Leveraging Commercial and Social Entrepreneurship for the
Revitalization of Marginalized Urban Communities

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Introduction

The economic marginalization of low-income urban communities is well documented. Physical and economic isolation and income inequality are contributing factors, among others (Silver & Bures, 1997; Durr et al, 2000; Yesudian, 2007; Lyons et al, 2015). Governments lack the resources and sustained political will to solve these problems, and the for-profit sector has been largely unwilling to take responsibility for them, subscribing to Milton Friedman’s admonition that “There is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud” (Friedman, 1970: SM17). Friedman further dismisses the ability of government to solve problems in general, citing well-intentioned inefficiency (Friedman, 2002).

I share Friedman’s skepticism about the ability of government programs to solve our economic and social problems, but for a different reason than he espouses. They are transactional attempts to create societal transformation, a recipe for frustration and failure. I also share Friedman’s belief in the power of markets to solve these problems; however, I do not agree that unfettered capitalism is more likely to solve them than is government intervention. Free market capitalism stubbornly refuses to acknowledge the reality of market failure, and the myopic pursuit of shareholder value without acknowledging a responsibility to other societal stakeholders has contributed substantially to the economic and social problems we now face. As I have argued elsewhere (Lyons, 2015), failure to accept this latter responsibility amounts to ‘shooting ourselves in the economic foot.’ When we pursue capitalism in an irresponsible way, we create the inequity and instability that will ultimately undo our ability to continue to successfully develop our economy.

As is all too often the case, we are being presented with an “or” proposition only. We can choose either free markets or socialism. We must serve either shareholders or stakeholders. We can serve the interests of the few or the many. I am a believer in “and” propositions. Why can’t we use markets to solve social problems? What prevents us from serving shareholders and stakeholders (doing well and good) at the same time? Why can’t we all benefit from the fruits of capitalism?

While I am no believer in panaceas, I do think that a powerful force has already been unleashed in our society that has great potential to take us a long way toward answering the preceding
questions in the affirmative. This force is not new to us. Arguably, it helped to build the United States, both civically and economically, into the influential global powerhouse it has become (Gunderson, 1989). That force is entrepreneurship, and it underlies the great majority of all innovation that takes place in our society, where ‘innovation’ is defined as the implementation of invention (Baldacchino, 2009).

In this essay, I argue that entrepreneurship can be an important catalyst in bringing about a re-investment in our low-income, urban communities. In the spirit of and, entrepreneurship involves both the creation of individual, family and community wealth through the use of markets, and it can be fostered by government and nonprofit entities, as the representatives of societal stakeholders, as a strategy for economic transformation, if it is approached systematically and managed strategically. The ultimate manifestation of the ‘sweet spot’ where the market meets social responsibility is the work of social entrepreneurs, who employ the mindset, skills, tools, techniques and processes of commercial entrepreneurship in pursuit of a social mission (Kickul & Lyons, 2012). Whether they structure their social enterprises as nonprofits, for-profits or hybrids of the two, social entrepreneurs hold the key to the kind of responsible urban revitalization that addresses economic inequality and the societal instability that it engenders. They meld business sensibility with social sensitivity.

**Defining “Entrepreneurship” and “Social Entrepreneurship”**

Essential to making the case for entrepreneurship as an approach to revitalizing low-income urban communities is establishing what is meant by the term. While there is not complete agreement on a definition, there are several behavioral and cognitive characteristics generally attributed to entrepreneurs:

- They are attuned to opportunities to add value to the lives of customers by fulfilling a need(s) of those customers (Drucker 1985; Christensen & Raynor, 2003);
- They innovate by assembling and organizing the financial, human, physical and social capital required to take a product/service to the market that needs it (Schumpeter, 1991; Terry, 1995);
- They are catalytic leaders who create enterprises that learn from their failures and successes (Timmons & Spinelli, 2007);
- They are not deterred by not owning the resources they require to achieve their goals; instead, they persuade others to contribute their resources to the enterprise via the strength of the entrepreneur’s vision (Stevenson, 1983);
- They tolerate the risk necessary to engage in something new by learning how to effectively manage that risk (Antonites & Wordsworth, 2009); and
- They have a goal of growth for their enterprise and for themselves. They seek to increase their reach (Lichtenstein & Lyons, 2010).

If this kind of thinking and acting captures entrepreneurship, in general, then what is “social entrepreneurship?” Dees (1998: 3) argued that social entrepreneurship is “one species in the genus entrepreneurship.” Social entrepreneurs exhibit these same characteristics, but they do so in the service of a social mission that takes precedence over all else, including the generation of profit, and they are highly accountable to stakeholders, including society, and not merely shareholders (Dees, 1998). In economic terms, they bring social goods to a market in need.

Social entrepreneurship is not solely the purview of nonprofit organizations, nor is it exclusive to for-profit enterprises pursuing a double (economic and social) or triple (economic, environmental and social) bottom line. Legal structure does not define social entrepreneurship (Austin, 2006;
Kickul & Lyons, 2012). This means that social entrepreneurs can be found in the nonprofit, public and private sectors, and sometimes these entrepreneurs create enterprises that combine the best features of these various structures. The truly important distinction is that they think and act entrepreneurially, using markets responsibly, as they chase a social mission.

What Role can Entrepreneurship Play in Addressing Urban Economic and Social Inequality?

With these definitions in mind, how can entrepreneurship be deployed in low-income urban communities to bring about positive change – economic and social transformation? I will first address this conceptually and then offer several specific examples of these ideas in action.

The principal goal of entrepreneurship is to generate economic wealth (Lichtenstein & Lyons, 2010). Entrepreneurs try to create wealth for themselves and their families by creating a business asset, which is sustainable and can be transferred from generation to generation. There is nothing inherently wrong with creating wealth, as long as the opportunity to do so is available to everyone. In fact, I would argue that it is the collective creation of wealth across the families of a community that ultimately yields the economic transformation of that community and the ability to eliminate the social problems that accompany a lack of wealth.

Unfortunately, in our society not everyone has the opportunity to create wealth (Oliver & Shapiro, 2006). This is true in places both rural and urban. In urban communities, this is caused by a lack of access to quality education, the globalization of the economy and its resultant shrinking of well-paying job opportunities, isolation (both economic and physical), immigration, and health issues, among other challenges (Silver & Bures, 1997; Durr & Lyons, 2000; Wang & Li, 2007; Lyons, et al., 2015). These are problems that were both caused, in part, by the over-concentration of wealth in the hands of a few and serve to perpetuate it.

Over the course of our history, some governments have attempted to address this issue by adopting redistributive policies and programs; and yet, the problems persist and the wealth gap grows. While these efforts are well intentioned, they are not systemic and, therefore, do not have the power to transform. Instead of perfecting markets, in some cases, they have unintentionally destroyed those same markets.

If what we are doing currently is not working, then what will? I submit that fostering responsible capitalism through entrepreneurship is one answer to this question. I see this happening on two levels: (1) through the efforts of individual commercial entrepreneurs in low-income, urban communities and (2) through the work of social entrepreneurs in support of those commercial entrepreneurs.

As noted above, if properly motivated individual commercial entrepreneurs are given the opportunity to start, grow and sustain their own enterprises, they can generate economic wealth for themselves and their families. This, in turn, can result in community-wide wealth creation, if this community wealth creation effort is implemented systemically, systematically and strategically. This latter caveat is crucial.

The place to start is by acknowledging that in order to be successful in this endeavor, we cannot conflate entrepreneurship and self-employment. At best, most self-employed people in urban communities are what the Global Entrepreneurship Monitor project calls “necessity entrepreneurs.” This term refers to people who start businesses only because they perceive themselves as having no other economic options. Thus, their businesses are economically
marginal, providing only basic necessities to the owners and their families. While this is important, it is not sufficient to create the level of surplus necessary to permitting the savings and investment essential for wealth creation. In light of this, it is little wonder that some scholars have identified self-employment as a cause of economic inequality (Silver and Bures, 1997). Our focus needs to be on fostering entrepreneurs, who are innovating by bringing something new to the market or reaching underserved markets and who seek to grow their businesses beyond the corner grocery, hair salon, or storefront restaurant.

However, this is where efforts to support entrepreneurship often go off the rails, reverting to approaches that in effect perpetuate the status quo and exacerbate economic inequality. In many quarters, entrepreneurship is still viewed as an elitist activity, engaged in by serial entrepreneurs who are launching technology-based and venture capital-backed businesses. Investment decisions are made based on the perceived revenue generation capability of the business in question and whether or not the entrepreneur has the immediate capability to successfully lead the business. Governments take their cues from venture capitalists and also invest in this low-hanging entrepreneurial fruit. After all, they, too, want to maximize their return on investment, in the form of jobs created and taxes generated.

What this approach fails to recognize is that entrepreneurs do not come to entrepreneurship fully equipped to be successful. They get to that point through a long process of knowledge acquisition, experience, and feedback from coaches and mentors (Kutzhanova et al, 2009). In other words, they get to the mastery of their craft through skill building (Lichtenstein & Lyons, 2010; Lyons & Lyons, 2015). Thus, current public and private investors in entrepreneurship are essentially cherry-picking the most skilled entrepreneurs without investing in producing more cherries. This may be good for them, in the form of financial and political pay-off in the short run, but it is not healthy for society in the long run. It perpetuates economic inequality by limiting the number of people who can participate in, and reap the benefits of, entrepreneurship.

I have argued that today’s low-income urban “necessity” entrepreneur could become highly successful, if she receives assistance in building her skills so that she can move her company forward (Lyons, 2015). This requires an investment in this entrepreneur by the community over time. It is not an investment in her current enterprise, which may or may not have high revenue-generating potential. It is an investment in the development of her skillset as an entrepreneur, which, in turn, will ultimately allow her to build a highly successful business (Lichtenstein & Lyons, 2010).

As an example, an urban entrepreneur might start by opening a small, storefront Mexican restaurant. This business likely only generates enough revenue to keep a roof over the heads of the entrepreneur’s family and food on the table and would not be considered investment worthy. However, this entrepreneur is fortunate enough to live in a progressive community that supports a coaching system designed to help properly motivated entrepreneurs to develop their skills. After about a year of working with her coach, the entrepreneur recognizes that the tamales she sells in her restaurant are attracting people from other communities to her establishment. Feeling empowered by her growing entrepreneurial skills, she proposes that she launch a new business that manufactures her tamales and sells them throughout the region and, ultimately, the country. Her coach helps her through this process. A necessity entrepreneur has become a growth-focused entrepreneur with an enterprise that is attractive to private investment. She now has a business that is a wealth-creating asset. This example is based on a true story and illustrates how a public investment in human development that focuses on providing an opportunity to a low-income individual to pursue entrepreneurship can be a first step toward shrinking the economic inequality gap.
Social Entrepreneurs Supporting the Efforts of Low-Income Commercial Entrepreneurs

To this point, I have argued for the power of commercial entrepreneurship to generate individual and community wealth within low-income, urban communities. However, as the preceding example suggests, this requires investment by communities in efforts to facilitate this. Furthermore, these efforts must intentionally expand the opportunity afforded by entrepreneurship to more people. This is where social entrepreneurship comes into play.

I would contend that those organizations – nonprofit, private and public – that provide business, financial, and technical assistance to entrepreneurs in a responsible and equitable way, with a goal of improving the economy for all, are acting as social entrepreneurs. The community-based entrepreneurship coaching program alluded to in the example above would be one example. There are many others, of which I offer a few.

*Competition THRIVE*

In New York City, the City’s Economic Development Corporation (NYCEDC), Deutsche Bank Americas Foundation, and the Lawrence N. Field Center for Entrepreneurship at Baruch College of the City University of New York collaborated for three years to deliver a program called Competition THRIVE (To Help Reach Immigrant Ventures and Entrepreneurs). Competition THRIVE was aimed at fostering entrepreneurship among immigrant populations in the city as a community economic development strategy. The great majority of the immigrants targeted by the program were from low-income households and neighborhoods.

Interestingly, THRIVE did not seek to work with immigrant entrepreneurs directly. Instead it used a business plan competition format to encourage community-based organizations (CBOs) to innovate relative to the services they offered their client immigrant entrepreneurs. The program sought to encourage these CBOs to think and act more like social entrepreneurs and less like social service agencies (Lyons et al, 2015).

Each year, around 40 applications were received from innovative CBOs. A panel of judges reviewed these applications and selected five finalists, which were judged to be the most innovative. Finalists received $25,000 to pilot their program innovation and to write a business plan for carrying it forward after the competition ended. Field Center for Entrepreneurship faculty and staff served as mentors to the CBOs as they undertook this work over a six-month period. At the end of this period, each finalist was asked to submit their business plan and make an elevator pitch to the same panel of judges, who selected a winner. The winning CBO received $100,000 to be used in scaling their innovation (Lyons et al, 2015).

A required element of each business plan was the CBO’s strategy for measuring the social impact of their innovation in terms of its effect on immigrant entrepreneurship activity and resulting economic and social gains in the neighborhoods served. The results of a recent post-program study of these impacts are quite impressive. Even participating CBOs that did not win the ultimate prize became stronger facilitators of immigrant entrepreneurship (Lyons et al, 2015). THRIVE successfully used market mechanisms in support of social entrepreneurship that fostered commercial entrepreneurship among economically disadvantaged individuals in communities across the city.

*West Side Business Xcelerator*

The West Side Business Xcelerator (WSBX) is an initiative of Bethel New Life, a CBO that serves the communities of Chicago’s largely minority, low-income West Side. Bethel New Life has been engaged in community development in these neighborhoods since 1979, seeking to
foster positive change by creating jobs and connecting residents to those jobs, thereby reducing poverty.

While WSBX is a part of this job creating strategy, it is innovative in that its focus is not only on job creation but also on wealth creation for the entrepreneurs it serves. It does this by working with neighborhood entrepreneurs who seek to grow their businesses by reaching markets outside of the local region (Bethel New Life, 2016). This is important because it has been shown that minority entrepreneurs often pay a financial penalty for selling only to their local ethnic market (Shinnar et al, 2011).

WSBX seeks to be comprehensive in its support. It provides training and coaching to its client entrepreneurs to help them build their skills. It offers assistance in developing strategic plans and operations management systems. Help with market research is another service provided by WSBX. It also makes growth capital available through the West Side Investment Fund (Bethel New Life, 2016).

WSBX addresses what has been called the “missing middle” in community economic development (Lichtenstein & Lyons, 2010). These are entrepreneurs and their enterprises that are past the start-up stage but not yet to the growth stage. Local community economic development programs tend to focus on start-up businesses operated by low-skilled entrepreneurs. As noted earlier in this essay, venture capitalists and citywide governments tend to invest in growth companies operated by highly skilled entrepreneurs. The result is a situation where the neighborhood economic developers do not have the capacity to move the start-ups to high growth status, where investment awaits, and the investors are unwilling to reach back to help aspiring community entrepreneurs to attain that plateau (Lichtenstein & Lyons, 2010). By working with entrepreneurs from the West Side that have moved their businesses past the start-up stage and that have business goals that carry the potential to employ 5-25 individuals and generate $500,000 to $3 million in annual revenue (Bethel New Life, 2016), WSBX is building the much-needed bridge between the nascent entrepreneurs of its community (which Bethel New Life serves through its Entrepreneurship Training Program) and Chicago’s thriving economy. In effect, it is building a pipeline (Lichtenstein & Lyons, 2010) that provides the low-income entrepreneurs of the West Side access to wealth-creating markets outside the community. Through this innovation, WSBX has brought social entrepreneurship to Bethel New Life’s repertoire.

The Warsaw Entrepreneurship Forum

An international example of the support of entrepreneurship as a strategy for fostering the economic development of urban communities comes from the transitioning economy of Poland and its largest city, Warsaw. The Warsaw Entrepreneurship Forum was a joint effort of the government of the City of Warsaw and the Center for Entrepreneurship at Kozminski University (a private institution), with this author involved as an adviser. The project was funded by the European Union and sought to establish entrepreneur networks within selected districts of the city between September 2012 and October 2014. The idea was to build self-sustaining networks in six of the city’s 18 districts that could be replicated across the city (Center for Entrepreneurship, 2014).

Entrepreneur networks are a collaboration-based concept that seeks to foster entrepreneurial activity within a given geographic area by bringing entrepreneurs from across the area together to share information and best practices. In the case of the Warsaw Entrepreneurship Forum, this interaction among entrepreneurs doing business in a given district was facilitated in two ways: (1) regular in-person meetings and (2) social networking sites dedicated for this purpose (Center for Entrepreneurship, 2014).
The in-person meetings were held monthly on a weekday evening. They involved a presentation by an expert in a topic of interest to the entrepreneurs and ample time for networking among the participants. These networking meetings were well attended, and involved the unobtrusive presence of officials representing the City. The latter wanted to let the entrepreneurs know that they were there to help but not to dominate the meeting. In fact, government officials became increasingly aware over the course of the project that they would not be accepted as the leaders of this effort. That was the purview of the entrepreneurs, themselves.

Information sharing was not the only benefit of these meetings. The mutual emotional support offered by the entrepreneurs to each other proved important. Entrepreneurs often feel isolated in their work (Durr, 2000). The very act of bringing entrepreneurs in Warsaw together provided a teachable moment. When entrepreneurs in the pilot districts were first being recruited, there was push back from those who questioned the value of bringing together a group of competitors. The Forum demonstrated that collaboration could make businesses more competitive in the marketplace. This concept is what some have called “co-opetition” (Brandenburger & Nalebuff, 1996).

The Warsaw Entrepreneurship Forum is a simple but powerful idea. It encourages entrepreneurial activity in each district and in the city as a whole as a means to community economic development by fostering the creation of social capital among the entrepreneurs, themselves. The social entrepreneurs here – the City and Kozminski University – innovated by bringing a new approach to fostering wealth creation to Warsaw’s urban core.

Being Systemic

While the programs discussed above represent movement in the right direction, they are not sufficient if we are serious about transforming the economies of our low-income urban communities through entrepreneurship. The effort needs to be scaled to include the entire community or region and all the relevant social enterprises necessary to developing successful entrepreneurs. These players must be better prepared to play their roles effectively, and they must be woven into a network of support that is transparent to entrepreneurs and prospective entrepreneurs. Such networks are being called “entrepreneurial ecosystems” or “entrepreneurship support ecosystems.”

Doing this effectively involves the integration of two crucial functions: (1) preparing the community to think and act entrepreneurially in support of the efforts of local entrepreneurs and (2) creating a broadly accessible system for developing properly motivated individuals into successful entrepreneurs (Markley et al, 2015). Arguably one of the most successful approaches to carrying out the first of these two functions is that of the Center for Rural Entrepreneurship (CRE). While this group has been rural-focused, their Energizing Entrepreneurs (E²) model is equally applicable to urban communities, and, in fact, they have been approached with increased frequency by the latter to lend their help. CRE bases its work on three fundamental principles: entrepreneurship is a central strategy for all community economic development efforts; if a community is to become entrepreneurial, this must start with a change in culture; and collaboration and a systemic approach are key to a successful entrepreneurial community. E² is a framework for helping the civic and business leadership of a given community to develop an appropriate mindset, leadership capabilities, and the capacity to engage in continuous learning and innovation – in other words, to become civic or social entrepreneurs (Markley, et al, 2015).

The second crucial function necessary to creating an entrepreneurial ecosystem is a system for developing the skills of the community’s commercial entrepreneurs. In other outlets, I have
advocated for such a system that is available to all entrepreneurs and prospective entrepreneurs who are sufficiently motivated to do the work necessary to skill development. I envision this system as assessing individual entrepreneurs’ current skills in a clinical way and using the results of this assessment to inform the work of coaches, who both provide guidance and refer entrepreneurs to appropriate support organizations for business, financial and technical assistance (Lichtenstein & Lyons, 2010; Markley et al, 2015; Lyons & Lyons, 2015).

These two systems – the one for building community capacity in support of entrepreneurship and the one for developing the entrepreneurs, themselves – must be fully integrated (Markley et al, 2015). In this ecosystem, the social entrepreneurs of the community are constantly innovating in the way they create the assets and infrastructure necessary to fostering community wealth creation through the successful efforts of the commercial entrepreneurs.

It should also be noted at this point that the system for developing entrepreneurs can, and should, support the activities of individual social entrepreneurs and their enterprises that are delivering social goods and services to the community. The innovative solutions these social entrepreneurs bring to such urban problems as a lack of affordable housing, insufficient childcare, poor quality education, and substance abuse, among others help to increase the community’s capacity for wealth creation. Thinking has already begun regarding the tailoring of community enterprise development efforts to meet the needs of these social entrepreneurs (Lyons & Lichtenstein, 2010; Kickul & Lyons, forthcoming).

Conclusion

Entrepreneurship, both commercial and social, can be the vehicle for providing market-based solutions to the challenges faced by low-income urban communities. The activities of the commercial entrepreneurs of these communities can generate wealth for them, their families and the community. This will not necessarily happen, however, unless these entrepreneurs are supported in their development by the community and are connected to the larger economy.

Government, nonprofit and for-profit entities, acting as social entrepreneurs as in the examples offered above, can provide this support. In order to achieve success in this endeavor; however, these entities must move beyond fragmented, programmatic responses to systemic approaches that connect them into a seamless support ecosystem that is transparent to the low-income entrepreneurs they are seeking to serve. This will yield the synergies necessary to the economic, and ultimately social, transformation of the community. This is the kind of responsible capitalism that can help to truly address economic inequality and the marginalization of lower-income communities.

References


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