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Abstract: The creation of a social venture should involve the community that the nascent organization is trying to help. However, there are highly successful and extremely innovative organizations that started off with a far-fetched idea from their founders. When successful, these ventures challenge long-established norms and catalyze long-lasting change. On the journey from idea to venture, they face challenges to their legitimacy and are forced to employ push strategies to obtain traction. Our findings suggest the characteristics that these social ventures share, a stage model for their growth, and a generalizable vocabulary to describe the process by which they gain legitimacy.



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Re: Design-Driven Social Ventures: An Alternative To Community-Led Social Ventures by Zev Lowe and Jonathan Wareham

Word count: 7,589

Dear Prof. Shepherd:

On behalf of my co-author, I am submitting a manuscript (**DESIGN-DRIVEN SOCIAL VENTURES: AN ALTERNATIVE TO COMMUNITY-LED SOCIAL ENTREPRENEURSHIP**) to be considered for publication in the Institutions, Entrepreneurs, and Communities special issue of the Journal of Business Venturing.

This paper was based on inductive research of social entrepreneurial ventures that started by proposing a radical idea based on their founders' visions of the future. We show that these organizations had to use "push" strategies until they redefined existing norms sufficiently to obtain traction. This stands in contrast to the current understanding of community-led social ventures, which are born out of the "pull" of well-understood needs.

This research has not been accepted for publication nor has it been published in whole or in part elsewhere. It is not under consideration at another journal.

Sincerely,

A handwritten signature in blue ink, appearing to be "Zev Lowe".

Zev Lowe
1 August 2010

**DESIGN-DRIVEN SOCIAL VENTURES: AN ALTERNATIVE TO THE
COMMUNITY-LED APPROACH**

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We are grateful to the people at Kiva.org and the Worldreader team for their part in this study.

Keywords: social entrepreneurship; design-driven innovation; new venture creation

ABSTRACT

DESIGN-DRIVEN SOCIAL VENTURES: AN ALTERNATIVE TO THE COMMUNITY-LED APPROACH

The creation of a social venture should involve the community that the nascent organization is trying to help. However, there are highly successful and extremely innovative organizations that started off with a far-fetched idea from their founders. When successful, these ventures challenge long-established norms and catalyze long-lasting change. On the journey from idea to venture, they face challenges to their legitimacy and are forced to employ push strategies to obtain traction. Our findings suggest the characteristics that these social ventures share, a stage model for their growth, and a generalizable vocabulary to describe the process by which they gain legitimacy.

(100 words)

1 INTRODUCTION

Through an exploratory case study of two social ventures, this paper identifies characteristics of social ventures that employ innovation to meet a social need. Instead of emerging from the community it aims to help, these social ventures emerged out of radical ideas that sought to change norms and redefine meanings. Using an inductive method, we will determine the shared characteristics of these social ventures and explore the methods and mechanisms by which they gained legitimacy as full-fledged organizations. Specific research questions will follow at the conclusion of our literature review.

1.1 Social Entrepreneurship

While a multitude of definitions exist for social entrepreneurship (Dees, 1998; Short et al., 2009; Zahra, et al., 2008; Alvord, et al., 2004; Peredo and McLean, 2006), we will embrace the definition proposed by Mair and Marti (2006), who view social entrepreneurship as “a process of creating value by combining resources in new ways ... intended primarily to explore and exploit opportunities to create social value by stimulating social change or meeting social needs.”

Scholars are in agreement that social entrepreneurship is a contemporary term to describe a much older phenomenon. Hoogendoorn et al. (2010) cite Florence Nightingale’s concern over hospital conditions as an early manifestation of social entrepreneurship, while Mair and Marti (2006) attribute the beginnings of social entrepreneurship to Victorian Liberalism. In understanding social entrepreneurship as it stands today, Johnson (2000) points out that it is important to know the complex framework of political, economic and social changes which social entrepreneurship has evolved on the global, national and local levels.

Different social entrepreneurship trends emerged out of the United States and out of Europe. In the United States, two schools of thought emerged: The Innovation School, which establishes new and better ways to tackle a social problem or meet a social need, and the Social Enterprise School, which brings a more commercially-driven mindset to non-profit ventures with a focus on generating earned income while serving a social mission. The two European schools are: The Emergence of Social Enterprise in Europe (EMES) approach, which involves a community-driven venture such as an association, co-operative or foundation, and the United Kingdom approach, which is defined by businesses that have social goals, in which the distribution of profits is limited by law (Hoogendoorn, 2010).

Looking at business models, Neck et al. (2009) propose four types of ventures organized with either social or economic motives dominating along two separate axes: Primary market impact and Venture mission. On the other hand, looking at the motivations and characteristics of entrepreneurs, Zahra, et al. (2008) built on the work of Hayak, Kirzner and Schumpeter in identifying three types of social entrepreneurs: Social Bricoleur, Social Constructionist, and Social Engineer. “Social Bricoleurs usually focus on discovering and addressing small-scale local social needs. Social Constructionists typically exploit opportunities and market failures by filling gaps to underserved clients in order to introduce reforms and innovations to the broader social system. Finally, Social Engineers recognize systemic problems within existing social structures and address them by introducing revolutionary change.” (Zahra, et al., 2008)

Bringing in theories from entrepreneurship, Mair and Marti (2006) identify four perspectives from which social ventures can be examined: First, through the lens of structuration theory, which would study how a social entrepreneur’s context would enable and constrain the appearance of a social venture. Secondly, institutional

entrepreneurship sheds light on social ventures that catalyze social change by altering norms. The third perspective is social capital, which would focus on a social entrepreneur's network of personal relationships. Fourth, social ventures could be studied as social movements, which would move the unit of analysis from the organization toward manifestations of a larger shift towards social transformation.

While every single organization encompassed within these various frameworks aims to address social issues, our interest lies in ventures that are innovative and that redefine meanings in order to address a social issue. The cases that we will examine in this study are two such examples of this type of social venture.

1.2 New Venture Creation

Stage models within entrepreneurship have tended to focus on opportunity recognition, information search, resource acquisition and business strategies (Ucbasaran et al., 2001). Entrepreneurial ventures begin with the recognition of an opportunity and the search for information (Shane and Venkataraman, 2000). Much of the existing literature is concerned with where opportunities come from, and why, when and how certain individuals exploit these opportunities (e.g., Floyd and Wooldrige, 1999; Hills, et al., 1997).

In the high technology area, Galbraith (1982) proposes a four-stage model involving a proof of principle stage, a prototype stage, a model shop stage and a start-up stage. Other studies have also attempted to examine resource endowments and resource acquisition strategies of entrepreneurs and how resources and assets (human, social, physical and organizational) affect venture failure, survival and/or success (Chandler and Hanks, 1994; Gimeno, et al., 1997).

Very little is known about the birth of social ventures, and theory regarding the creation of new social enterprises is still in its infancy. A social venture faces vastly different contextual influences than a purely commercial enterprise. This makes it likely that the organizational gestation process for social enterprises would be distinct from that of traditional ventures (Liao, 2005).

Haugh (2007) elaborated a five-stage model for community-led social ventures: opportunity identification, idea articulation, idea ownership, stakeholder mobilization, opportunity exploitation and stakeholder reflection. She distinguishes the social ventures that are community led in three key ways: a community-led social venture must have community members represented within its governance structure. It must also be accountable to the local communities in which it operates. Finally, the economic, social or environmental value created by the project must benefit the local community. While the social ventures we are examining exist in order to benefit their target communities, they lack the representation and accountability that would make them community-led social ventures.

Other research has focused more on characteristics of successful entrepreneurs and ventures. Alvord et al. (2004) specified three forms that can be taken by successful initiatives: building local capacities, disseminating a package, and building a movement. In the first approach, social entrepreneurs build skills and resources within an underserved population to allow members of that population to help themselves. In the second, those capacities are used within a model, and in the third, the movement gathers momentum and changes the perspectives of society at large.

However, we found that none of the existing stage models in either social entrepreneurship or the larger field of entrepreneurship adequately explained the gestation of the cases that we examined – innovative social ventures that redefine

social meanings. In contrast to community-led ventures, these organizations emerge out of the radical ideas of their founders.

1.3 Design-Driven Innovation

We found a theory that most closely explained the development of the social ventures we were studying in the work of Roberto Verganti (2009). Based on studies of 54 different organizations, he coined the term “Design-driven innovation” to refer to the kind of product development that uses existing technology in a clever way that changes our understandings of how things work. Mair and Marti (2006) noted something similar about the birth of social ventures; specifically that social entrepreneurship could be viewed as combining existing resources in new ways to create social value.

Verganti claimed that user-centered innovation is a good way to improve products that already exist, but that it is a poor way to create the future. This is because most users will think of incremental adjustments that can be made to improve a product, and not the disruptive big changes that need to happen when we question fundamental assumptions about how and why we do things the way we do. Similarly, the social ventures we are studying were not born out of conversations with the social groups they seek to benefit. In contrast to community-led social ventures (Haugh, 2007), these social ventures made a proposal reflecting what their founders imagined might be possible.

What follows next are three examples of design-driven innovation that highlight key principles associated with the concept.

1.3.1 A vision of the future

Instead of asking consumers what they want, design-driven innovations come from an organization’s vision of the future. The designers at Nintendo had a breakthrough

vision -- they imagined a video game system that a user could operate through natural movements, without hunching over a console with little buttons or a joystick. The result was the Nintendo Wii, which, like many other design-driven innovations, was outside the realm of what existing video game users knew, and therefore represented a *proposal* from the designers to the market (Verganti, 2009). The Nintendo Wii was soon surpassed its competitors in sales, and its successful reception revived a company that had been struggling in the video game market.

1.3.2 Proposing radical innovation

Prior to the 1970s, watches were expensive objects that were passed down from generation to generation. They were powered by complex mechanisms that required regular winding, or later, were powered via the kinetic energy of the person wearing it. The best of these movements came from Switzerland and kept time very accurately. In the 1970s, the quartz movement was invented, allowing Japanese companies to release inexpensive, battery-powered watches that were just as accurate - if not more so - than the finest of Swiss movements.

Swatch decided to use these cheap movements to manufacture watches that made a design statement. By doing so, Swatch redefined the meaning of a watch, from a timekeeping instrument to a fashion accessory. Their inexpensive pricing made it possible for the average person to own several watches to match mood, outfit or season.

1.3.3 Redefining Meanings

Verganti (2009) argued that people do not buy products. Rather, they buy *meanings*. In addition to utilitarian reasons, purchasing decisions are also made for a combination of psychological, sociological and emotional reasons. When trying to

discover the meaning of a product, the creators have to ask themselves several questions:

- What is the reason people buy our product?
- Why is it meaningful to them?

The answers to these questions can often be surprising. For example, Verganti (2009) discovered that people do not go to McDonalds because of the quality of the food, the nutrition, or the taste. Rather, they go to McDonalds to find safety in the familiarity and predictability of the experience. Especially when traveling, people know that they can expect a high standard of cleanliness at any McDonalds, and the menu is comfortingly similar to what they may be used to back home.

Design-driven innovation steps back and creates new meanings, by asking the following question:

- How can we gratify people and make them more content by providing products that suggest new meanings?

Similarly, it is not too far of a stretch to imagine that social entrepreneurs ask themselves how they can meet a social goal by providing products that suggest new meanings. One such example might be the case of Dr. Muhammad Yunus, who started Grameen Bank when a loan was still widely understood as being a large sum of money lent to a person of sufficient means, collateral and banking history, in order to generate profit. Over the years, he has successfully extended the term to also refer to microloans, which can be small sums of money lent to a person with no collateral or banking history, in order to alleviate poverty. Similarly, the social ventures we are studying are innovative, redefine meanings, and are well understood using the theory of design-driven innovation.

1.4 Research Gap and Proposed Contribution

The existing literature has documented several approaches to social entrepreneurship. We have stated that our interest lies in innovative ventures that bring about social change. Several scholars have included these social ventures within their typologies (see Table 1). However, several authors (e.g. Alvord, et al, 2004; Zahra, et al., 2009) see innovativeness as separate from the redefinition of meanings that catalyzes social change, whereas in the cases we examined, the two were intertwined.

Furthermore, it has been noted that these ventures face particular challenges in taking on the sizeable task of changing the status quo. Zahra, et al. (2009) states that such social entrepreneurs are seen as “fundamentally illegitimate” which inhibits their ability to raise funds and attract talent in traditional ways. Mair and Marti (2006) pointed out that the ability to redefine meanings may be even more significant than the social problems that inspired the birth of the organization in the first place. However, the process by which this occurs has not yet been explored inductively, and a generalizable vocabulary for this phenomenon has yet to emerge.

*** INSERT TABLE 1 ABOUT HERE ***

Liao (2005) pointed out that the specific context out of which an organization emerges implies necessary differences in the process of organizational creation. Stage models developed in the larger field of entrepreneurship often do not describe the gestation of nascent social ventures due to key differences in the tasks faced by social entrepreneurs and conventional entrepreneurs. It also follows that a community-driven social venture will take form in a different way than a social venture that is proposing radical innovation.

Additionally, we found that most existing models assume a linear process, and especially when theory is developed *a priori*, many group events according to

conceptual similarity, ignoring the sequence in which they took place. Finally, there is a noticeable lack of empirically grounded, sequential models of the new venture creation process (Liao, 2005).

Several scholars have proposed alternative ways of thinking of new venture gestation, beyond the traditional process-based stage model. Aldrich and Martinez (2001) emphasize the importance of trial and error and improvisation in the early stages of an organization. And after interviewing a total of 27 entrepreneurs, Bhava (1994) described the process of venture creation as iterative, non-linear and feedback driven. Finally, Verganti (2009) proposed a theory for design-driven innovation, which explains much of the data we saw in our cases. However, these concepts have not yet been brought into the context of social entrepreneurship.

As such, we propose the following research questions:

RQ1: What are the characteristics of social ventures that are innovative and redefine social meanings?

RQ2: What are the stages that a social venture goes through in order to develop from an idea into a legitimate organization?

RQ3: What are the methods and mechanisms that such social ventures use in order to achieve legitimacy?

2 METHOD

The method of analysis used is an exploratory case study of two social enterprises: Kiva.org, a four-year-old social venture based out of San Francisco, which pioneered the concept of peer-to-peer microlending, and Worldreader.org, a one-year-old social venture based in Barcelona, which gives students in developing countries access to books using electronic readers. The *how* and *why* questions relating to new social

venture creation are highly specific to the societal and organizational contexts to which they belong, making the case study research method particularly applicable (Yin, 1999). We used an inductive approach, choosing not to use theory *a priori* to guide data collection and analysis. Instead, we explored relevant theories during the data analysis stage, seeking to identify common threads in the formation of these two organizations that could allow us to better understand the creation of certain kinds of social ventures, the obstacles that they faced and the ways in which they overcame those difficulties.

The data we used to support our analysis comes from several sources: participant observation, documents and interviews. Primarily, in our data collection effort, we spent 10 weeks in the summer of 2009 working as a Kiva Fellow. We spent every day working alongside loan officers at a microfinance institution (MFI) that was one of Kiva's Field Partners. These loan officers went out to interact with borrowers, collecting and uploading data onto Kiva's website.

Prior to heading out into the field, we spent one week on-site at Kiva's Headquarters in San Francisco for training, during which we interacted daily with Kiva founders, staff and volunteers. We were able to experience Kiva on-boarding processes first-hand, which entailed classes, workshops and talks from the founders and CEO every weekday from 9am to 6pm. In addition, we attended scheduled social activities with Kiva founders, staff, volunteers and lenders. This period allowed us to understand the evolution of the complex mechanisms behind Kiva.org.

In February 2010, we began to document the growth of Worldreader.org – a role that has since grown to include lending a research-based perspective to their work. We attended team meetings on a weekly basis and interacted with the co-founders and staff regularly via phone and email. We have also spoken extensively to their partners in the United States. In addition, in May 2010, we accompanied one of the

Worldreader co-founders on a trip to Ghana to meet with key partners there. Working closely with Worldreader has given us a front seat view of the evolution of a new social venture.

The second method of data collection involved documents such as emails, newsletters, meeting minutes and marketing materials. These documents assisted in capturing diverse points of views framed by various stakeholders at different points within the growth of each of these organizations. In the case of Kiva, by far the more established of the two ventures, we were also able to use journal articles and case studies as an additional source of information.

As a final source of data, we conducted a number of interviews. At the beginning of his involvement with their project, we sat down with each of the co-founders of Worldreader to discuss the organization's evolution thus far. From then on, we interviewed one of the co-founders every two months, forming a total of four interviews. With Kiva, we had informal conversations with both co-founders and the President, and conducted an interview with a senior manager. Our close involvement with these organizations led to casual interviews. This lack of formality had the benefit of creating a relaxed environment in which some of the interviewees mentioned they were comfortable saying more than they would otherwise. However, the tradeoff was that these interviews were largely unstructured. In order to preserve the informal environment, the interviews were not recorded for the sake of privacy, but we took notes in shorthand.

While the method we chose allowed us to capture information regarding these organizations at a rich level of depth and detail, it also renders us subject to certain limitations. We were fortunate to find organizations that had the characteristics we were looking for – social ventures that had (or had the potential to have) a transformative effect on how we understand meanings. However, the demands of

gaining access in a way that would allow us to collect data intensively limited us to two cases at vastly different stages of development, which increases the difficulty of making systematic comparisons and drawing precise conclusions.

In alignment with our research questions, our overall data analysis strategy identifies a particular subset of social ventures, extending the work of Verganti (2009) to the field of social entrepreneurship. The cases we examined fall within this subset. Then we used data from observation, documents and interviews to identify the distinct challenges that these organizations faced in their first steps towards formation and their unconventional strategies to resolve those challenges. Finally, we consider how these early steps toward formation contribute towards a stage model for new social venture creation. Before we discuss our findings, we provide an overview of the social ventures that we studied.

3 KIVA

Matthew and Jessica Flannery started working on Kiva in 2004. An Internet user with a credit card could browse profiles of micro-entrepreneurs on Kiva's website, and help finance a microloan \$25 at a time. Barring unforeseen difficulties with the business in question, the lender would be repaid, without interest, following the borrower's repayment schedule.

Prior to Kiva, the average person had few ways of participating in microfinance. Kiva's radical proposal involved a direct connection ("peer-to-peer") between a specific borrower and a specific lender, and blurred the lines between donations and loans.

Kiva has been lauded as an ingenious innovation in international development – a new way to raise the public profile of microfinance and channel a new and important source of funding to the people who needed it the most. But that was not how the organization was seen in its early days.

3.1 Early opposition

The idea for Kiva was born during a trip that the Flannerys made to Africa. When they returned in the summer of 2004, they would float this idea to international development professionals, the microfinance community and their friends and family. They would face reactions that would range from outright scepticism to gentle, thought-provoking questions to which they didn't have the answers.

First, they wrote a business plan and presented it to a CEO of a large, international non-profit organization, who believed their model would be hard to scale because it was costly and time-consuming to track small amounts of money through a microfinance institution (Flannery, 2007). Upon attending microfinance conferences, Matt Flannery found out that the field was commercializing and looking for greater scale and more integration with capital markets (Flannery, 2007). Advocating for a person-to-person connection, a mere \$25 at a time, would require swimming against the tide. Finally, explaining the idea behind Kiva to his friends proved problematic for Flannery. One of them responded quite incredulously, “You can't just loan money over the Internet!” (Flannery, 2007). At this point, although Matt and Jessica Flannery had written a business plan, Kiva was still an idea that few people could get their heads around.

3.2 Legal uncertainty

United States law had not been written with the idea of an organization like Kiva in mind. The Securities and Exchanges Commission (SEC) would certainly take note of a website where people were lending money to others halfway across the world.

In addition, the United States Patriot Act scrutinizes any potential financial links to terrorists or terrorist organizations. If Kiva could be seen as funding terrorism, however indirectly (e.g. through side activities of a borrower's family) then the entire organization could be put in legal jeopardy (Flannery, 2007).

3.3 Proof of Principle

By January 2005, Matt and Jessica Flannery were still unable to convince funders, development professionals and friends that Kiva was a good idea. Matt Flannery wrote, "Coming back from break that year, we decided that it would be extremely difficult, if not impossible, to get much traction on the business unless we figured out a way to just start. True, there were several open questions about this model. However, there's no more powerful way to resolve debates than to actually test and see" (Flannery, 2007).

Matt and Jessica Flannery enlisted Moses, an acquaintance of theirs in Uganda, to find seven micro-entrepreneurs who needed loans for their businesses. They launched a beta version of the website, and sent emails to the list of guests who had been invited to their wedding. Within a few days, they had raised \$3,500 – enough to disburse loans to all seven of their micro-entrepreneurs (Flannery, 2007). These borrowers would all pay back their loans successfully.

*** INSERT TABLE 2 ABOUT HERE ***

3.4 Traction and scale

This small experiment with seven micro-entrepreneurs allowed Kiva to iron out the logistics of transferring money internationally, posting borrower profiles, and updating records when a borrower makes a repayment. The Flannerys were also encouraged by the speed at which their friends and families had responded to their call to loan money to the micro-entrepreneurs featured on their website. But it was difficult to sell a trial with seven borrowers to funders (Flannery, 2007).

The Flannerys asked Moses, their Ugandan blogger, to find 50 micro-entrepreneurs. By mid-October of 2005, Kiva was raising funds on its website for these borrowers.

*** INSERT TABLE 3 ABOUT HERE ***

A senior manager commented that the secret to Kiva's success was press coverage. The news articles about Kiva focused on how it was now possible for people to connect with those in need, even halfway across the world. The call to action was obvious – anyone can loan \$25 to a micro-entrepreneur today. The “game-changing moments” for Kiva (Flannery, 2007) were articles by the prominent blog, DailyKos, and news coverage on the PBS series Frontline. These pieces boosted their loan volume tremendously. DailyKos covered Kiva when only 50 microloans were available, and all of them were fully funded within hours. By the time PBS covered Kiva, they had scaled up by partnering with microfinance institutions. The week after the PBS special came out Kiva received \$250k in loan volume. Kiva had undoubtedly gained the traction that Matt Flannery feared would never come (Flannery, 2007).

3.5 Trial and error

Back before Kiva could get any traction on their idea, Matt and Jessica Flannery decided they were going to “just start” and then “see how things would play out over time” (Flannery, 2007). Many of their early decisions involving partnerships were made pragmatically, based on the resources that were available to them at the time. Moses, their Ugandan blogger, was someone Jessica had met in her travels through Africa. The earliest Kiva Field Partners were smaller, less established microfinance institutions that were willing to entertain a proposal from a startup. According to a senior manager, Kiva “signed on any organization that would say yes” without regard for risk management or strategy.

After some early Kiva volunteers made visits to field partners, Kiva discovered that many of these partners had been cheating them. Unfortunately, Moses was among them (Flannery, 2009). By this point, Kiva had grown in reputation and volume such that it had already signed on better and bigger partners. As a result, while Kiva had to deal with its first delinquencies and defaults, the percentage of bad loans was still comparatively low.

Kiva maintained a high level of transparency throughout this learning process. To this day, the Kiva website contains a publicly accessible list of all past and present Field Partners, along with the reasons for termination of partnership. With this emphasis on transparency, Kiva made its trust in its lender base clear, and in return was treated forgivingly for its mistakes (Flannery, 2009).

As of November 2009, just over four years after its initial public launch, Kiva reached \$100m in loans. Kiva’s President, Premal Shah, was announced as a Young Global Leader of the World Economic Forum, Kiva made the Time Magazine list of the 50 best websites in 2008, and Matt and Jessica Flannery had appeared on the Oprah

Winfrey Show with President Clinton. Not without some bumps along the way, Kiva had progressed dramatically from its beginnings as a far-fetched idea to achieving significant traction and worldwide acclaim.

4 WORLDREADER

Worldreader was co-founded by David Risher, formerly of Microsoft and Amazon, and Colin McElwee, ex-Director of Marketing at ESADE Business School in Barcelona, Spain. During a year in which David and his family travelled around the world, his two young daughters used electronic readers (e-readers) to keep up on their reading. Meanwhile many of the places they visited had no books, or outdated and irrelevant books donated years back, or their libraries were padlocked shut most of the day.

David Risher remembered a conversation with Colin McElwee months earlier, in which McElwee had brought up the possibility of using e-readers to deliver books to families around the world. Upon his return to Barcelona, Risher called McElwee, and the idea to start Worldreader was born.

The idea that using e-readers could actually lower the cost and complexity of getting books to kids was a radical one. But Risher and McElwee contended that the marginal cost of producing and delivering an electronic book was negligible, whereas paper books were heavy and expensive to transport. Furthermore, e-readers used mobile phone networks, which were well established in most developing countries. Finally, power consumption was low, especially compared to laptops and other devices with backlit screens.

4.1 Early opposition

The Worldreader team would encounter serious reservations from funders, educators and friends alike. An official from USAID called the idea “nutty” – trusting poor children with an expensive device, essentially treating a luxury item as if it were a mass market object.

A teacher in a prestigious private school in Ghana’s capital city of Accra remarked that Worldreader’s vision constituted the equivalent of putting a spaceship in the classroom.

While some friends would praise the idea, others would state disapproval at Worldreader for “pushing e-readers on the kids without asking them what they want first.”

4.2 Legal uncertainty

The challenges facing this fledgling organization did not end there. Worldreader presented a plan to Amazon, proposing an e-reader trial involving 20 children in a small school in Ayenyah, Ghana using the Kindle, the market leader in electronic readers.

While generally supportive of Worldreader’s goals, Amazon had some concerns. Legally, the person who owns an e-reader has to register it on his or her Amazon.com account. E-books purchased on that account are then licensed for use on the associated e-reader. Worldreader was going to have to register the e-readers to one of their co-founders. Books purchased on any given account are charged to the credit card on that account. None of the students in Ghana, nor most of their parents, would own credit cards.

But electronic book licenses were not designed to account for this possibility. Not only were e-books designed for single users only, but some electronic book licenses were geographically limited. This meant that Amazon would also have to be concerned over whether a book bought using a U.S. credit card was legal for use in Ghana.

USAID and UNESCO, both organizations at the top of Worldreader's list of potential funders, also had concerns over digital rights management. USAID wanted Worldreader to ensure that all the digital content they would be using in Ghana was licensed for use in that market. UNESCO, on the other hand, had a mandate that they would only fund free and open source software (FOSS).

4.3 Proof of Principle

With no funding aside from a donation of e-readers from Amazon, Risher and McElwee decided to go ahead and run a trial at a small school in Ayenyah, Ghana. This would be the first-ever developing world trial of e-readers in a classroom environment.

*** INSERT TABLE 4 ABOUT HERE ***

Prior to leaving for Ghana, the team ran a mini-trial in a 12th grade classroom at the Benjamin Franklin International School in Barcelona, Spain, where Risher and McElwee's children attended. This allowed them to develop processes for basic logistics – unpacking, labelling, charging and loading the e-readers up with electronic books.

In Ghana, Mike Sundermeyer, a skilled ethnographer running the trials, was quite pleased at what he discovered. The power and connectivity issues could be overcome through using solar panels and a satellite Internet link. But more importantly, none of

the e-readers went missing or were broken. The children were engaged, reading more than they had before, and able to quickly learn how to use the technology.

4.4 Traction and scale

Worldreader released information about this first Ghanaian trial on its blog, along with compelling photographs of Ghanaian children in their bright orange school uniforms, each holding up their own e-readers. Several prominent websites, including Geek.com and Wired picked up this news. From there, Worldreader began to experience the beginnings of traction.

Perhaps most importantly, the Ministry of Education in Ghana officially embraced Worldreader as a partner, inviting Risher and McElwee back to start a more extensive set of trials in Ghana to determine what it would require to create a reading culture in schools. Additionally, members of the public volunteered their services, and an e-reader case manufacturer donated over 300 dust-resistant e-reader covers for the next stage of Worldreader's expansion plan in Ghana.

4.5 Trial and error

The Director of Trials for Ghana, Mike Sundermeyer, referred to Worldreader's philosophy as "fail fast, learn fast." It is this philosophy that has led to an emphasis on running pilot studies for the purpose of learning what is required in order to build the ecosystem that would be required for a full-scale launch.

5 DISCUSSION

5.1 Characteristics of Design-Driven Social Ventures

RQ1: What are the characteristics of social ventures that are innovative and redefine social meanings?

5.1.1 Radical “push” proposals that are based on a vision of the future

Kiva put forth this vision of person-to-person participation in microlending without consulting either donors to charitable organizations, or individuals who routinely loaned money for interest income. Likewise, Worldreader was formed with the goal of giving children in developing countries access to books, and the vision of using electronic readers as the best way to accomplish this goal.

Ultimately, Kiva questioned the existing meanings of both giving and loaning money, and Worldreader questioned the reasons behind the luxury positioning of electronic readers in the market. Instead of being user-centered (community-based), these organizations made proposals, putting forward a vision of the future. This “push” strategy is a type of radical innovation that Verganti (2009) calls design-driven. He argues that these types of organizations – in this case, design-driven social ventures – envision how the context of life could change for the better. Rather than following existing trends, they make proposals that modify the context in which they operate.

In examining the patterns within these two cases, we agree with Verganti (2009) that these “push” proposals do not necessarily involve new technology. Rather, they combine previously familiar way so doing things in new ways (Mair and Marti, 2006), and by doing so they redefine understood concepts and approaches (Pinch, 1987).

5.1.2 Combining ideas and resources in new ways

Prior to Kiva, the processes of charity and of loaning money already existed, but were viewed as being entirely distinct. The former was an altruistic act, and the latter a commercial transaction. Kiva was doing something completely new by combining the two.

In the case of Worldreader, electronic readers existed long before the venture came to being. However, the world of electronic publishing did not have anything to do with classrooms in developing countries. It was unheard of to use the e-reader – relatively new technology – to go to classrooms where paper books are scarce.

5.1.3 Changing the ways in which an idea is understood

Kiva blurred the line between loans and charity, allowing anyone in the world with access to the Internet and a credit card to loan \$25 to a specific person as far as halfway across the world. This money would help those micro-entrepreneurs build their businesses and achieve their dreams, and the lender would receive his or her money back over time, without interest.

When Worldreader came onto the stage, electronic readers (like the Amazon.com Kindle, or the Nook) were luxury devices for relatively affluent purchasers in the developed world. E-readers were substitutes for paper books, and cannibalized publishing markets. Worldreader sought to recontextualize the device from luxury to mass-market, the user from reasonably well-off person in a developed nation to a child in a developing country, and the business model from replacing paper book sales to opening new markets. Both design-driven social ventures boldly pushed their modifications of those contexts in what Verganti (2009) would call a design-driven strategy.

5.2 From early opposition to traction

RQ2: What are the stages that a social venture goes through in order to develop from an idea into a legitimate organization?

The organizations we have studied in this paper have followed this progression:

Idea → Early Opposition + Legal Uncertainty → Proof of Principle → Traction + Scale

We found the conceptual evolution of the venture through this process to be of particular interest. Zahra, et al. (2009) argued that when social entrepreneurs attempt the difficult and significant task of redefining meanings, they have difficulty raising funds and attracting talent due to the perception that they are “fundamentally illegitimate.”

Schatzberg (2001) would consider this a consequence of having suggested something “unthinkable” – thinkability, according to Schatzberg is quite a literal concept, having to do with whether or not we can think certain thoughts. The conceptual purpose for a Proof of Principle is therefore to empirically show that the social venture could work, and therefore to render the proposition thinkable.

*** INSERT TABLE 5 ABOUT HERE ***

One definition of the word “traction,” according to the The American Heritage® Stedman's Medical Dictionary, is “a pulling force.” This definition is a particularly apt given the context in which design-driven social ventures operate. At first, design-driven social ventures enter a space with a radical “push” proposal. As the social venture receives more and more traction, the idea starts to spread by “pull” as well as “push.”

Worldreader is at the stage where it is seeing the beginnings of “pull” affecting the organization, with potential volunteers and partners making contact to ask how they can participate. Kiva, on the other hand, as a much more mature organization, has gone through this stage to the point where they now receive much more “pull” than “push,” where during peak lending periods they struggle to keep enough loans on the website so that they do not run out of borrowers to fund.

Finally, we believe that with traction come not just legitimacy but authority. David Risher, co-founder of Worldreader, speaks frequently about his strategy to position Worldreader as a leading voice on deploying e-readers for classroom use in developing countries. To Risher, being authoritative means that anyone who is even vaguely interested in the subject will think of Worldreader first, and will seek out information from its website, follow its best practices, and view its team as authorities in the field. Although many other organizations have sprung up using a similar model, Kiva has become the authoritative exemplar of person-to-person microlending. This authority and traction keeps Kiva in a more competitive position, with loan volumes much higher as compared to the other peer-to-peer microlending organizations that have since established.

5.3 Methods and mechanisms to achieve legitimacy

RQ3: What are the methods and mechanisms that such social ventures use in order to achieve legitimacy?

5.3.1 Developing a Proof of Principle

David Risher, co-founder of Worldreader, spoke of a Catch-22 in which people were sceptical about the organization because they had valid questions about on-the-ground challenges. If that scepticism is allowed to hold the social entrepreneur back, then the organization will never get a chance to find out the answers to those very questions. A proof of principle – what Verganti (2009) would call a cultural prototype – is what breaks this Catch-22 situation.

Matt Flannery, co-founder of Kiva, said that they would never have achieved traction if they had not just gotten started, and the very first step along that journey was

proving the principle – in their case, using a wedding guest list to fund seven micro-entrepreneurs, and in Worldreader’s case, running a small trial in Ayenyah, Ghana.

5.3.2 Learning through trial and error

Aldrich and Martinez (2001) emphasize the importance of trial and error and improvisation in the early stages of an organization. Bhave (1994) says that creating a venture is an iterative process that is non-linear and driven by feedback. For Kiva and Worldreader, that iterative process began with a Proof of Principle, which took place in a non-linear fashion (i.e. before successful fundraising) and allowed the feedback cycle to begin. Both Kiva and Worldreader consciously and continually keep that feedback loop open, even as they grow bigger and more successful.

*** INSERT TABLE 6 ABOUT HERE ***

5.3.3 Using unorthodox methods that skirt the boundaries of what is legally permissible

The components of technological systems are socially constructed artifacts. Legislative artifacts, such as regulatory laws, can also be part of technological systems. Laws interact with other artifacts in a system, and if the characteristics of a component change, the other artifacts in the system will have to alter their characteristics accordingly. (Pinch, 1987)

Because design-driven social ventures are redefining the applications of ideas and resources, regulation has generally not been developed that specifically covers what they are doing, leaving them in a legal grey area until legislation catches up to application.

Again, in another Catch-22 scenario, the law would not change unless the organization succeeded in demonstrating that there was a reason to do so. As such, in order to begin the work that would eventually lead them to gain traction, Kiva decided to launch publicly almost a year before they received official non-profit status. Worldreader would also decide to run e-reader trials in Ghana before ironing out the issue of content licensing and digital rights management.

5.3.4 Embracing transparency

A senior manager at Kiva said that in this web2.0 era, keeping secrets is simply not a policy that works. Kiva has been honest with its lender base even when it has been painful to do so. When they found out that Moses, their first Field Partner and a friend from Uganda, had falsified loans in order to embezzle funds, Kiva immediately contacted the lenders to let them know what had happened, and posted a public explanation for other users that may have been wondering why certain borrower profiles had disappeared from the website. For the most part, Kiva's lender base has been understanding of these issues because of the trust that has been built up over time with this policy of transparency (Flannery, 2007). Worldreader has not yet found itself in an analogous situation, but has published full reports of all its activities in Ghana on its blog, even when the findings are not what they imagine a funder may want to hear (Sundermeyer et al., 2010).

5.3.5 Attracting the attention of key interpreters

Much like design-driven innovations, advertising is not the ideal medium to spread the word about these social ventures. Instead, Kiva and Worldreader presented a cultural prototype (Verganti, 2009) – which can also be understood as a Proof of

Principle – to a certain audience of interpreters. Traction happens when interpreters are convinced enough of a particular idea to use their ‘seductive power’ (Verganti, 2009) to exert influence on how people give meanings to things. For Worldreader, the interpreters in question have been the tech community, specifically prominent blogs like Geek.com and Wired. Kiva started with a similar interpreter, a blog called DailyKos, and has now grown big enough to attract the attention of television shows with major seductive power, like PBS Frontline and Oprah.

6 CONCLUSION

6.1 Implications for theory

In this paper, we have identified common characteristics of organizations that innovate to redefine meanings towards achieving a social goal, and introduced the term “design-driven social ventures” to describe them. Additionally, we have explored the ways in which new design-driven social ventures are created, along two conceptual axes:

- First, the journey from idea to venture as it relates specifically to legitimacy and traction.
- Secondly, a practical look at the methods and mechanisms that design-driven social ventures use to gain both legitimacy and traction.
- Finally, we have also developed a generalizable vocabulary that can be used in order to describe these processes.

*** INSERT TABLE 7 ABOUT HERE ***

6.2 Implications for practice

We believe that the findings in this paper should be encouraging to practitioners.

Future social entrepreneurs need not be discouraged by early opposition to their ideas.

Rather, they should feel encouraged to put their resources towards generating a Proof of Principle that can be used to gain traction, and over time, legitimacy and authority.

Social entrepreneurs who are forming new ventures in 2010 have an advantage over those who got started much earlier. When the Worldreader team encountered opposition, they pointed naysayers to numerous examples of successful social ventures that had also started off doing seemingly crazy things (Elkington and Hartigan, 2008). Documenting patterns through cases, as we have done, helps to lay a road map for future social entrepreneurs, identifies common experiences to build a sense of fellowship among entrepreneurs, and helps demonstrate methods and mechanisms that may help in the creation of a new social venture.

6.3 Limitations and future directions

As with any case-based research study, our conclusions are limited by our small number of cases, and by the characteristics of the organizations to which we had access. As such, we face the risk of focusing on unique conditions and singular events rather than generalizable concepts (Yin, 1999). We have done our best to minimize this threat by basing our analysis on existing theory. Even so, a logical next step for future research would be to examine additional cases of design-driven social ventures.

In addition, we were not able to evaluate concepts like traction successfully because no objective means of measurement exists yet. Our theories could benefit a great deal from confirmatory research, conducted empirically on a large number of social ventures. Further research should identify other design-driven social ventures,

determine whether or not they follow similar gestation paths, and to what extent these stages and concepts are unique to design-driven social ventures.

Finally, from this paper emerge some fascinating questions that lie at the intersection of design-driven innovation and social entrepreneurship. Verganti (2009) showed how design-driven firms start movements. What makes a design-driven social venture successful in starting a movement? In the case of Kiva, it can certainly be said that person-to-person microlending has turned into a movement, with numerous other ventures that have sprung up, like Vittana, LendforPeace, Microfundo and MyC4. It would certainly be interesting to explore the implications of starting a movement on the competitive environment. What impact do new ventures within a similar space have on the pioneering venture's legitimacy? Are traction and first mover advantage related? And more generally, how do social entrepreneurs balance the altruistic desire to create a movement that addresses a social need with the competitive desire to protect a dominant social, economic and cultural position?

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TABLE 1: Main theoretical constructs describing innovative social ventures that bring about social change

| Author | Theoretical construct | Description |
|---------------------------|-----------------------------------|---|
| Mair and Marti (2006) | Institutional entrepreneurship | Social ventures that catalyze long-term change by altering long-established institutions or organizational fields. This ability to change norms may turn out to be even more significant than the initial problems the social entrepreneurs set out to address. |
| Alvord, et al. (2004) | Innovating for social impact | Social entrepreneurs create innovative initiatives, build new social arrangements, and mobilize resources in response to social problems |
| Alvord, et al. (2004) | Catalyzing social transformations | Small changes that reverberate through existing systems to create change that reaches well beyond solutions to the initial problem |
| Zahra, et al. (2009) | Social Engineer | Social Engineers seek to rip apart existing social structures and replace them with new ones. They represent an important force for social change in the face of entrenched incumbents. Seen as fundamentally illegitimate by established parties that see them as a threat, which brings scrutiny and attempts to undermine the ability of the social engineers to bring about change. The perceived illegitimacy will inhibit the ability to raise financial and human resources from traditional sources. As a consequence, they may become captive of the parties that supply them with needed resources. |
| Hoogendoorn et al. (2010) | Innovation School | Innovative manners of tackling social problems and meeting social needs. The link between mission and services is direct, and innovativeness is a prerequisite. No mention of widespread social change. |
| Verganti (2009) | Design-Driven Innovation | Radical “push” proposals emerging from a vision of the future. Innovation need not be technological, but could also be structural (i.e. design driven), and results in a redefinition of social meanings and the creation of new markets |

TABLE 2: Kiva: Beginnings

| Date | Event |
|----------------|--|
| August 2004 | First version of Kiva business plan (then called Kesho) |
| January 2005 | Still no funds raised. Decision to launch a self-funded pilot with 7 borrowers |
| April 2005 | Proof of Principle success (all 7 loans funded) |
| September 2005 | Proof of Principle success (all 7 loans fully repaid) |

TABLE 3: Kiva: Achieving traction

| Date | Event |
|------------------------------|--|
| 12 October 2005 | Public launch with 50 borrowers |
| 27 October 2005 | Kiva featured on prominent blog, DailyKos. All 50 loans fully funded. |
| November 2005 – January 2006 | Five people join the Kiva team, including Premal Shah as President of Kiva. Premal joined from eBay, who decided to support Kiva by offering free payment processing from Paypal |
| February 2006 | Kiva partners with Microfinance Institutions (MFIs) on the ground. Kiva channels funds to the borrower through the MFI's existing microloan products |
| 1 March 2006 | BBC World coverage |
| 31 July 2006 | Business Week coverage |
| August 2006 | Kiva receives official 501(c)(3) non-profit status |
| 21 October 2006 | Wall Street Journal coverage |
| 31 October 2006 | Public Broadcasting Service (PBS) runs a Frontline special on Kiva. Website goes down as a result of increased traffic. Loan volume the following week is \$250k |
| 21 November 2006 | Total loan volume on Kiva reaches \$1m |

TABLE 4: Worldreader: The beginnings of traction

| Date | Event |
|--------------------------|---|
| Late 2009 | David Risher and Colin McElwee get together to discuss ideas for using e-readers to improve access to books |
| February 2010 | Launch of a trial in Barcelona. |
| March 2010 | Launch of a trial involving 20 children in Ayenyah, Ghana. Largely self-funded. |
| 16 – 20 March 2010 | Coverage in key blogs: Geek.com and Wired.com |
| 22 March – 16 April 2010 | Ghanaian press coverage |
| 8 April 2010 | Ministry of Education in Ghana signs on as a partner |
| May – July 2010 | Worldreader team doubles in size, funders start getting serious |
| 7 July 2010 | Colin McElwee speaks at Tedx Barcelona conference |

TABLE 5: Various notions of credibility

| Author | Vocabulary |
|--|------------------------|
| Zahra, et al. (2009) | Fundamental legitimacy |
| Schatzberg (2001) | Thinkability |
| Flannery (2007) – Co-founder of Kiva | Traction |
| David Risher – Co-founder of Worldreader | Authoritativeness |

TABLE 6: Various approaches to organizational learning

| Author | Vocabulary |
|---|--|
| Aldrich and Martinez (2001) | Trial and error, improvisation |
| Bhave (1994) | Iterative, non-linear, feedback driven |
| Flannery (2007) – Co-founder of Kiva | Test and see |
| Sundermeyer (2010) – Director of Trials for Worldreader | Fail fast, learn fast |

TABLE 7: Summary of findings

| RQ | Question | Data / Analysis | New Theoretical Constructs / Vocabulary |
|-----------|---|--|--|
| 1 | What are the characteristics of social ventures that are innovative and redefine social meanings? | Radical “push” proposals that are based on a vision of the future, combining ideas and resources in new ways, changing the ways in which an idea is understood | Design-driven social entrepreneurship |
| 2 | What are the stages that a social venture goes through in order to develop from an idea into a legitimate organization? | A successful design-driven social venture starts with an idea, faces early opposition and legal uncertainty, forges ahead with a Proof of Principle, and then achieves traction and scale | Traction as a pulling force. The point at which a social venture gains traction is when the “pull” forces take over from what was initially a “push” proposition |
| 3 | What are the methods and mechanisms that such social ventures use in order to achieve legitimacy? | Developing a Proof of Principle, Learning through trial and error, Using unorthodox methods that skirt the boundaries of the legally permissible, Embracing transparency, Attracting the attention of key interpreters | Key interpreters (Verganti, 2009) in the social entrepreneurship context are stakeholders whose seductive power (Verganti, 2009) can lead to traction. |