Chapter 15

Creating Market Inclusion:

Assessing the Role of Social Entrepreneurship in Working Institutional Voids in a Developed Market

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ABSTRACT

Understanding how social entrepreneurship as a tool of financial development has been in the center of the entrepreneurship and management disciplines for the last couple of decades. These studies have furthered our understanding of how social entrepreneurship helps the most vulnerable populations around the world. However, much of the literature on this subject has been devoted to analyze how social entrepreneurship aids such populations in developing locations. While this chapter does not try to diminish the admirable work carried by social entrepreneurs in developing countries, it points out that an analysis of this discipline in a developed location is overdue. To initiate a conversation, this chapter analyzes how institutional voids can arise in a developed location and the role that social entrepreneurship has in closing such gaps and to include vulnerable populations in the formal banking industry in the United States.

INTRODUCTION

Social entrepreneurship (SE) has been recognized as a vehicle for addressing social needs by public and private initiatives (Stephan & Uhlaner, 2010). Due to its popularity, SE has been analyzed by scholars during the last couple of decades (Estrin, et al., 2013). Also, SE, according to most studies, improves the lives of populations in developing countries (Mair, et al., 2012). Nevertheless, this activity also occurs in developed locations. However, scholarship in this particular phenomenon has not yet analyzed in the context of a developed location. Thus, the purpose of this chapter is to describe and analyze social entrepreneurship in a developed location to understand how the national context influences this activity.

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Building on institutional theory (North, 1990; Scott, 1995) and enhancing it with the idea of institutional voids (Khana & Palepu, 1997), this chapter describes the role of social entrepreneurship in creating access to markets in a developed country. The main reason for this manuscript, thus, is to emphasize the importance of markets as catalysts for economic growth, the role of the institutional environment in a developed location to include (or exclude) individuals in market activities, and to understand the importance of social entrepreneurship in creating access to such markets. Therefore, in order to address how to build inclusive markets in a developed location, this study will answer two key questions: (a) how do institutional voids arise in a developed location? And (b) what is the role of social entrepreneurship to work these voids to include vulnerable populations in a developed location?

In order to illustrate how SE aids in including traditionally excluded populations into formal markets, this chapter uses the case of Community development financial institutions (CDFIs) in the United States and how they help vulnerable communities to be included in the formal banking system of the country. To do so, the case of Capital Good Fund will be used to illustrate how this DCFI deals with the two questions proposed above. The rest of the chapter is outlined in the following manner: a description of social entrepreneurship and its relationship with the institutional environment of a developed country is provided. This is followed by a case of how CDIFs help vulnerable populations participate in formal markets, and concluding remarks are offered.

TEORETICAL BACKGROUND

Social Entrepreneurship

Social entrepreneurship has been defined in several manners, and such definitions range from broad to narrow. The broader definition describes social entrepreneurship as innovative activities with social objectives in either the non-profit (Dees, 1998) or private sectors (Dees & Anderson, 2003), or a combination of both in a hybrid structural form (Oster, 1995). The narrower definition describes social entrepreneurship as the application of business acumen and market-based expertise in the non-profit sector for developing new approaches to generate income (Thompson, 2002). While there is debate in how to define social entrepreneurship, the majority of definitions agree that the fundamental reason for the existence of social entrepreneurship is to create social value, instead of shareholder or personal wealth (Zadek & Thake, 1997). Thus, for this manuscript we will combine both streams of definitions to denote social entrepreneurship as the set of organizational activities for an individual working on his or her own account to pursue pro-social goals to benefit people other than the entrepreneur (Bierhoff, 2002).

According to Mair and Marti (2006), one of the biggest challenges of analyzing and understanding SE is defining the boundaries of what is meant by *social*. The authors point out that at first, social entrepreneurship can be different from entrepreneurship in the private business sector due to the latter's association with profit motives, while social entrepreneurship is more associated with altruism. However, such dichotomous logic might not fully explain social entrepreneurship. One reason is that social entrepreneurship can be less altruistic since it can be used to achieve personal fulfillment. Also, entrepreneurship in the private business sector also encompasses a social aspect. In Venkataraman's words, "entrepreneurship is particularly productive from a social welfare perspective when, in the process of pursuing selfish ends, entrepreneurs also enhance social wealth by creating new markets, new industries, new technology, new institutional forms, new jobs, and net increases in real productivity"

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