ECONOMIC JUSTIFICATION FOR A SOCIAL ENTREPRENEURSHIP CLASS (SUMMARY)

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SUMMARY

ECONOMIC JUSTIFICATION FOR A SOCIAL ENTREPRENEURSHIP CLASS

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Principal Topic

Social entrepreneurship projects are undertaken for reasons that are not necessarily purely economic; nevertheless, all such projects require scarce economic resources that have an opportunity cost. Whereas private entrepreneurship projects require that private revenue exceed private cost, social entrepreneurship projects require that social benefit exceed social cost. The commonly used criteria that net revenue not be less than zero, even allowing for donations, grants, and volunteers, still results in rejection of some social entrepreneurship projects.

This paper explores a sub-class of those social entrepreneurship projects not undertaken that has these characteristics: (a) private revenue is less than private cost; (b) total revenue by the social entrepreneurship organization is less than net cost, (c) social benefits, properly accounting for external benefits, exceed social cost. The question to be answered in the paper is “under what conditions should such a social entrepreneurship project be undertaken based on purely economic grounds?”

Method

We explore the above question by developing a conceptual and theoretic model. The method used is deductive. The theory of a social entrepreneurship project is cast in terms of social costs and social benefits. External benefits are explicitly captured in the model through a regional economic multiplier. Conditions are determined that, while the social entrepreneurship project should neither be undertaken as a private entrepreneurship project nor as a standard social volunteer-fund-raising project, it could be justified on purely economic conditions as a viable social entrepreneurship project that justifies a public—private partnership, a private—private partnership, or a combination. The theoretical model developed shows that the private initiative to become involved in the social entrepreneurship project depends on the net return that the project yields to the private sector. This determines the proportion of the costs that the private sector is willing to assume.

Results and Implications

The paper offers: (1) A theoretical foundation for adopting a social benefit—social cost rationale for social entrepreneurship projects rather than the commonly used net revenue model in which revenue (including donations) less cost (including reductions in cost due to volunteers) is zero or positive rationale; (2) A theory that justifies an increase in the number of social entrepreneurship projects undertaken, rather than rejected; (3) A theory that can be empirically implemented.

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