A CONCEPTUAL FRAMEWORK OF SOCIAL ENTREPRENEURSHIP AND SOCIAL INNOVATION CLUSTER: A PRELIMINARY STUDY

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Abstract

This study proposes a conceptual framework for understanding Social Entrepreneurship and Social Innovation Cluster. First, it presents a structural analysis of the emerging processes of social entrepreneurship in Japan, and then shows how social enterprises establish organizational strategies and promote social innovation. In analyzing the emergence of social entrepreneurship, we have reviewed its relationship with the community, government, civil society organizations and businesses by incorporating Network Theory and Cluster Theory. We have not focused on individual characteristics, but on the relationship between social entrepreneurship and the stakeholders in the community. Social innovation can be developed and promoted by understanding and supporting the customers, the community and the other stakeholders. Social businesses can be built and can flourish in the marketplace only by obtaining support from the people in the community. This research presents a conceptual framework. Empirical study is underdeveloped here yet, we have begun to investigate the emerging process of social innovation clusters in the San Francisco Bay area in the USA. (For further details, refer to; Tanimoto and Doi (2007).

Keywords: Social Enterprise, Social Entrepreneurship, Organizational Choice, Organizational Portfolio, Social Innovation, Social Innovation Cluster

I. *Introduction*

1. **Background**

Until recently, people in Japan have been indifferent to social and public problems, because it had been considered that the government sector should take responsibility for social problems. Japanese people have shown little interest in undertaking this task by themselves (Tanimoto 2002). People have also believed that solving complicated social issues, such as international relations and local community development, was not the responsibility of the individual, but that of technocrats (experts in law and administration) (Bellah et al., 1985). Moreover, Japanese have not considered it appropriate for businesses to become involved in social welfare issues, because of the need of businesses to be profitable, and because the government sector was expected to deal with social welfare issues. In addition, businesses attempting to do social welfare work have received such critical comments as: "It is bottom

feeding;" or, "Do you make money on welfare?" and "Welfare is not the object of a business."

Two factors can be identified as the driving-force behind the change in social consciousness. First, the question "What is affluence?" was widely debated during the period of low-growth in the 1980s, following the oil crisis. Second, the Japanese have experienced an unprecedented boom and the collapse of the economy after the second half of the 1980s. As the so-called bubble economy collapsed, most business people started asking questions such as "What is a company?" Moreover, during the 1990s, they could reflect on the meaning of being "a company man." The long-term expectations and motivation of employees regarding their company has also changed. Previously sacrosanct expectations, such as "If you work hard, the company will reward your patients and diligence." are no longer held. The loyalty of employees to their company has also changed drastically since the second half of the 1990's. Recently, people have started to question the real meaning of why they work.

Simultaneously, people who want to contribute to society have been gradually increasing in Japan. According to the "National Survey of Lifestyle Preferences" conducted by the Cabinet Office in 1983, 43.2% of participants responded: "I would like to be helpful to society as a community member." This number exceeded 50% in 1987; and was more than 60% in 2000. The latest data shows that it has increased to 62.6 % in 2007. In the latest survey, the highest number of participants were men in their sixties (69.7%) and women in their forties (70.3%). Clearly, people's concerns about society have increased dramatically.

2. Corporate Social Responsibility (CSR)

Japan is facing several pressing social problems. These problems include, supporting the elderly, women, the homeless, and the disabled; and tackling environmental issues, fair-trade, and redevelopment of under-served communities. Who should take the lead in solving these problems, and provide social services according to social needs, the government sector, or the market? In Japan, the government sector has almost reached the limits of the argument that either of these sectors should take the lead in solving the social problems has been made in Economics (Economic Policy) for years. It may have even become difficult for which sector of the two should solve the social problems. As values have diversified, and people's awareness of social issues have matured, civil society organizations have increased, and new organizations to provide for social needs have become necessary in Japan, whereas in the past, people used to depend on the government sector to provide these services.

Since the Nonprofit Activities Promotion Law was enforced in 1998, over 30,000 nonprofit organizations have been registered. Support from society has energized and encouraged these organizations. Furthermore, not only traditional nonprofits for charity, but also nonprofit ventures that provide social goods and services in the marketplace have gained support in society. The new wave of business corporations with the mission of solving social issues are known as socially oriented companies. In addition, big businesses are recognizing the need for CSR and are increasing social businesses and philanthropic activities (Tanimoto 2002, 2006a, 2006b).

This paper calls the businesses that address social issues "social enterprises". A "social entrepreneur" is defined as a person who finds a social need, starts a new business and promotes social innovation. This paper examines the new trend of social enterprise, and the process of "social innovation" that has produced social goods, services, and a new business

style in Japan.

II.   *Characteristics of Social Enterprises*

1.   Requirements of Social Enterprises

Below, some basic characteristics of social enterprises are described (Tanimoto 2002, Tanimoto ed. 2006).

Social mission: To have the mission of addressing social issues in doing business. Social enterprises can operate their businesses only by supporting their social mission through the community and stakeholders.

Social business: To create a new comprehensive business to realize the social mission. Social enterprises may take on a variety of legal forms.

Social innovation: To develop new social goods and services, and to develop systems to address social issues through doing general business. It is also important to realize new social values through the social business. In Europe, "social ownership and management" are important factors controlled by multi-stakeholders on the principle of "one member, one vote," (Borzaga et al. 2001, etc.). In the United States, most social enterprises have the legal status of a nonprofit organization. The principle structure and the legal form of organizations doing social businesses vary in each country and region. It is proposed that the form of an organization depends on the characteristics of the social issues that are handled by the organization and on institutional characteristics. Entrepreneurs may choose a suitable structure for an organization when they launch a social business.

2.   Types of Social Enterprises

The way of addressing social issues and the type of organizational structure of a social organization may differ as a result of its market system, its relationship with citizens and the Government, as well as with the legal system. Two basic types of social enterprises in Japan are "For Profit Organizations" and "Nonprofit Organizations". There are intermediate corporations and cooperatives between these two basic types, but they are not as well developed as those in Europe (Table 1).

Nonprofit Ventures: Nonprofits ventures have now played various roles by offering social goods and services in the market place. In some cases, a nonprofit organization (charity) may manage a profit-making business. In other cases, it may set up a holding company to operate various types of organizations. These organizational strategies will be examined later. Nonprofit

TABLE 1.   STYLES OF SOCIAL ENTERPRISES

Nonprofit Organization	Nonprofit Venture, Social Welfare Corporation	
	Intermediate Corporation, Cooperative (various forms in Europe)	
For Profit Organization	Incorporated/Limited Private Company	Socially-Oriented Company
		Social Business of Corporation (CSR)

ventures are emerging increasing social influence in certain fields in Japan. For example, "e-Elder" (Tokyo, 2000～), offers incubation service and information support to senior citizens. "Hokkaido Green Fund" (Sapporo, 1999～) promotes a citizen wind power business while establishing a business corporation.

Socially-Oriented Companies: A new wave of businesses with social missions has emerged to solve social issues during the period between 1970s and the 80s. These socially oriented companies have attempted to address social problems such as, community redevelopment, minority support, environmental protection, among others, and they have been supported by the market society since the 80s. The baby-boomer generation has been trying to build alternative businesses, different from established businesses, to meet the needs of the community, and to realize new social values. Similar companies are currently operating in Japan. For example, "Tokyo Occupational Safety and Health Center" (Tokyo, 1987～), has built and operated an emergency reporting system for the elderly living alone. "Atmark Learning Inc." (Tokyo, 1999～) has created a home learning system for truant teenagers using the Internet. The social impact of these companies has been growing and they are expected to play a significant role in society in the future.

## 3. Intermediate Corporations

Various forms of intermediate organizations have undertaken social enterprises in Europe. Since the Blair Administration in UK came into power, various types of social enterprises have been increasing. These include organizations offering social services to the community, and redevelopment to under-served communities. Co-operatives, workers collectives, social firms, and credit unions are the main types of intermediate organizations in UK. As yet, no intermediate corporations have not been established in Japan, where most social enterprises adopt the structure of a business corporation.

Social business of big corporations as a corporate social responsibility (CSR): Large, general corporation may start a new social business as a part of their CSR program and a socially responsible company may address social problems using their own resources. CSR includes not only compliance and risk management; it can also create a new social business to tackle major social problems, which is one of the roles of corporate citizenship (Tanimoto

TABLE 2.   THREE DIMENSIONS OF CSR

A. Way of Management	Incorporating Social Fairness, Ethics and Environmental & Human Rights Considerations into Management Practices
	→*<Approach to Compliance and Risk Management>*　&　*<Approach to the Creation of Corporate Values>*　（←innovative approach）
B. Social Business	Development of Social Goods and Services, and Development of Social Business
	R&D of environmentally friendly products, Development of products and services for the handicapped and the elderly, Eco-tours, Fair trade, and Community development project
	→*<Approach to new social issues>*　（＝create social innovations）
C. Philanthropy	Community Support Utilizing Corporate Management Resources
	Social contributions 1）through donations, 2）through utilizing of their facilities and employees, 3）through core business activities
	→*<Approach to Strategic Philanthropy>*

FIG. 1.   THE POSITION OF VARIOUS TYPES OF SOCIAL ENTERPRISES
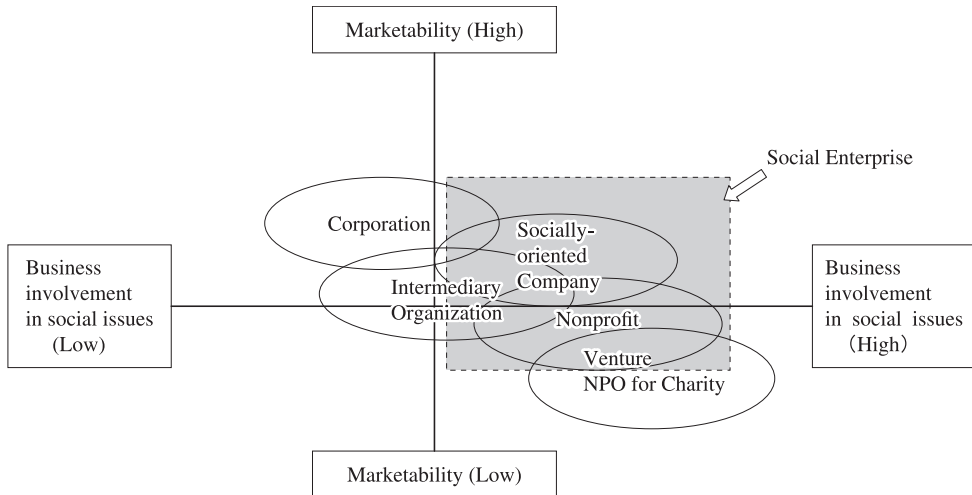
Source: Tanimoto ed. (2006) p.15.

2002, 2004). See Table 2.

A is the main subject of CSR. The company also expects B and C. It is an important strategy to collaborate with nonprofit ventures to develop social businesses. For example, "TOSTEM CORP" (a household equipment maker, Tokyo) collaborated with "Universal Design Citizen Network" (nonprofit, Tokyo), to develop front door with a universal design. Social expectations and roles of companies have been changing. Japanese companies are involved with areas which had never experienced before, such as the program for community redevelopment and domestic violence prevention. To take one example, Microsoft Corporation of Japan offers a lecture program for disabled people and domestic violence victims to learn computer skills to promote their employability (UP program).

Let us plot each type of organization in the next chart. Figure 1 shows marketability on the vertical axis and degree of business involvement in social issues on the horizontal axis. The shade area points out social enterprise.

4.   Background to Social Enterprises

In the United States and Europe, discussions about social enterprises have been increasing since the 1980s. The idea and form of social businesses depend on civil society and its historical background.

United States: Discussion about social enterprises in the U.S. has focused mainly on nonprofit ventures. The reasons for the emergence of nonprofit ventures in the U. S. include limited expenditure by the Government as practiced during the Regan administration; and increasing social problems caused by the poverty gap, as well as the pre-eminence of the markets (Tanimoto 2002). In the late 80s, due to the sharp reductions of subsidies by the Government, many nonprofit organizations were initiated to expand business activities for profit. Some have argued that even the boundary between nonprofit organizations and business corporations have

TABLE 3. THE SOCIAL ENTERPRISE SPECTRUM

Purely Philanthropic	Hybrids	Purely Commercial
Appeal to goodwill	Mixed motives	Appeal to self-interest
Mission-driven	Balance of mission and market	Market-driven
Social value creation	Social and economic value	Economic value creation

*Source:* Dees (1998) p.60, Dees, Emerson and Economy (2001) p.15.

become blurred with nonprofit organizations becoming increasingly commercialized (James 1987, Ferris and Graddy 1989, Salamon 1997, Scotchmer and Benschoten 1999, etc.). Others have discussed the possibility of a new type of nonprofit enterprise (Skloot 1988). Emerson and Twersky (1996), Dees (1998), and Dees, Emerson, and Economy (2001) have focused on the activities of nonprofit organizations that provide a social service in the market, raises the operating revenue, and manages the process from the perspective of the "double bottom line", social mission and business. They emphasize social entrepreneurship required for nonprofit businesses, as well as the mind-set, and business management tools. They have recognized social enterprises as hybrid organizations located midway between a purely philanthropic and purely commercial entities (Table 3).

However, it is not possible to understand the various types of social enterprises by considering them merely as hybrids. Since 2000, the interest in social enterprises has been increasing. For example, Brinckerhoff (2000) has discussed the management of social enterprises from a consultant's perspective, and Bornstein (2004) has analyzed it from the viewpoint of a journalist. These discussions focus mostly on nonprofit organizations. Unique socially-oriented companies, which innovatively address new social issues, have also emerged since the 80s. Journalists first introduced these companies launched by baby-boomers as an alternative business model (Scott and Rothman 1992, Reder 1994, Bollier 1997, etc.). However, there is little academic research on socially oriented companies, and the few available studies have argued that these companies have altered from nonprofit social enterprises. When considering social business in relation to CSR, it's necessary to examine the possibilities of developing new business opportunities and their relationship to stakeholders, within the framework theory of business and society.

Europe: The EMES (L'Emergence des Entreprises Sociales en Europe) in the European Commission started in 1996. It marked the first full research project dealing with social enterprises. Borzaga et al. (2001), which is the result of a four-year project, notes that new social enterprises are emerging beyond the limits of the welfare state and the limits of the third sector.

Figure 2 illustrates social enterprises at the crossroads of the co-operatives and the nonprofit sector. The structure of social enterprise varies according to the legal framework of each country (Borzaga et al. 2001, pp. 17-18). Borzaga et al. points out that the activities of social enterprises in Europe are mainly that of providing re-training programs and community services for people who have been excluded from the labor market. Their organization consists of multi-stakeholders. Moreover, they are governed through the democratic participation of

FIG. 2.   SOCIAL ENTERPRISES AT THE CROSSROADS OF THE CO-OPERATIVES AND THE
NONPROFIT SECTOR
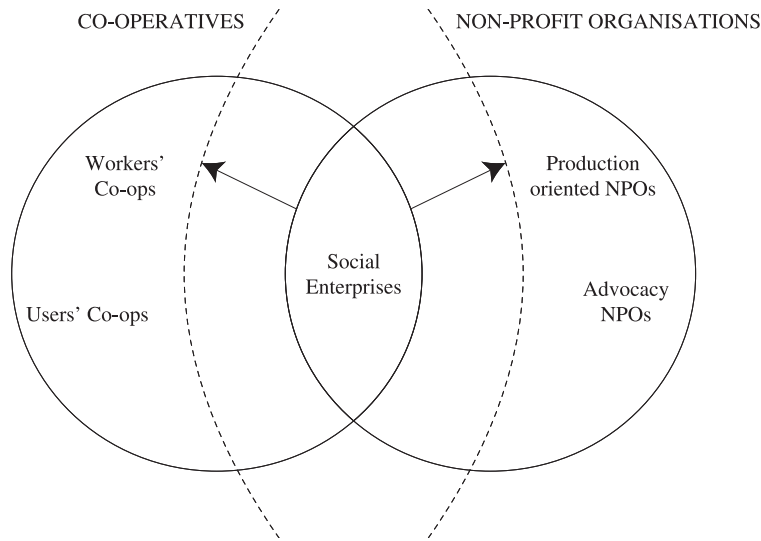
Source: Borzaga et al. (2001) p.22.

people, i.e., they are democratic bodies based on the decision making principle of "one-man one-vote". As such, social enterprises do not recognize other types of organizations, for instance the business corporation, as a social enterprise.

OECD launched the Local Economy and Employment Development (LEED) project and investigated the possibility of social enterprises. The OECD Report (1999) summarizes the activities and possibilities of a social enterprise that provides work opportunities for socially excluded people. The concept of a social enterprise is different in different countries, and after pointing out that a universal definition does not exist, the OECD stated that: "The expression "social enterprise" in this report refers to any private activity conducted in the public interest, organized with an entrepreneurial strategy but whose main purpose is not the maximization of profit but the attainment of certain economic and social goals, and which has a capacity for bringing innovative solutions to the problems of social exclusion and unemployment." (OECD 1999, p.10). OECD has introduced policies to promote social enterprise of many countries (OECD 1999, p. 58). Despite differences between the national and regional/local contexts highlighted in this document, OECD economies seem to be converging in three main directions: (1) "Use" of social and/or social-purpose enterprises to improve and reconstruct the welfare state according to a revised model of sustainable development. (2) Professionalization of the third sector and inclusion of social enterprises in a new economy and (3) Creation of a new form of mixed economy, serving the interests of the public economy and the private sector and underpinning the structural adaptation of OECD economies to changing needs. These three characteristics are reflected in the policies of the central governments to varying degrees, depending on the specific situation in each country.

In the 2000s, strategic and political consideration regarding social enterprises was in the

TABLE 4.   SOCIAL ENTERPRISE IN A WIDER CONTEXT

	PRIVATE SECTOR	SOCIALLY RESPONSIBLE BUSINESS	SOCIAL ENTERPRISE	CHARITY & VOLUNTARY SECTOR	GOVERN-MENT
INCOME SOURCE	Enterprises-Income from Sales			Grants & Donations	Taxes
GOAL	Private Goals		Social Goals		Political Goals
OWNERSHIP	Private Ownership		Social Ownership		Public Ownership

Source: SEL (2001 a) p.3.

forefront of discussion in many countries. Social Enterprise London (SEL) described social enterprises in its report (SEL 2001a) from the perspective of social economies in the following three areas: enterprise orientation, social aims, and social ownership. As shown in Table 4, they are classified as being in the private or government sectors according to income source, goals, and type of ownership. SEL has focused on and analyzed social enterprise as shown in the center of the Table.

They indicate social enterprises coming in many shape and sizes from the following five points. (1)Types of social ownership: there are various business models as can be seen by the variety of ownerships. (2)Sources of income: grants, donations and sales. (3)Social goals: SEL does not include socially responsible businesses like 'The Body Shop' in the category of social enterprises. They insist social ownership is an essential factor in social enterprises. (4) Development focus: social enterprises have the mission of resolving social and economic problems in the community. (5) Market focus: social enterprises need to build sustainable businesses in the market.

As social enterprises have grown and received support from the community. The British Government has developed the means to support these enterprises in the form of the "Social Enterprise Unit" established by the Department of Trade and Industry (DTI) in 2001. It has offered financial and business support to social enterprises for reforming public services and redeveloping under-served communities. The DTI report (2002) defines social enterprise as a business with a social purpose. It generates a surplus, but reinvests the surpluses principally in the business or in the community, to enable it to deliver on its social objectives. The British Government has created an environment in which social enterprises can flourish. It has established a number of programs, such as the formulation of legal forms, implementation of public procurement, management support and training, financial support and awards. DTI (2002) proves that social enterprises are managed in various forms. Their understanding of the types of social enterprises, including incorporated companies, is very close to that of the author. They understand that social enterprises are engaged in diverse social issues, including environmental problems, and are not merely concerned with to socially excluded and unemployed people. Therefore the vision and activities of the British Government are complementary to the Japanese system.

5. Summary and Discussion

There are differences regarding the definition of social enterprises between European countries and the U.S., because of differences in the structure of each nation, as well as because of the role played by Government. In the U.S., the nonprofit sector has voluntarily taken an initiative in dealing with social issues in local communities. Socially oriented companies and nonprofit ventures have addressed these problems in unique ways and gained the support of the market. On the other hand, in Europe, social issues are more often addressed by co-operatives, because of the European tradition of the social economy. However, other types of organizations with social missions are also working in various ways. Citizens and the Government of each country support social enterprises and the EU has created an environment in which social enterprises can flourish.

Both in the U.S. and in Europe, social enterprises have recently emerged and taken various forms to meet the diverse social needs that could not be met by conventional means. The 1990s, saw global social problems such as environmental problems, poverty in developing countries, human rights violations, unemployment, and questions on how to build a sustainable, developing society. Community funding and micro-credit, among others, have been launched to support social enterprises in developing countries. As the need for CSR has developed, society has come to expect that a company should be socially responsible and address social issues through its core business and philanthropic activities (Tanimoto 2006b).

In Japan also, there are pioneers of social entrepreneurship, but their numbers are not large. Since 2000, some people have started groups to support social ventures and/or study global movements. However, there are few academic studies investigating these topics.

III. *Promotion of Social Innovation*

This section discusses important, basic concepts in analyzing the development of social innovation by examining the following issues: (1) social entrepreneurship, (2) organizational choice for realizing a social mission, and (3) organizational portfolio to work in combination of different types of organizations.

1. Social Entrepreneurship

Social entrepreneurship plays a core role in the way social enterprises operate a business to realize its mission. A number of definitions of social entrepreneurship have been made by researches in this field, beginning in the 1980's (Light 2006, Dees and Anderson 2006). A social entrepreneur is an innovator of social change, who addresses social issues, and implements a new business model. Social entrepreneurs convey a social message and a new value to the market society through business, and through the goods and services that are provided. Social value is realized through their growing support, leading to new norms in the market. Since the second half of the 80s, in the United States, the word "social entrepreneurship" has become more popular in the nonprofit sector. That means nonprofits have had to adapt to the changing market society, and had to incorporate new business management techniques and skills. Many papers have emphasized the innovative function of social

entrepreneurship. For instance, Ashoka finds and supports outstanding individuals with pattern setting ideas for social change (Drayton and MacDonald 1993).

Schumpeter (1934) has found the engine of economic development in "functions of entrepreneur", i.e., "new combination" and "innovation." He defines the concept of innovation as a combination of the next five points: (1) the introduction of a "new good", (2) the introduction of a new method of production, (3) the opening of a new market, (4) the conquest of a new source of raw materials, (5) running new organization (Schumpeter 1934). Leadbeater (1997) indicates that social entrepreneurs identify under-utilized resources; people, building, equipment; and find ways of putting them to use to satisfy unmet social needs. Schumpeter (1934) wrote on innovation by an entrepreneur, "It is that technology changes, the production function of a company changes, and, as a result, it leads to change of the cost function of a company or a demand function". However, in social innovation brought by social entrepreneurs, it is not necessary to focus on new technology, but on new social systems providing social services and a change in social relationships. A single charismatic person in some cases can produce social innovation, but in many cases, it comes about through the collaboration of various stakeholders. We will discuss the process of innovation later.

2. Organizational Choice

Social enterprises have specific strategies in choosing the type of organization that is suitable for implementing its social business. Usually a suitable organizational structure will be chosen, on the basis of the content and the scale of the social business of each enterprise (Tanimoto ed. 2006). The legal form of the organization is decided by the juristic corporate system of the country where social enterprises exist. We will now consider the organizational choices that are available in deciding the appropriate form forprofit organizations such as incorporated companies; and for not-for profit organizations such as nonprofit ventures, and intermediate corporations. The basic criteria of organizational choice are as follows:

Market constraints: the degree of marketability (profitability). When a social project has a significant social value, but a limited number of customers, this leads to a lack of marketability. As a result, some projects must be run as a charity by accepting donations. However, it is possible for small businesses to grow by gaining customers' support, even if the market is limited at the beginning. Capital investment will be boosted and the market will grow and become highly competitive.

Financial constraints: possibility of fund raising. When a social enterprise needs a large capital, or has to invest in plant and machinery at an initial stage, a business corporation that can obtain financing from capital markets is selected. This is because, obtaining funds is difficult for a nonprofit organization that is dependent on donations and membership fees. Community funds for nonprofits, currently being available only on a small-scale, are in their infancy in Japan. Although some local banks have started loan schemes for nonprofit business, there are still hurdles for nonprofit organizations that have to be overcome before using these loans. These include constraints in collateral and credit guarantees.

Social constraints: problem of trust. Hansmann (1987) points out that when there is information asymmetry between a producer and a consumer in a market, the consumer tends to trust nonprofit organizations more than forprofit organizations, due to the non-distribution principle. Hansmann (1996) also indicates that nonprofit organizations win the trust of

consumers, because it has no ownership and no one can exploit and defraud profits from the stakeholders. There are some controversy and criticism regarding Hansmann's view (Ott 2001). However, the advantages of nonprofit organizations in the market over for-profit organization are generally changeable, because they depend on the contents of businesses and services. Furthermore, the effectiveness of nonprofit organizations in the market cannot be accepted automatically without taking account of the stakeholders and obtaining support. In Japanese society, due to the image of nonprofit organizations as being volunteer and amateur, people have little expectation from nonprofit businesses and trust business corporations more.

3.   Organizational Portfolios

In some cases, organizations are combined, such as a business corporation that builds a nonprofit organization and/or a nonprofit organization that builds a business corporation. This is an organizational strategy called an "organizational portfolio" that is developed to overcome the constraints of each institution by combining different forms of organizational structures to take advantage of the merits of each structure. Through this strategy, social entrepreneurs can gather new ideas and resources and try to promote social innovation (Tanimoto ed. 2006). It is possible for a nonprofit organization and/or a business corporation to make strategic alliances with business corporations and/or a nonprofit organization affiliated with each other. However, if they do not have an affinity to any outside organizations, they will seek to establish a new business corporation and/or a nonprofit organization with an adjacent organization to further develop their mission.

Nonprofit organizations building business corporations: This may be an organizational effort to overcome institutional constraints (for example, market constraints, financial constraints, etc.); to overcome "accountability dilemma" (Edwards and Hulme, 1995), i. e., the commercialization of nonprofit organization spoils their advocacy function. It can also be an organizational strategy to promote social innovation. Let us review two such cases: Hokkaido Green Fund is an environmental advocacy group, established in Sapporo in 1999. It established Community Wind Power Co. Ltd. in 2001, as a financing base in the market to construct a windmill. The same type of business model has been utilized in the wind power business in other regions of Japan following the success of this pioneering attempt. Global Village is a voluntary association established in Tokyo in 1991, for advocacy activities to permeate the idea of fair trade in Japan and assist developing countries. By starting a mail-order business, Global Village established Fair Trade Company in 1995, which deals with importing and selling products. Along with awareness activities related to fair trade, Global Village supports the business of Fair Trade Company.

Business corporations building nonprofit organizations: A socially oriented company may establish a nonprofit organization in order to promote its social mission and to undertake strategically philanthropic activities and social business that is beyond the scope of a single company. One such example is "Atmark Learning Inc." and "Home School Support Association". Atmark Learning Inc. started an Internet school business for truant students (home study program for high school students) in Tokyo, in 1999. A year later, Atmark Learning built a home school support association, as an independent organization, with the missions of eliminating prejudice regarding truancy and running an educational advocacy for home schooling, including elementary and junior high school students.

As mentioned above, the strategy of combining different organizations can make it possible to develop a social business that would not function effectively as a single organization. Innovative processes are emerging, particularly in the method of resource procurement, production, and marketing, of social goods and services. The important managerial issues in such organizational strategies are to build a government system, and an appropriate, accountable, management system to allocate resources, and to distribute benefits, as the whole group. However, an "organizational portfolio" does not necessarily mean that there is a "best combination" of different organizations in principle. When a business corporation and/or a nonprofit organization tackle social issues, they combine various types of organizations with different systems and take advantage of their merits in a strategic effort to overcome the institutional limitations of each organizational system to effectively implement social business projects.

IV.   *Social Inovation Cluster (SI Cluster)*

It is not unusual that some pioneering social entrepreneurs operate individually and are isolated. However, in an area where it is geographically closed to related companies, nonprofit organizations and other institutions find that social entrepreneurs affect each other, start new businesses and promote social innovation. The area in which social enterprises and related organizations are accumulated can be called a "Social Innovation Cluster" (SI Cluster). SI Clusters are a framework for analyzing an entrepreneurship by focusing on the relationship with the stakeholders in the community, and not on individuals; e. g. personal experience (Cunningham and Lischeron 1991), and gender differences (Carter and Brusch 2004). Figure 3 shows the typical entities of SI Cluster.

FIG. 3.   THE ENTITIES OF SI CLUSTER
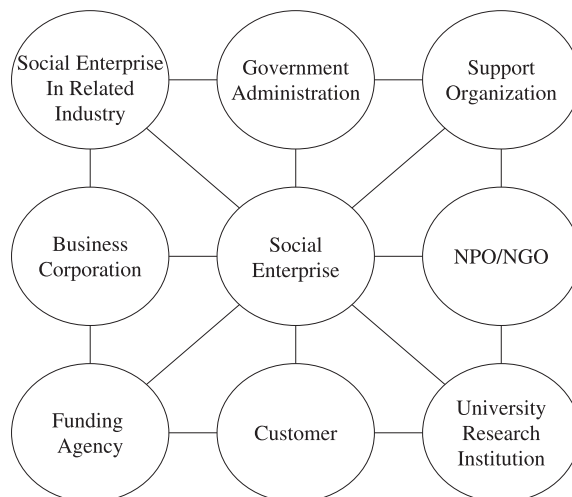
1.   Definition

A SI Cluster is defined as an organizational accumulation that includes social enterprises, support organizations, funding agencies, universities and research institutions. By building cooperative and competitive relationships in a SI Cluster, new social businesses are created and they provide innovative social solutions and social values for social issues. A SI Cluster is formed in a specific geographical area; however, it is also an open space, accessible from the outside. A stimulus from the outside may sometimes destroys a conventional idea within the area and social innovations can spread beyond the geographical restrictions.

2.   Comparison of a SI Cluster with an Industrial Cluster

The idea behind a cluster is based on the "Industrial Cluster theory" proposed by M. Porter (1998). The two have a few similarities, but a SI Cluster has its own unique characteristics that differ from an Industrial Cluster.

The Concept of the Industrial Cluster: Porter defines a cluster as geographic concentrations of interconnected companies, specialized suppliers, service providers, firms in related industries, and associated institutions (for example, universities, standards agencies, and trade associations), in particular fields that compete but also cooperate (Porter 1998, pp. 197-198). The important factors that constitute the concept of a cluster are summarized below:

(1) Interrelated companies and institutions concentrated in a specific sector, (2) Synergistic effect is generated, (3) There exists not only cooperative, but also competitive relationships.

Characteristics of the SI Cluster: The SI Cluster has similar basic characteristics to an Industrial Cluster. However, they also have the following important differences:

(1) There is a difference in the concept of sector. Compared with an Industrial Cluster that consists of a specific sector such as a housing related cluster or an IT Industry Cluster, a SI Cluster does not specify a sector, but embraces various sectors. Mixing of the different sectors create a new idea. In some cases, business and organizational strategy in a certain sector, or methods of innovation in the system of providing services, are used in other sectors.

(2) A SI Cluster is formed in a specific geographical area, but it is an open space where many people can access it from the outside. Various ideas and values from different sectors are interrelated, and a new social business is created and developed in the SI Cluster beyond its geographic restrictions.

(3) Interaction between a social business and its community is important. Social enterprises affect people's awareness of social issues through business activities. It is impossible for social enterprises to exist without being accepted by people in the community.

The correlation between social enterprises, communities and markets is very important. For the purpose of realizing its social mission through business, it is crucial for social enterprises to be accepted by the stakeholders in the area. Formation of a SI Cluster also raises social awareness and develops the maturity of a community that accepts the social enterprise. A social enterprise shows the social issues in an easily understandable form to customers and people in the area through its business activities. Their social message is delivered by providing goods and services. People who receive its message will increase their awareness and concern regarding

the social issues. They will recognize significant social issues, share their values and then become involved. People and the related organizations in the area can change through this process.

The Hokkaido Green Fund creates opportunities for people to think about electric power and energy policies and to become involved with environmental issues through the creation of a green electricity rate system, and by attempting to introduce a wind power business, in addition to conducting anti-nuclear power plant movements. Social businesses can develop and flourish in markets by obtaining the support of the people in the area.

3.   Towards the Maturity of SI Cluster

The level of awareness and understanding of social entrepreneurship has not yet been fully established in Japan. However, people's expectations of civil society organizations and socially responsible businesses are increasing. The SI Cluster produces a new social value through social innovation as we have discussed in this paper. The pioneering social entrepreneurs have been recognized individually. It is required that each component of the SI Cluster increases its awareness and increases the ability to promote social enterprises. It is not easy for the Government to set an economic policy to promote SI Clusters, as it has done with Industrial Clusters. However, by showing small progressive steps, people in the community will become interested, support, and become involved in social enterprises. It will be possible to develop a "social infrastructure" while building upon the experiences in the community.

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