

## SOCIAL INNOVATION CLUSTER IN ACTION: A CASE STUDY OF THE SAN FRANCISCO BAY AREA

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### I. *Introduction*

Since the 1990s, social enterprise, which tackles social issues such as the environment, poverty, homelessness, public education, welfare and community development, etc. through business activities, has begun to emerge on a global scale. There are some difficult problems in addressing those social issues which cannot be solved simply by either the government or assistance from the economic market. There has been great expectation as to the role that can be played by nonprofit organizations in the third sector, but there is a definite limit to the extent to which issues can be solved by voluntary methods or traditional charity alone. What is important is “who” generates social innovation to solve social issues, and “how” it is generated. In this paper, we present a new conceptual framework, “the Social Innovation Cluster (hereinafter SI Cluster),” which works to promote social innovation in a particular area (Tanimoto ed. 2006), (Tanimoto 2007). An SI Cluster refers to a situation in which socially-oriented companies, nonprofit ventures, support organizations, universities and research institutions are located closely together. Few social enterprise studies have researched both business and nonprofit organizations comprehensively, and analyzed the mutual relationships, both competitive and cooperative, between these two parties.

In this paper we will examine the case study of the San Francisco Bay Area in the U.S. (hereinafter the SF Bay Area), where the development of various social innovations can be seen. There are four reasons for looking at this area. 1) A unique network, which functions well as a support organization, has been developing in this area since the late 1980s. Further, the availability of this support has encouraged the creation of many innovative business models to address social problems. 2) The “Social Purpose Enterprise model” (Tanimoto ed. 2006) is considered to have been born in this area, and has recently been widely adopted by the nonprofit sector in the U.S. 3) “Venture Philanthropy” began in this area. This new style of philanthropic activity was started by a new generation of entrepreneurs in the Silicon Valley, and has become popular throughout both the U.S. and the rest of the world (Letts et al.1997). 4) A new evaluation method for the performance of social business, the SROI (Social Return on Investment), was designed and has centered on the SF Bay Area (REDF 2000:2001). In this paper we show that these four elements are not functioning independently; rather they appear to share a mutual relationship, and related organizations and networks are also affecting each other. We will review these four points first, and then examine situations in which these phenomena are interrelating. At the end of this paper, we will look at the reasons why SI Clusters have functioned so well in the SF Bay Area.

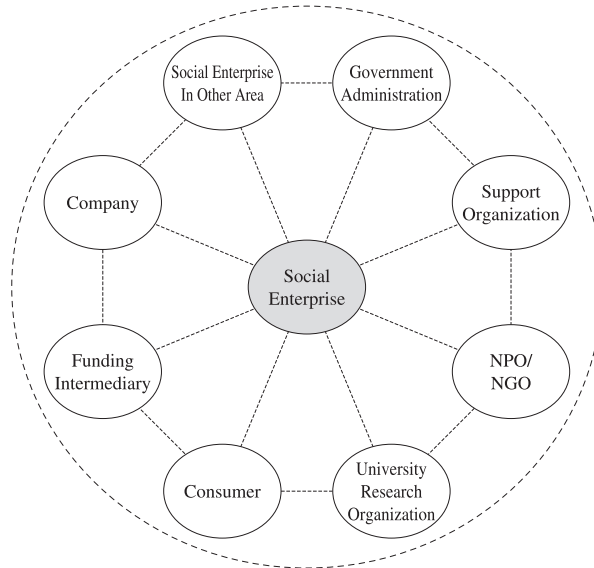
## II. *The Definition of a Social Innovation Cluster*

For the purposes of this paper, we are defining social innovation as follows: the development of new social goods and services addressing social issues, such as welfare, education, the environment, and support for developing countries etc. The creation of new organizational schemes offering those goods and services is also another characteristic. For example, one nonprofit organization might start and manage a business corporation, whilst still others might manage franchise stores which offer employment opportunities to homeless people and young people on the street (Tanimoto ed. 2006). There are two important points to this definition. Firstly, as Schumpeter (1934) defines, innovation is considered to be a new combination of new elements (the introduction of a new good, the introduction of a new method of production, the opening of a new market, the conquest of a new source of supply of raw materials and the carrying out of the new organization of any industry) which were not seen in any previous economic system. Secondly, one of the roles of innovation is that of adopting a problem solving approach. The term “problem solving” here is taken to mean to take a certain action in solving a problem (also see Kahney 1986), and to utilize innovation to solve those social issues (such as the environment, education and welfare) which have traditionally existed in conventional socio-economic systems.

In examining the concept of SI Clusters, we have reviewed both existing research in this area, and the definitions of the cluster theory and network theory to which we refer. At first, it can be said that studies into mission-based companies (socially responsible businesses) or nonprofit ventures are still at a very early stage of research. Most research on social enterprises in U.S. has focused mainly on nonprofit ventures which provide service and raise operating revenue (Emerson and Twersky 1996, Dees 1998, Oster et al. 2004, etc.). Mission-based companies which tackle new social issues in the form of for-profit business have been introduced from a journalist viewpoint as alternative business models, such as Ben & Jerry’s or The Body Shop (Scott and Rothman 1992, Reder 1994,1995 and Bollier 1997, etc.). Vogel (2005) discussed the correlation between socially responsible business and profitability. He sees the following companies as prominent cases which have strongly influenced others; Patagonia, Starbucks, Seventh Generation, Stonyfield Farm, Ikea. However, neither the economic and social background of the movement, nor the reasons for its emergence, are made clear through this argument.

“Social enterprise movements” have boomed all over the world since around 2000. However in the U.S., such social enterprises have been spreading around the SF Bay Area since the latter half of the 1980s. We will investigate later how this area has functioned as a base for incubating social enterprises. The cluster theory makes some important suggestions for our research. The concept of a “cluster,” as proposed by Porter (1990, 1998), includes the following entities: a distribution channel, customers, suppliers and universities, agencies responsible for establishing standards, think tanks, economic organizations, etc. Porter argues that these entities create a cluster within a unique local environment and utilize each other in order to enhance their individual competitive advantage. Kanai (2003) summarizes those requirements which are important in constituting this cluster concept into the following three points: 1) interrelated companies and organizations have accumulated in a specific field, 2) a synergistic effect is being generated, and 3) within the accumulation there are both cooperative

FIG. 1. MAIN ENTITIES OF SI CLUSTERS



Source: Tanimoto ed. 2006, p.38.

and competitive relationships. The network theory also contains suggestions relevant to our research (Burt 1992, 1997, 2000, Coleman 1990). Nishiguchi (2003) tries to evaluate the following facts by using four factors (rent): 1) Reputation: how each network lures banks and customers by designing an effective and attractive reputation; 2) Central and formal coordination: whether or not central and formal coordination occurs; 3) Social embeddedness: how much the network is socially embedded in the community; 4) Information-sharing and learning: information-sharing and learning that lead to innovation. His research points out that “differentiated networks” are appearing one after another as a result of a network being formed for various needs with which neither the existing institutions nor unlimited social systems can deal. He also clarifies the fact that accessing information, which had previously been blocked or hard to obtain, can become easier than before by plugging up any existing “structural holes” through the establishment of and participation in networks. This argument can be helpful in considering the importance of the numerous networks formed in the SF Bay Area which are related to social enterprises. We can define a network by referring to Nishiguchi (2003) as follows: a network is an intentionally adjusted system, supported by the action of two or more members, which is undertaken for a common purpose, and which is beyond organizational boundaries, regardless of whether or not these actions are conducted officially or unofficially.

In addition, the concept of a “complex network” consisting of companies, universities, nonprofits, research institutions and local government, etc., as presented by Sudoh (1995), has a lot in common with our view of SI Clusters. For example, he points out that in the complex network concept, nonprofit organizations and universities play important roles as key players which participate in two or more networks.

Now we are defining SI Cluster as follow: organizational accumulation which creates a new solution for diverse social issues and a new social value, by cooperative and competitive relationships between various organizations, such as social enterprises, support organizations, financial agencies, universities and research institutes, etc. SI Cluster is formed in a specific geographical area, but it is an open space to be accessible even from the outside. Social innovation can spread beyond geographical restrictions. Cluster concept presents a framework for analyzing an entrepreneurship with focusing on the relationship with stakeholders in the community, not on individuality (e.g. personal experience). The main entities in any SI Cluster are illustrated in Figure 1.

### III. *A Case Study of the SF Bay Area*

#### 1. **A Hotbed of Innovation**

In the SF Bay Area, many organizations, such as mission-based companies, social enterprises, incubators, angel groups and universities (business schools), etc., are gathered together, forming a global base of environmentally and socially-oriented businesses. The SF Bay Area has attracted many of the key organizations currently driving the social enterprise and CSR movements. The following are some examples. The Tides Foundation, an incubation center for nonprofit organizations; the Social Venture Network (SVN), a network of socially innovative businesses and resourceful leaders, which holds a particularly supportive annual meeting; Business for Social Responsibility (BSR), a network which advocates CSR to the business world. Further, examples of unique social enterprises are Give Something Back, a company selling business products with the aim of donating all subsequent profit to nonprofit community organizations, and Working Assets, a company providing a chance for customers to speak out on social and political issues and make contributions through telephone services etc. The Presidio National Park in the SF Bay Area is a base for many of these social businesses, nonprofit organizations and network organizations. Seki and Seki (2005) indicates that it is necessary for incubator organizations to have expectations that “something new is about to happen” or that “we can do something here”. Presidio is filled with just such a vibrant and energetic atmosphere. In particular, the Thoreau Center for Sustainability, located inside Presidio, has become a center of civic activities, housing SVN, the Tides Foundation and other innovative nonprofit organizations (63 organizations have moved in as of 2005). The reasons for the development of this SI Cluster are as follows: Social and political movements have been historically active around the SF Bay Area, which had already begun to attract a number of socially motivated organizations. Further, donations and bequests to nonprofit organizations, philanthropic activities of corporations and support from foundations are also well rooted (in 1994, the U.S. Nonprofit Times selected San Francisco as the “Number One U.S. Fund Activity City”). Another reason highlighted is that a number of talented people flowed into enterprises and nonprofit businesses from the Silicon Valley after the IT slump, and new-wave companies, focusing on venture philanthropy and the like, have since appeared in volume (Interview with Ms. Rebecca Kaufman of SVN, Sep. 28, 2004). The Presidio General Management Plan Amendment states that this former military post should not simply be preserved as is, but should become “a global center dedicated to addressing the world’s most

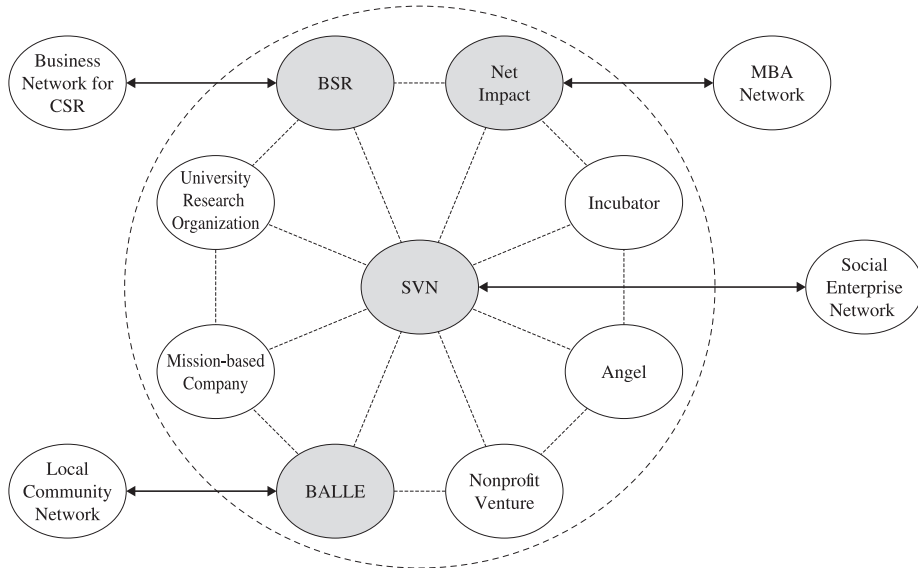
critical environment, social, and cultural challenges” (The Presidio Trust 2002). The Presidio Park and the Thoreau Center for Sustainability have exerted significant influence in the development of social enterprises in the SF Bay Area.

Leading universities, such as UC Berkeley (and its affiliated Haas School of Business) and the Stanford Graduate School of Business are also located in the SF Bay Area. Lectures about CSR or nonprofit management form part of the educational program of both these schools. Since 2000, both schools have established new research institutions, namely the Center for Social Innovation (Stanford) and the Center for Responsible Business (Haas), which are focused on research into social business and innovative solutions for social problems. At the Haas School of Business, social venture competitions have been held by the students since 1999, in which entrants make presentations about new business plans and their potential as social ventures. This has been developed into a global convention entitled the Global Social Venture Competition, which as of 2007 invites participants from the Columbia Business School (USA), the London Business School (UK), the Goldman Sachs Foundation (USA), the Indian School of Business (India) and the Yale School of Management (USA). These universities and research institutions are not simply engaged in the accumulation of research, but also play a very significant role in the promotion of, and educational campaigns about, social enterprise by holding competitions and hosting international conferences. Although universities and research institutions in the SF Bay Area play a positive role now, they took almost no action in the 1980s and 90s during the process of the formation of the SI Cluster. In the early stages, it was visionary support organizations spearheading the movement and leading the overall vision for the area that had the most significant influence in promoting communication and collaboration between companies, and/or between companies and nonprofit organizations, rather than academic sectors. We will now focus on the SVN, which played a key role in the area, and investigate how it was able to form a multilayer network through the involvement of the community, companies and nonprofits organizations.

## 2. The Development of SVN

SVN is a membership-based network founded in 1987 in which business leaders, nonprofit leaders and investors, etc. participate to try to encourage the development of a socially and environmentally sustainable society through business (<http://www.svn.org>). When it was launched, the founders Josh Mailman and Wayne Silby took the lead in structuring the network. SVN started in 1991 as one of the Tides Foundation’s projects, and received financial and management support from Tides. SVN is still managed as one of about 350 projects overseen by the Tides Center (SVN Annual Report 2005). SVN is organized through a diverse membership from a variety of sectors. As of 2005, of the 374 participating institutional members, 76% are business leaders and 22% are nonprofit leaders. Ben Cohen of Ben & Jerry’s, Gary Hirshberg of Stonyfield Farm and Anita Roddick of The Body Shop in the UK have been core members since the establishment of SVN. SVN has been active in producing the following unique networks (nonprofit organizations), with the purpose of making a positive impact on society: BSR (1992-), explained above; The Investors’ Circle (1992-) has helped to advance socially responsible investment practice; Net Impact (originally, Students for Responsible Business, 1993-) is a student network, with over 11,300 MBA students and recent alumni throughout 100 chapters at business schools and in cities around the U.S.; BALLE (Business

FIG. 2. BAY AREA SI CLUSTER CENTERING ON SVN



Source: Tanimoto ed. 2006, p.107.

Alliance for Local Living Economies, 2001-) is a nationwide network of local businesses in 21 cities and states throughout the United States and Canada that come together to celebrate the value of local business and to support one another.

For what reason would a network produce other networks in this way? Firstly, they have aimed to develop measures to solve social and environmental issues through the activities of big business, not just by a limited membership and through mission-oriented small and medium-sized enterprise activities. Since BSR was established by SVN, the arguments for CSR have been developed by global businesses throughout the 1990s. Secondly, the concept of a mission-based company as a new business model, and the ideas behind CSR activity, have become widely understood, thanks to the growth throughout US universities of Net Impact, which takes as its mission the consideration and promotion of CSR. Further, many social venture competitions are held at universities throughout the USA, and these serve to create a variety of new social business models (<http://www.socialvc.net>).

Drummond Pike of the Tides Center mentioned the reasons that SVN has produced so many networks and new projects: "Many have been spun out of SVN, but SVN continues to be this interesting sort of meeting place for entrepreneurs, investors and nonprofit entrepreneurs. And that mix, that blend of those three different communities, has given it a unique quality" (<http://www.wkkf.org>, 10/1/2003). Moreover, Albion (2006) points out that Josh Mailman, one of the founders, encouraged the involvement of MBA students in SVN events from its start in 1989, in an attempt to see the CSR movement spread to business schools. Students for Responsible Business (now, Net Impact) was formed in 1993 as a result of this movement. In the late 1980s, places where the business community, the nonprofit community and students of business schools could mix and discuss common social issues or business



subjects were extremely rare. The fact that Anita Roddick came to SVN all the way from the UK in a quest to find like-minded people attests to this fact.

### 3. The Creation of New Business Models by Network Participants

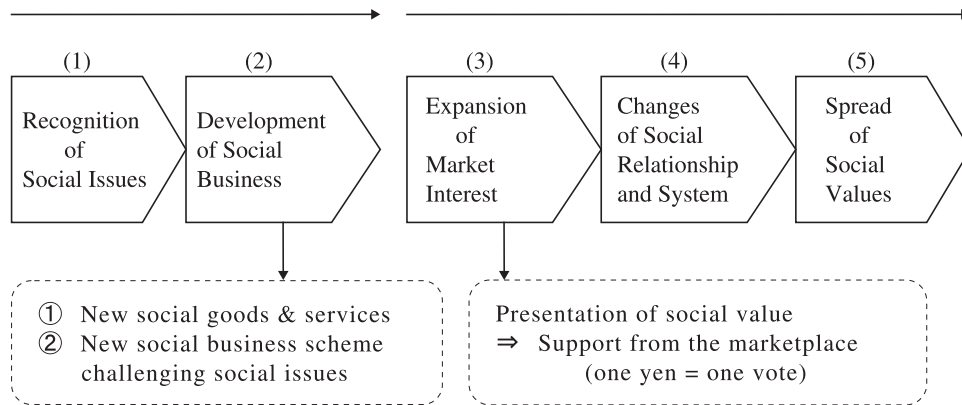
There have been several cases in which people, having participated in SVN meetings, got to know about new social business models, and have then started similar businesses. For instance, the entrepreneur Mike Hannigan, who started Give Something Back (hereinafter GSB) in 1991, attended SVN meetings and was impressed with the business model of “Newman’s Own Inc.,” which the actor Paul Newman started in 1982. This so-called “all profits for charity model” (100% of post-tax profit is donated to nonprofit community organizations) inspired Hannigan and he started his own business in the same style (<http://www.givesomethingback.com>). GSB sells office products to businesses, government agencies, and nonprofit organizations at competitive prices and donates its profits to nonprofit community organizations selected by the company’s customers and employees. Inc.Magazine indicated that from 1999 to 2001 GSB was one of the 50 fastest growing city-based companies in the U.S. Further, the San Francisco Business Times reported that GSB was one of the Bay Area’s Largest Corporate Philanthropists between 2002 and 2004. GSB has donated more than 3 million dollars to the community since its establishment in 1991.

While competing with giants such as Staples Inc. and Office Depot Inc., which offer goods at very low prices, why has GSB been able to gain a competitive advantage with its business model — which is seemingly irrational? Mike Hannigan says “Many customers trust that if a product is purchased from us, it will lead to the benefit of the community” (Cohen and Warwick 2006, pp.23-25). He adds that “for example, the Sacramento, California, area accounts for about 20 percent of our business, so 20 percent of our profits goes to the nonprofit organizations in that area” (Cohen and Warwick 2006, p.24). It is a key point that the local community understands this system, which returns profit to the nonprofit organizations in that same community. GSB is a supplier to B to B, and most of its 13,000 customers are businesses, government agencies and nonprofit organizations. In the Bay Area, there is a strong possibility that suppliers which bring benefits to the community are more likely to be selected in decision making processes regarding procurement. Equally, relationships with the community are important in the process of deciding who receives donations. Donation recipients are decided as follows: the company receives hundreds of applications from local nonprofit organizations and employees choose a final fifty applicants by an online poll. The final decisions are made by employees’ and customers’ voting for their favorites.

We can summarize the GSB business model in three points; 1) “post-tax profits” are donated to community organizations, 2) employees, customers and community people are involved in the selection process of the recipients of donations, 3) through this model, the purchase of their business products is directly connected to the benefit of the area. These points suggest that it is important to recognize the relationship between social innovation and the local community. Figure 3 shows the process of developing social business and extending new social values.

It is said that a social enterprise cannot exist without support and help from the local community in the process of forming an SI Cluster (phase 3 of Fig.3). Furthermore, the formation of an SI Cluster has another dimension to flourish the areas (phase 4 of Fig.3).

FIG. 3. THE DIFFUSION PROCESS OF SOCIAL INNOVATION



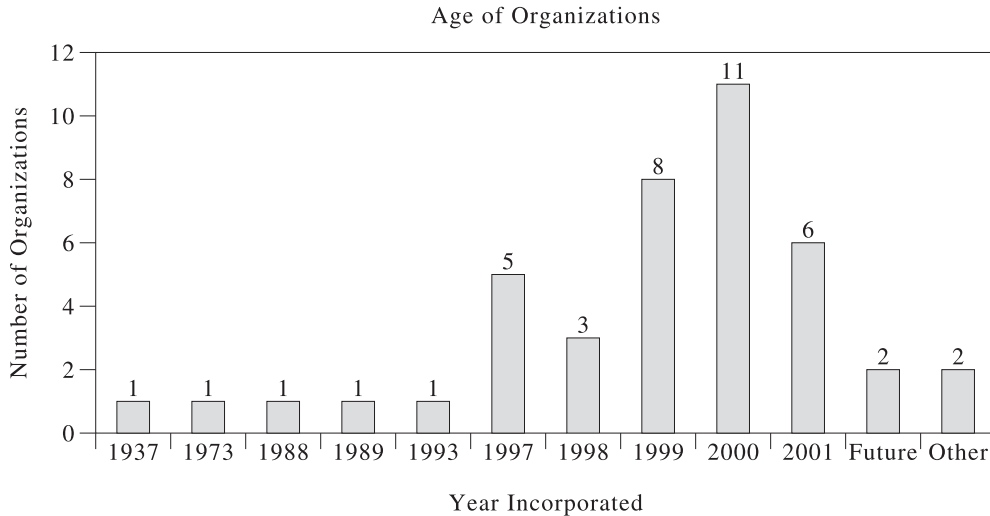
Source: Tanimoto ed. 2006, p.28.

Hannigan says “I got a lot of calls from people who are kind of like Microsoft millionaires... [people who are from] the high tech world and have found themselves with a skill set that is useful in achieving their social goals. But they are also in a position financially and emotionally to want to achieve some social goals and they have the money and the skills to do that, so they’re looking for ways, and when they hear about us, it makes perfect sense” (<http://www.wkkf.org>, 10/1/2003). He then provides advice and gives support to these people. The mission of GSB is clear — “support for nonprofits in the community”. The recipients of this message are made more aware of social problems. They come to recognize various social issues in the community, commit to them, and provide mutual support. It is through such a process that the business culture, the donation culture, and general concern about social issues in the local community mature. (Phase 5 of Fig.3)

One of the SVN’s most important missions is creating collaborations between business sector and nonprofit sector, and between big businesses and small & medium sized businesses. SVN holds a gathering several times a year. As a general rule, only members can participate in these gatherings in order to share information about the management of social ventures in their early stages. Here, new knowledge is created. In fact, Ben & Jerry’s (in Vermont) and Greystone Bakery (in New York) met initially through an encounter at a SVN gathering, which led to the signing of a business agreement (Albion 2006, Hammel and Denhart 2007). Ben Cohen was looking for a raw procurement supplier with matching social values, and Roshi Bernie Glassman, the founder of Greystone Bakery, also wanted a business partner who understood their mission and supported his business. Greystone Bakery, with a yearly turnover of 5 million dollars and more than 50 employees, has contributed its profits to the Greystone Foundation (\$200,000 to \$400,000 annually), a community development organization. The Foundation’s mission is to support low-income and socially excluded people in forging a path to self-sufficiency and community transformation with providing jobs, workforce development, housing, healthcare and so on. It has been said that this is a unique case in making a business partnership between companies separated by both significant geographical distance and corporate scale. They met at an SVN gathering, and were able to understand their mutual



FIG. 4. THE YEAR OF ESTABLISHMENT AND THE NUMBER OF VENTURE PHILANTHROPY ORGANIZATIONS



Source: Venture Philanthropy Partners 2002, p.32.

missions. This encounter was therefore the beginning of the creation of a social value chain. Through the structured instruction of, and quality control support from, Ben & Jerry's, Greystone has been able to ensure the steady production and delivery of corn.

#### 4. The Evolution of "Venture Philanthropy"

Recent years have seen the birth of a new trend in corporate philanthropic activities in the U.S. This new trend is called "venture philanthropy" (or high-engagement grant making). This is basically a new philanthropy designed to produce a greater social performance (social return) by investing limited business resources effectively and efficiently in the same way as a venture capitalist would do (Tanimoto ed. 2004). In recent years, IT ventures and relatively new support foundations have introduced the technique of venture philanthropy as a highly effective tool. We can summarize the features of this into the six points (Brower 2001, pp.12-13), as follows: 1) Risk: accept risk positively and demand clear social performance. 2) Performance measurement: measure and reward performance to achieve long-term growth. 3) Close Relationships: work closely with investees, sit on the board to select CEOs and plan strategies. 4) Size of Funding: fund few deals but put real money into chosen ventures and also finance subsequent needs. 5) Length of relationship: stay on board over years of development. 6) Exit strategy: have exit strategy in place at the outset (e.g. mergers, public sales).

Letts et al. (1997) point out that most existing foundations have paid little concern to improvements in the efficiency of nonprofit organizations, and to their service providing capacities. As a result, nonprofit organizations have been forced to waste a great deal of time and effort in order to receive new subsidies. The Morino Institute (2000) indicates that many venture philanthropy funds concentrate on the West Coast, such as the Silicon Valley, Seattle,

FIG. 5. THE GEOGRAPHICAL DISTRIBUTION OF VENTURE PHILANTHROPY ORGANIZATIONS



Source: Venture Philanthropy Partners, p.32.

etc. It also points out that “cross pollination” can be seen among nonprofit organizations and IT entrepreneurs in such areas. Venture Philanthropy Partners, which is a support foundation for a program to improve the lives of children and youth of low-income families and also provides statistical data on venture philanthropy foundations in the U. S., says that almost all of these organizations are small, and tend to accumulate in New York and the Silicon Valley area despite the fact that the venture philanthropy industry is rapidly spreading through the entire nation (Venture Philanthropy Partners, 2002). Figure 4 shows how many venture philanthropy organizations have been established each year. More than 60% of venture philanthropy funds were established after January 1999. Only 4 organizations were started before 1998 (the rest of the 9 organizations were established but had not started to provide subsidies as of 2002). This data shows that venture philanthropy spread quickly in the second half of the 1990s, especially from 1997 onwards. Of the more than 50,000 charitable foundations in the U. S., 42 organizations were accepted as being bona fide venture philanthropy organizations in the same report as of 2002. It also reports that they contributed about 50 million dollars (about 0.2% of the U.S. total amount of contribution) in the 2001 fiscal year. Figure 5 shows the geographical distribution of venture philanthropy organizations. 42 foundations are scattered throughout 18 states in the U.S., and in particular there are 11 accumulated in the outskirts of the Silicon Valley, and these now function as a base for venture philanthropy (Concentrations of 6 in New York and 4 in Texas follow the Silicon Valley in terms of scale).

Laura Arrillaga is one of the most famous originators of the venture philanthropy model which burst into the U.S. from the late 1990s onwards. She founded the Silicon Valley Social Venture Fund in 1998, when she was a graduate student at Stanford University. This is a Donor-advised Fund which focuses on the effective management of philanthropy and capacity

building in nonprofit organizations. Since 2000, she has initiated the establishment of a course on Strategic Philanthropy at Stanford Business School, as well as a course on Philanthropy and Social Innovation at Stanford University. Arrillaga also teaches at the Haas School of Business, and serves as Director of the Arrillaga Foundation, which focuses on education and community development in the SF Bay Area.

Jeff Skoll is also a famous venture philanthropist. He started the online auction company “ebay” in the SF Bay Area, which offers funds to social entrepreneurs around the world, through the large amounts of funding at his disposal, and his high global profile. In 1999, he established the Skoll Foundation with 10.15 million dollars of ebay stock, and has made a positive commitment to support social entrepreneurs. As of 2005, this fund had reached 533 million dollars, and 19 million dollars or more has been made annually in investment (contribution). From 2002 to 2005, Business Week magazine selected Skoll as its most innovative philanthropist of the year.

However, there has been criticism from traditional foundations towards this new venture philanthropy’s attitude of “seeking immediate social return in a very straightforward form”. For example, nonprofit organizations whose targets are wide-ranging, or whose performance cannot be easily quantified in the short term, cannot be considered desirable candidates for venture philanthropy (Sievers 1997, etc.). In response to this criticism, a new concept — Social Return on Investment (hereinafter, SROI) — was formulated by the REDF. The REDF (the Roberts Enterprise Development Fund) is a support foundation which has been strongly influenced by the Silicon Valley, and looks for ways to innovate nonprofit organizations. SROI tries to investigate the realities of investment performance (in fact, contribution) such as; how much new employment is being created, and how many unemployed people are getting job training. It also looks to calculate how much public expenditure has been saved, and conversely how much can be expected in tax revenue.

## **5. The Creation of A New Indicator: SROI**

REDF has its office in the Thoreau Center of Sustainability. Unlike other traditional support foundations, REDF has adopted a venture capital-type approach which sees donations as “investment”, as has been mentioned above. Furthermore, the foundation has been working positively on the SROI project, which since 1997 has looked to measure social performance in social purpose enterprises quantitatively. SROI is calculated by dividing the future value created (business value + social purpose – value debt) by the amount of business investment up to the present. The point is how to calculate the social purpose value. This is calculated by, for example, evaluating how much a certain venture has managed to decrease the amount of government expenditure previously spent on the homeless, who are now being employed by the venture.

Recent years have also seen an increasing trend to evaluate business plans submitted to social venture competitions held in universities and business schools from an SROI viewpoint. Furthermore, global social venture competitions, as mentioned previously, now evaluate both the financial profitability and the SROI of a venture at a similar level. In order to win these social venture competitions, it is necessary to show clearly that the SROI of a submission is higher than that of the other companies in the industry. These are some of the factors that can be considered as helping the dissemination of SROI throughout U.S. business schools. REDF

has accepted students as interns (or long-term fellows), not only from schools like Haas and Stanford in the local area, but also from other universities such as Yale, Harvard, Michigan, and Wharton. REDF also dispatches their staff to those nonprofit organizations included in their portfolio. REDF is attempting to change, with their management skills, the conventional way of thinking in the old-fashioned nonprofit sector, and it has the objective of nurturing future social entrepreneurship.

Finally, let us examine the wide network of key persons involved in REDF. One of the leaders of social entrepreneurship around the Bay Area is Jed Emerson, a former Director of REDF. He served as a Director of a nonprofit organization (Larkin Street Youth Center) focused on youth homeless support in San Francisco in the 1980s. He felt that there were definite limitations in the activities of nonprofit organizations in providing street children with temporary shelter. He was then involved in the establishment of Juma Ventures, which provides economically disadvantaged teens with work opportunities. Whilst involved with the Roberts foundation, he co-established REDF in 1989, and served as the Executive Director until 2000. In addition, he has experience in teaching at the Center for Social Innovation at Stanford University.

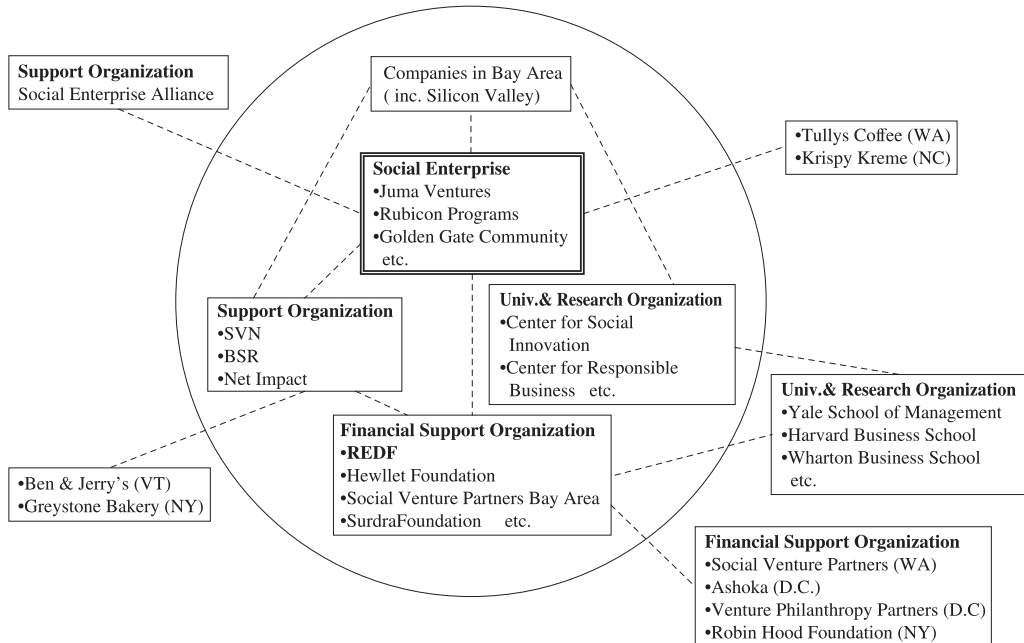
Kriss E. Deiglmeier, who served as the COO for Juma Ventures, has had contact with REDF and is committed to the development of management tools for social enterprise. The Stanford Graduate School of Business appointed her to the newly created position of Executive Director of Operations at the Center for Social Innovation (CSI) in 2004. She played the role of gatekeeper between practitioners in the nonprofit sectors and universities. Melinda Tuan, who was a Director of REDF, also took a lead in the development and diffusion of the nonprofit business venture model. Therefore, Emerson, Deiglmeier, and Tuan can be said to be social entrepreneurs because they have produced new systems and structures, as well as a new culture for the nonprofit sector.

## **6. The Emergence of the Social Purpose Enterprise Model**

The REDF has built partnerships with the following nonprofit ventures; Rubicon Programs, Juma Ventures, the Golden Gate Community, and so on. These nonprofit organizations tackle social issues through profit-making businesses around the SF Bay Area. Each organization starts a small business corporation as a subsidiary, and develops and spreads a social purpose enterprise business model that creates a new employment for socially excluded persons. REDF considers the whole body of organizations, which together develop partnerships in finance and management, as a “portfolio”. They consider financial assistance, such as funding from the community and other charitable funds, to be “investment,” not “donations”. In other words there is close involvement in the organization’s management, and “social results” are required to be created by that investment. REDF is carrying out financial and managerial support for more than 10 social purpose enterprises as of 2005. Nonprofits receive funds of between 75,000 to 125,000 dollars per year from REDF. In addition, enterprises also receive the usual grants and recoverable grants (grants returned when a business is successful) from other foundations, and low interest loans from other profits and/or nonprofit financial institutions, etc. (Okabe 2002).

Let us look at an example. Juma Ventures is a nonprofit organization, the mission of which is to offer job opportunities and training to youth and young adults without job

FIG. 6. DEPLOYMENT OF AN SI CLUSTER CENTERING ON REDF



experience around the Bay Area. It was established in San Francisco in 1991, and has been developing its business widely since 1996. “Juma” means “work” in the Hackin language of the Republic of Ghana. One of their social businesses consists of a “catering business in a baseball stadium”. Juma operates concessions for ice cream and coffee at a baseball stadium, the SBC Stadium (previously the 3COM Stadium) of the local team San Francisco Giants. After Juma acquired the rights to sell Ben & Jerry products in 1995, they made contracts with Tully’s Coffee and Krispy Kreme Doughnuts, which both gave their support to the Juma mission.

Since 1995, Ben & Jerry’s has developed the “Ben & Jerry’s Scoop Shop” as a PartnerShop system. The PartnerShop system provides community-based nonprofit organizations the opportunity to operate a franchise business. The system offers educational training programs to youth and young adults, and vocational training programs for the disabled. When nonprofit organizations rooted in local communities manage a franchise shop for the purposes of education and training, the 30,000 dollar (25,000 dollars in 1995) franchise fee which is usually required as an initial expense, together with the 3% of basic royalties normally due, are waived. Organizations can get management support from Ben & Jerry’s, in such areas as inventory control and customer relationship management. Ben & Jerry’s PartnerShop Program is popular among nonprofit community organizations aiming at employment training, because it offers exactly what they need. However, while expectations for the program has gained within the nonprofit, Ben & Jerry’s has indicated that many nonprofit organizations applying to participate tend to think that the system is merely an easy tool for a high operating revenue, despite the very real fact that taking care of and training young people with problems is hard work indeed (from comments made by the Manager of the PartnerShop Program,

Leslie Halperin, in the 5th Gathering of the Social Enterprise Alliance, Mar. 4, 2004). Ben & Jerry's have therefore set new criteria for prospective partners (as of 2005) as follows: 1) Nonprofit status, annual operating budget of more than 5 million dollars, 2) Offering job training and life skills development programs for youth and young adults, ages 15-21; have been in operation for more than 5 years. Furthermore, a new policy was announced that placed greater emphasis on the experience and performance of youth education (youth development) programs for community benefit, as well as the size or the stability of business. This idea of a "franchise strategy with nonprofit organizations", through which Ben & Jerry's started to try to address social problems in the community through core business skills, has spread throughout the U.S. in recent years. In addition to Ben & Jerry's, Dunkin Donuts, Maggie Moo, AIM mail centers, McDonald's and others have also initiated similar strategies (Tanimoto ed. 2004, pp.211-212). As of 2007, Juma Ventures had sold off their Ben & Jerry's PartnerShop, and reduced their business to focus on catering services in baseball and football stadiums (Schorr 2006).

Figure 6 shows SI Clusters focusing mainly on REDF and nonprofit ventures within networks, etc. The main players sympathize with the concept of a social business model and SROI, gather in the SF Bay Area, and share their viewpoints with each other. Figure 6 includes organizations which are not in business or membership relations, but which are affected by and share the similar ideas. One of the reasons we use the term "cluster" here instead of "network" is that we can draw a picture of the interrelationships between various players, which function as environmental factors affecting each other, and which serve to promote social innovation in a particular area.

#### IV. *Conclusion*

We introduced the new concept of the SI Cluster, and pointed out how an SI Cluster has gradually formed and developed in the SF Bay Area since the late 1980s. Research into industrial clusters has indicated that universities and research institutions can serve as the driving engines of industrial cluster formation. Such a view, however, is not supported in the case of the SI Cluster in the SF Bay Area. It was not until the latter half of the 1990s and the beginning of the 2000s that UC Berkeley and Stanford University began to be concerned with this movement, and furthermore it seems that there was almost no participation in the early stages of the formation of the SI Cluster. Rather, the Presidio area played an important role by functioning as a base for the promotion of progressive social change, with SVN, the Tides Center, REDF, and other organizations dedicated to social change closely interrelating through that base. We indicated that the distinctive features of the SF Bay Area are as follows. SVN created several differentiated networks involving many sectors and persons, advocated the use of new business skills to address social and environmental issues in communities, and in doing so caused the spread of a social movement over the 1990s. Key people, who can move across boundaries between sectors such as for-profit organizations, nonprofit organizations, universities and research institutions, have filled those "structural holes" where there used to be no active information exchange. For example, Deiglemeyer (former Executive Director of CSI), Emerson (Senior Fellow of Generation Foundation, Fellow of the Saïd Business School at the University of Oxford), Nelson (Co-Executive Director of SVN) and Arrillaga (Lec-

turer, Stanford University, founder of the Social Venture Fund), have all made significant contributions to the dynamic development of the SF Bay Area.

Furthermore, interactions between corporations and universities have been active recently. For instance, GAP Inc. and Levi Strauss & Company, based in San Francisco, provide scholarships and financial support to the research program of the Center for Responsible Business, launched in the Haas School of Business (CRB, 2004-05 Annual Report). GAP and Levis have both previously received severe criticism from NGOs on human rights issues such as the use of sweatshops. Advocacy NGO such as Corp Watch in Oakland had begun an initiative to urge for change in the business structure and culture of such companies. Business sectors which had received severe criticism from NGOs on social and environmental problems, therefore, have made partnerships with nonprofit organizations to tackle the social issues identified. Companies have also started to build new partnerships with universities and research institutions. Such partnerships are recognized as being a driving force in promoting the further dynamism of the SF Bay Area.

Furthermore, it is important to social innovation that those new business models and concepts born in the Bay Area are diffused across the entire nation, beyond the SF SI Cluster. Venture partnership models are also spreading across the nation. For example, the Tides Center, which is an incubation center for innovative nonprofit organizations, has established both an East Coast Washington office and Tides Canada. Additionally, Social Venture Partners, whose headquarters are located in Seattle, have developed their model and now 16 related partnership organizations operate through the nation. As one of the functions of SI Clusters, new business models, concepts, and social values from a specific area can spread beyond the boundary of the original cluster. This social value chain can be seen in the case of the partnership between Ben & Jerry's and the Greystone Bakery, and the spread of the venture philanthropy model can be considered as collateral evidence of this phenomenon. An SI Cluster, similar to that found in the SF Bay Area, is forming around Sapporo City in Japan. We have started to research the emerging SI Cluster there. For further details, please refer to other results of our research, Tanimoto ed. (2006).

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