at least some earned income, its likelihood of survival is greatly reduced. Prospective nonprofit social entrepreneurs, in particular, now need to give serious thought to how they might generate earned income through fees and/or the sale of goods and services before they try to launch their ventures. Some of these social entrepreneurs are now creating hybrid organizations—part for-profit, part nonprofit—to address this issue (see Chapter 5 for a discussion of this option).

A crucial factor in sustainability potential, just as it was in competitive advantage potential, is having a compelling mission. The more compelling a social venture's mission, the more likely it is that it will be able to attract financial investment for start-up and ongoing maintenance as well as for growth.

Overall Potential

Once the factors within each major assessment category of the Social Opportunity Assessment Tool have been researched and evaluated, an overall assessment of that category can be made on a high–medium–low scale. Then, a composite assessment can be made for the idea under scrutiny. If the idea has a “high” composite rating, it is likely to be a true opportunity and worth pursuing. If it is scored as having “medium” potential, it may be worth further consideration and, with modification, may yet be a viable opportunity. A “low” score suggests that the prospective social entrepreneur should seriously consider moving on to another idea. However, it does not necessarily preclude major modification to the original idea that may improve its potential.

Of course, all of this is merely suggestive. There are many examples of ideas for social change that have been successfully pursued in spite of their perceived low potential for success. The entrepreneur's motivation and relentlessness can carry a social venture a long way. Because the development of a social venture is an organic process, making adjustments along the way to counter arising obstacles is entirely possible. Nevertheless, thinking through a social idea before running with it does no harm and may prevent the waste of valuable time and resources.