



The Emergence of Social Entrepreneurship and its Strategy in Japan

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ABSTRACT

A social enterprise, which incorporates a business scheme in its system and tries to address significant social issues, is emerging in Japan. The Japanese have not realized we could do something about the social issues, because we have thought the Government was supposed to take care of those issues. Civil society organizations are still immature and the third sector has little impact on Japanese society. However, recently Japanese awareness of social concern has been changing. The expectation for social entrepreneurship is increasing because they are aiming to solve social issues, such as redevelopment of the under-served local community, and social & economic support to the elderly, women, the homeless and the disabled. In order to combine these social missions and businesses together social innovation is essential. It is not unusual that pioneers of social entrepreneurship are charismatic and exist individually. However, some new cases can be seen in which, key persons influence one another and create a new social business in a so-called "social innovation cluster". A cluster could include the following; social enterprises, support organizations and research institutes are located, interrelated in the neighborhood, and promote social innovation. This paper examines the organizational strategy of social enterprises and the concept of the social innovation cluster in Japan.

Keywords

Social Enterprise, Social Entrepreneurship, Social Innovation, Social Innovation Cluster, Nonprofit Venture, Socially-Oriented Company

SECTION 1 INTRODUCTION

We are facing several pressing social problems in Japan, for instance, how to support



the elderly, women, the homeless and the disabled, and also how to tackle environmental issues, fair-trade, and redevelopment of under-served communities. Which sector should take responsibility for those problems and provide social services according to the social needs. The Government has almost reached the limit of managing and providing social services by itself. The argument that should take the lead in solving problems, whether it is Government or the market, has been made in Economics (Economic Policy) for many years. But it is difficult to overcome the new social issues by either of the two sectors. As values diversify in society, people's awareness of social issues has matured and civil society organizations have spread in Japan where people used to depend on the Government. Since the Nonprofit Activities Promotion Law was enforced in 1998, over 30,000 nonprofit organizations have been registered. A lot of supports from society energize and encourage nonprofit organizations. Furthermore, not only traditional nonprofits for charity but nonprofit ventures, which provide social goods and services in the market, have gained support in society. A new wave of business corporations, which have a mission of solving social issues, is called a socially-oriented company. The Business Corporation is a dominant style of social business in Japan addressing the social issues. In addition, big businesses are also getting involved in corporate social responsibility (CSR) and they develop their social business and philanthropic activities. Various forms of organizations are addressing the social issues (Tanimoto, 2002), (Tanimoto, ed., 2006). Thus, we call the business style which addresses the social issues in various ways "Social Enterprise" in general. Thus we define "social entrepreneur" who finds the social needs, starts a new business and promotes social innovation. This paper examines a new trend of social enterprise and the process of "social innovation" develops social goods and services and a new business style in Japan.

SECTION 2 BACKGROUND

People used to be indifferent to social and public problems in Japanese society until recently. We recognized the Government should take responsibility for social issues, which they have showed little interest in solving (Tanimoto, 2002). In general, people had believed without doubt that the question who should solve the complicated social issues, from an international relations to local community development, was left to the technocrats (expert of law and administration), not to oneself (Bellah et al., 1985). In addition, the Japanese did not think it is appropriate for businesses to become involved



with the welfare society due to profit making schemes, because the Government was supposed to handle these social issues. Criticism was heard frequently, such as "It's bottom feeding", " Do you make money on welfare "or "welfare is not an object of a business".

The following two factors are indicated as a driving-force changing such social consciousness. Firstly, a question of "what is affluence?" was argued at the period of low-growth rate in the 1980s after the oil crisis. Secondary, the Japanese have experienced an unprecedented boom and collapse of the bubble economy after the second half of the 80s. As the bubble economy collapsed, most business people started asking, "What is a company?" and reflecting on being "a company man" in the 90s. The long-term expectation-motivation of employees to their company has changed, such as "If you work hard, the company will reward your patient diligence". The employee's loyalty to the company has also changed drastically since the second half of the 90's. People have questioned the real meaning of "why we work".

The number of people who want to do something to contribute to society is gradually increasing. According to "National Survey of Lifestyle Preferences" held by Cabinet Office in 1983, 43.2% answered "I would like to be helpful to society as a community member". The number exceeded 50% in 1987, and more than 60% in 2000. The latest data shows 62.6 % in 2007. According to the survey this year, 69.7% of men in their sixties and 70.3% of women in their forties are the highest numbers. People's concern about society has increased dramatically.

SECTION 3 THE CHARACTERISTICS OF SOCIAL ENTERPRISES

Requirements for Social Enterprises

We are seeing the emergence of unique social enterprises in Japan. Let's describe some basic characteristics of social enterprises (Tanimoto, 2002), (Tanimoto ed., 2006).

- 1) Social mission: To have a mission to address the social issues in its business. Social enterprises can operate their businesses only by supporting their social mission from the community and stakeholders.
- 2) Social business: To create a new comprehensive business to realize their social missions. Social enterprises take various legal forms to set up an organization.
- 3) Social innovation: To develop of new social goods and services, and to develop the system addressing the social issues through general business. It is important to realize



a new social value through social business.

In many arguments in Europe, "social ownership and management" is one of the important factors, controlled by multi-stakeholders and has the principle of "one member, one vote" (for example, Borzaga et al, 2001, etc.). In the United States, most social enterprises have the legal status of a nonprofit organization. The principal concept and its legal form of organizations of a social business are various in each country (region). This paper understands that the style of organizations depends on characteristics of the social subjects and institutional difference. Entrepreneurs choose a suitable form when they start social business addressing such issues.

Styles of Social Enterprises

The way of addressing social issues and the styles of the organizations differ in the market system, the relationship between citizen and the Government, and the legal system. Two basic styles of social enterprises in Japan are For Profit Organizations and Nonprofit Organizations. There are intermediate corporations and cooperatives between them, but they are not so developed as well in Europe (Table 1).

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)

We see the four styles of social enterprises below: 1) nonprofit ventures, 2) socially-oriented companies, 3) intermediate corporations, and 4) social business of a general corporation: as an activity of CSR.

1) Nonprofit Ventures: Nonprofits have come to play various roles as they are receiving social expectation and support. Nonprofit ventures offer social goods and services in the market. In some cases a nonprofit organization (charity) manages a profit-making business. In other cases, it sets up a holding company to embrace and involve various types of organizations. Such organizational strategies will be examined later. Nonprofit ventures are emerging with social influence in the specific fields in Japan. For examples, 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.

2) Socially-Oriented Companies: new waves of businesses with social missions have emerged to solve the social issues from the 1970s to the 80s in the U. S. These socially-oriented companies try to address social problems (community redevelopment, minority support, environmental protection, etc.) have been supported in the market society since the 80s. The baby-boomer generation has been trying to build an alternative business, which differs from the major established business to meet the needs of community to realize a new social value. These companies are currently operating in Japan. For example, Tokyo Occupational Safety and Health Center (Tokyo, 1987~) built and operated the emergency reporting system for the elderly living alone. Atmark Learning Inc. (Tokyo, 1999~) created and started the home learning system which utilizes the Internet for truant teenagers. Their social impact in each field has been growing and they are expected to play a significant role in society.

3) Intermediate corporations: various forms of intermediate organizations have undertaken Social enterprises in Europe. Since the Blair Administration, various types of social enterprises have been growing, such as organizations offering social services to the community, or redevelopment in the under-served community. Especially, co-operatives, workers collective, social firms, and credit unions are main styles of the intermediate organizations. The form of an intermediate corporation in Japan has not yet been established. Most social enterprises in Japan adopt the form of a business corporation.

4) Social business as an activity of a big corporation: Social enterprises are organizations, which address the social problems and promote social innovation. In that case, it is also another style that a general corporation starts a new social business as an activity of CSR. A socially responsible company tackles social problems with their resources. CSR is not only compliance or risk management it also is to create a new social business tackling significant social problems. That is a role of corporate citizenship. Let's confirm the concept of CSR (Tanimoto, 2002), (Tanimoto, 2004). See table 2.

A is the main subject of CSR. The company also expects B and C. It's an important strategy in making collaboration with nonprofit ventures to develop social business. For example, TOSTEM CORP. (a housing equipment maker, Tokyo) collaborated with the Universal Design Citizen Network (nonprofit, Tokyo) to develop a universal designed front door.



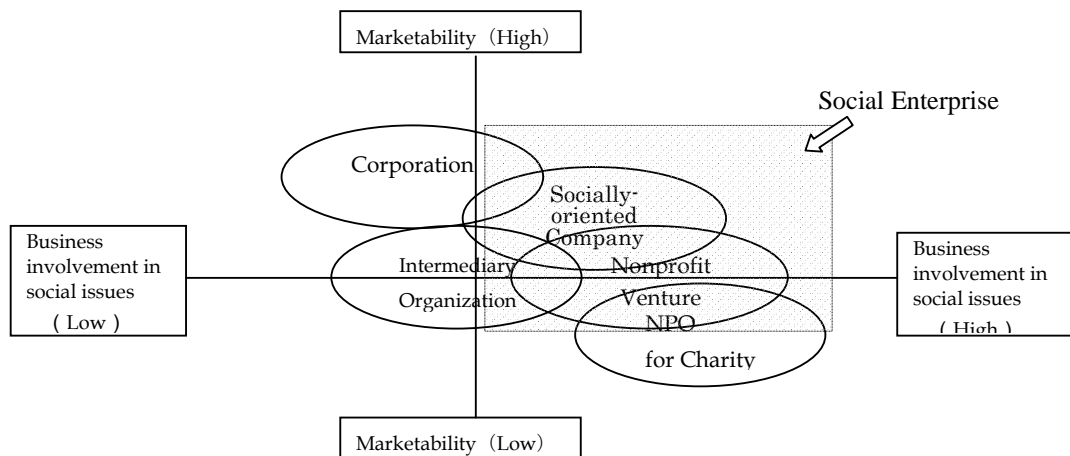
Table 2. Three dimensions of CSR

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 >

The social expectation and roles of a company have been changing; Japanese companies are involved with an area, which they had never experienced before, such as a program of community redevelopment and domestic violence prevention. For example, Microsoft of Japan offers a lecture program for disabled people and domestic violence victims to learn PC skill to promote their employability (UP program).

Let's plot each style of organization in the next chart. Figure 1 shows marketability on the vertical axis and degrees of business involvement to social issues on the horizontal axis. The portion of the screen points out Social Enterprise.

Figure 1. The Position of Various Types of Social Enterprises



Tanimoto ed. (2006) p.15



However, we do not think it is possible to understand various forms of social enterprises only by positioning them as hybrids. Since 2000, the argument on social enterprise has been spreading. Brinckerhoff (2000) discusses the management of social enterprises from a consultant's point of view, Bornstein (2004) from the viewpoint of a journalist. These arguments focus mostly on nonprofit organizations.

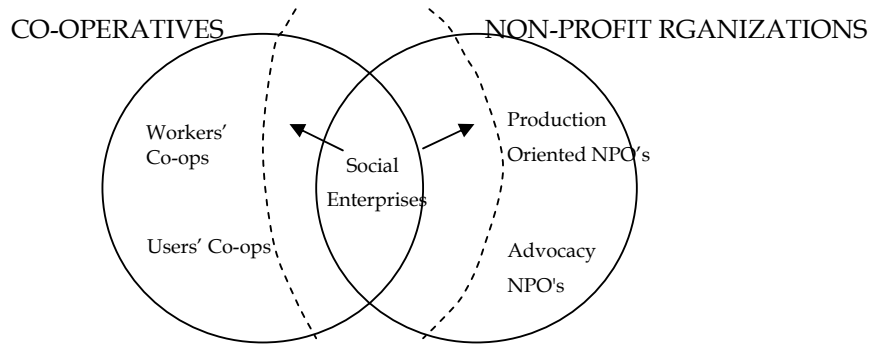
As for "socially-oriented companies", which address new social subjects innovatively, unique companies have emerged since the 80s. Journalists first introduced these companies of the baby-boomers as an alternative business model (Scott=Rothman 1992, Reder 1994, Bollier 1997, etc.). However, they remain just for introducing new business. There is little academic research on socially-oriented companies, and they have argued it separately from nonprofit social enterprises.

When considering the social business in relation to CSR, it's necessary to examine the possibilities of new business and relationships with stakeholders in the framework theory of business and society.

Discussion in Europe

The EMES (L' Emergence des Entreprises Sociales en Europe) in the European Commission started in 1996 marked the first full research project for social enterprises. Borzaga et al (2001), which is a result of a four-year project, notes that a new social enterprise is emerging beyond the limit of a welfare state and the limit of function of the third sector. Figure 2 illustrates social enterprises at the crossroads of the co-operatives and the nonprofit sector. The style of social enterprise varies according to legal framework in each country (Borzaga et al, 2001, pp.17-18). Borzaga et al understand that the activities of the social enterprise in Europe are mainly for providing re-training programs and community services for the people who have been excluded from the labor market. Its organization consists of multi-stakeholders and is governed by the people's democratic participation, that is a democratic decision making and principle of "one-man one-vote". In other words, they do not recognize other styles of organization, for instance, the business corporation as a social enterprise.

Figure 2. Social enterprises at the crossroads of the co-operatives and the non-profit sector



Borzaga et al (2001) p.22

OECD launched LEED (Local Economy and Employment Development) project and investigation about the possibility of a social enterprise in 1998. The OECD Report (1999) summarizes the actual activities and possibilities of a social enterprise, which provides work opportunities for socially excluded people. The concept of social enterprise changes between countries, and after pointing out that the universal definition does not exist, the OECD understood the following.

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). They drew up a policy to promote social enterprise in many countries (OECD, 1999, p.58). Despite differences between the national and regional/local contexts studied 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) Professionalisation of the third sector and inclusion of social enterprises in a new economy. 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 dimensions are reflected in the policies of central governments to varying degrees, depending on the specific situation in each country.

In the 2000s, strategic and political discussion about social enterprise has come to the forefront in many countries. Social Enterprise London explains social enterprise in its report (SEL, 2001a) from the point of emphasizing social economies with the following three points: enterprise orientation, social aims, and social ownership. As



shown in Table 4, they are classified from the private sector to the Government according to income source, goal, and style of ownership. SEL focuses and analyzes social enterprise in the center of the Table.

Table 4. Social Enterprise in A Wider Context

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

SEL (2001 a) p.3

They indicate social enterprises coming in many shapes and sizes from the following five points: 1) Form of social ownership: various business models exist through a variety of ownership, 2) Sources of income: grants, donations and sales, 3) Social goals: SEL does not include socially responsible business like The Body Shop in a category of social enterprise. They insist social ownership is an essential factor for social enterprise, 4) Development focus: social enterprises have a mission to resolve social and economic problems in a community and 5) Market focus: social enterprises need to build sustainable businesses in the market.

As social enterprises have grown and received expectation from the community, the British Government has developed a supporting program. DTI established a "Social Enterprise Unit" in 2001 and has begun to offer 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 surplus, but reinvests them principally in the business or in the community to enable it to deliver on its social objectives. The British Government creates an environment in which social enterprises can flourish. They set out many programs, such as the formulation of a new legal form, implementation of public procurement, management support and training, financial support and award. DTI (2002) proved that social enterprises are managed in various forms. Their understanding of the styles of social enterprises including incorporated companies is very close to ours. They understand that social enterprises are engaged in diverse social issues, not only social exclusion and unemployment but also environmental issues. Their vision and measures are complementary to the Japanese system.



Summary and Implication

Let's summarize the discussions. The reasons of diversity in discussion about social enterprises in European countries and the U. S. exist in difference of the structure of each community and Government role. In the U. S., the nonprofit sector has taken an initiative in dealing with the social subjects voluntarily in local communities. Socially-oriented companies and nonprofit ventures have addressed those problems in unique ways and gained support from the market society. On the other hand, in Europe, the style of a co-operative is basically popular in addressing the social subjects because of the tradition of the social economy, but other styles of organization with social missions are also working in various ways. Citizens, and each Government support social enterprises and the EU created an environment for social enterprises to flourish. Both in the U. S. and Europe, social enterprises have emerged in various styles as a new wave to meet the diverse social needs, which cannot be responded to by the conventional scheme.

In the 1990s, we had to face social problems in global communities such as the environment, poverty in developing countries, human rights and employment, and questions on how to build a sustainable development society. Community funds, and micro-credit, etc. have launched to support social enterprises in developing countries. As arguments of CSR develop, society has come to expect that a company should be socially responsible and address social issues through its core business or philanthropic activities (Tanimoto, 2006b).

In Japan, pioneers of social entrepreneurship can be seen, but the numbers are not prominent. Since 2000, some people have started groups to support social ventures and/or study global movements. There are few academics researching and investigating these topics.

Section 5 Promotion of Social Innovation

This section defines the important basic concepts in analyzing the development of social innovation. We examine the following: 1) social entrepreneurship, 2) organizational choice: to choose a suitable style for realizing a social mission, and 3) organizational portfolio: to work in combination of different style of organizations.

Social Entrepreneurship



Social entrepreneurship plays a core role in the way social enterprises operate a business to realize its mission. We can find a number of definitions of social entrepreneurship in the papers on this field beginning from the 1980's (Light 2006, Dees & Anderson 2006). A Social Entrepreneur is an innovator of social change, who addresses the social issues, and implements a new business model. Social entrepreneurs convey a social message and a new value to the market society through its business, goods and services to provide. With their growing support, social value is realized and a new norm in the market is produced.

In the United States, the word "social entrepreneurship" has become more popular in the nonprofit sector since the second half of the 80s. That means nonprofits needed to adapt to the changing market society, and they had to incorporate new business management and skills into their system. 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 & 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 supply of raw materials, 5) the carrying out of the new organization (Schumpeter, 1934). Leadbeater (1997) indicates that social entrepreneurs identify underutilized 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 the case of social innovation brought by a social entrepreneur, it is not necessary to focus on new technology, but on new social systems providing social services and a change in social relationships. Social innovation can be produced by a single charisma in some cases, but in many cases by a collaboration of various stakeholders. We discuss the process of innovation later in the Section 6.

Organizations Choice

Social enterprises have a specific strategy to choose what type of organization is



suitable in implementing its social business. Suitable styles will be chosen depending on the contents and scale of the social business. (Tanimoto, ed. 2006). A legal form of organization is set based on the corporation system of the nation where social enterprises exist. Now, we consider the organizational choice how to decide an appropriate form; for-profit organizations such as incorporated company, not-for profit organizations like nonprofit ventures, or intermediate corporations. The basic criteria of organizational choice are as follows:

1) Market constraints: degree of marketability (profitability). In case a social project has a significant social value but a limited number of customers, this creates a lack of marketability, the project cannot help but run the project as a charity by accepting donations. However, it can be said that the small businesses are growing by gaining customers' support even if the market is limited at the beginning. Capital investment will be boosted and the market will become highly competitive.

2) Financial constraints: possibility of fund raising. In case a social enterprises need to invest large capital in a plant or machinery at an initial stage, business corporations which can finance from capital market would be chosen. To gain funding is not an easy task for a nonprofit organization, which tends to depend on donations or membership fees. Community funds for nonprofits are just starting in Japan, yet on a small-scale and are not well developed. Although some local banks have started loan systems for nonprofit business, there are still some hurdles for nonprofit organizations to get over before using them because there are many constraints in terms of collateral or credit guarantee for a loan.

3) Social constraints: problem of trust. Hansmann (1987) points out that in case there is an information asymmetry between a producer and a consumer in the market, a consumer trusts nonprofit organizations more than a for-profit organization for the reason of having the non-distribution principle. Hansmann (1996) also indicates that nonprofit organizations win the trust because it has no ownership and no one can exploit and possess its profit from the stakeholders. There are some arguments and criticism about Hansmann's view (Ott2001). However, advantages of nonprofit organizations in the market for for-profit organization are generally changeable because it depends on the contents of business and services. Furthermore, the effectiveness of nonprofit organizations in the market cannot be admitted automatically without taking accountability for the stakeholders and getting support. As in Japanese society there is an image of nonprofit organizations as a volunteer and amateur group, people have little expectation with nonprofit businesses. They trust business corporations over nonprofit organizations in the market.



Organizational Portfolio

There are some cases that a combination of different organizations, such as a business corporation builds a nonprofit organization and/or a nonprofit organization builds a business corporation. It is an organizational strategy called "organizational portfolio", to overcome each institutional constraints with combining different forms of organizations and taking advantage of each merit. Through this strategy, social entrepreneurs 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 a strategic alliance along with a business corporation and/or a nonprofit organization, which have an affinity to 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.

1) The case in which a nonprofit organization builds a business corporation: There are some reasons why a nonprofit organization builds a business corporation. It is their organizational effort to overcome the institutional constraints (for example, market constraints, financial constraints, etc.), to overcome "accountability dilemma" (Edwards & Hulme, 1995), which means commercialization of nonprofit organization spoils their advocacy function. And it can be said that it is also an organizational strategy to promote social innovation. Let's see two cases.

<Hokkaido Green Fund ⇔ Community Wind Power Co.Ltd.,>

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 basis in market to construct a windmill for wind power by a civic hand. The same type of business model is also used in the wind power business in other regions after the success of this first case in Japan.

<Global Village ⇔ Fair Trade Company (Co.Ltd.,)>

Global Village is a voluntary association established in Tokyo in 1991, for advocacy activities to permeate the idea of fair trade in Japan and assistance for 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 of fair trade, Global Village supports the business of Fair Trade Company.

2) The case in which a business corporation builds a nonprofit organization: this case



indicates that a socially-oriented company establishes a nonprofit organization in order to promote its social mission, and to undertake the philanthropic activities and social business strategically beyond a single company's restriction. Let's see one case.

< Atmark Learning Inc. ⇔ Homeschool Support Association >

Atmark Learning started an Internet school business for truant students (home study program for a high school student) in Tokyo in 1999. A year later, Atmark Learning built a home school support association as an independent organization, which has missions eliminating a prejudice to truancy and running an educational advocacy for home schooling including elementary and junior high school students.

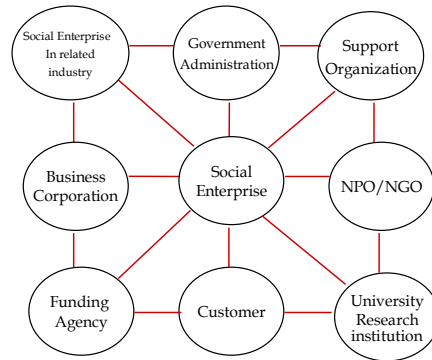
As mentioned above, taking the strategy that combines different organizations can make it possible to develop a social business, which has never worked well by a single organization. Innovative processes are emerging particularly in the method of resource procurement, production and marketing of social goods and services. The important managerial issues in such organizational strategies are to build a governance system, and an appropriate accountable management system to allocate resources and to distribute benefit as the whole group. However, "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 tackles the social subjects, they combine various styles of organizations which have a different system and take advantage of those merits as a strategic effort to overcome each institutional restriction. We understand that a new organizational strategy uses merits of each style of organization to implement social business project effectively by combining them

Section 6 Social Innovation Cluster (SI Cluster)

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



Figure 3 The Actors of SI Cluster



Definition and Case

Let's define the concept of SI Cluster. SI Cluster is an organizational accumulation, which includes social enterprises, support organizations, funding agencies, universities and research institutions. Building a cooperative and competitive relationship there, and where new social businesses are created create a new social solution for social subjects and new social value. SI Cluster is formed in a specific geographical area. But it is an open space to be accessible even from the outside. A stimulus from the outside sometimes breaks a conventional idea in the area. Social innovation can spread beyond the geographical restrictions.

Comparison of SI Cluster with Industrial Cluster

The idea behind a cluster is based on the "Industrial Cluster theory" by Porter (1998). SI Cluster has a few similar points, but has its own unique characters, which differ a lot from the Industrial Cluster.

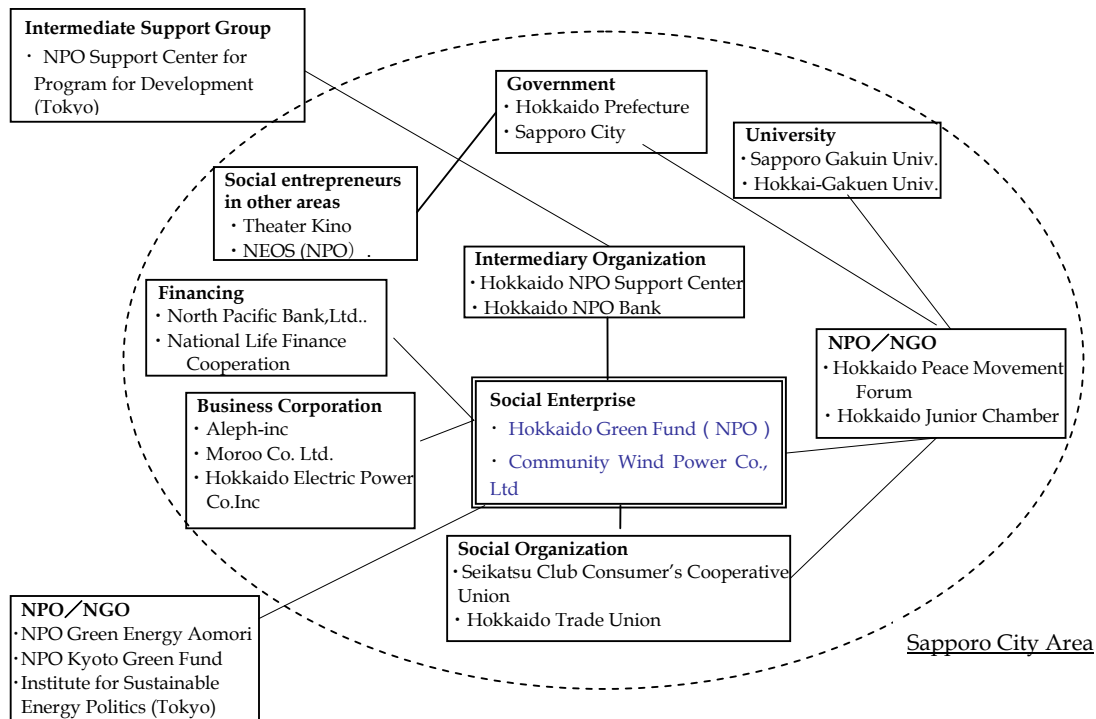
1) The Concept of the Industrial Cluster. Porter defines a cluster as geographic concentrations of interconnected companies, specialized suppliers, service providers, firms in related industries, and associated institutions (for example, universities, standards agencies, and trade association) in particular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



concept of a cluster, are summarized into the following three points. i) Interrelated companies and institutions accumulate in a specific sector, ii) Synergistic effect is generated, and iii) not only cooperative but also competitive relationships exists there.

2) The characteristics of the SI Cluster. The SI Cluster basically has similar characteristics of the Industrial Cluster. Let's focus on the differences between them. The following three points are important. i) There is a difference in the concept of sector. Compared with the Industrial Cluster, which consists of a specific sector such as a housing related cluster or IT Industry Cluster, the SI Cluster does not specify a sector but embraces various sectors. Figure 4 describes the SI Cluster in the Sapporo area focusing on Hokkaido Green Fund. 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. ii) The SI Cluster is formed in a specific geographical area, but it is an open space where a lot of people access 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 geographic restrictions. iii) Interaction between a social business and its community is important. Social enterprises affect people's awareness of social subjects through its business activities. It's impossible for social enterprises to exist without being accepted by the people in community.

Figure 4. The SI Clusters in Sapporo



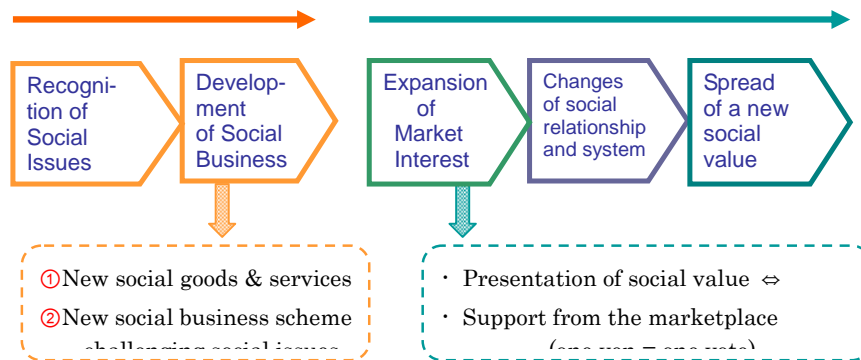


Tanimoto ed. (2006) p.90

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 the SI Cluster also raises social awareness and develops maturity of a community, which accepts the social enterprise. A social enterprise shows the social subjects in an easily understandable form for customers and people in the area through its business activity. Their social message is delivered by providing goods and services. People who receive its message will raise their awareness and concern regarding the social subjects. They recognize significant social issues, share their values and then become involved. People and the related organizations in the area can change through this process. Figure 5 explains briefly the process of spreading social innovation in market society.

Hokkaido Green Fund creates opportunities for people to consider electric power and energy policies, to become involved with environmental issues through the creation of the green electricity rate system and to deal with the wind power business with a civic hands, not only by conducting anti-nuclear power plant movement. Social businesses can develop and flourish in markets by obtaining support from the people in the area.

Figure5. The Process of Social Innovation



Tanimoto ed. (2006) p.28

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 to civil society organizations and socially responsible businesses are rising. 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 the ability to promote the social enterprise. It's not easy for the Government to set an economic policy to promote the SI Clusters like in the case of the Industrial Cluster. However, by showing small progressive steps people in the community will gain interest in, support and become involved with social enterprises. It will be possible to develop a so-called "social infrastructure" while building upon these experiences in the community.

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