The Potential for Social Entrepreneurs to Strategize the Revitalization of Town Centers

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Preface

Because economic conditions are growing increasingly severe around the world, the practical and theoretical frameworks to resolve the issue of how to revitalize local society now have more significance than ever. In this context, “social enterprise” has recently been spotlighted as a new form of business that resolves social issues through business initiatives.

Universities in Europe and the United States, more so than their counterparts in Japan, have directed keen attention to research and education of social entrepreneurs from fairly early on and have, in fact, produced many social entrepreneurs who have made outstanding contributions to society. However, at present in Japan, social enterprise in general is low profile, and the availability of support measures is not wholly adequate.

This article first describes the role and significance of social entrepreneurs in revitalizing local economies (particularly town centers). Next, it analyzes what support measures are required for social entrepreneurs in Japan henceforth.

Chapter 1 The Role and Significance of Social Entrepreneurs

1. Prior Studies

According to Leadbeater (1997) who directed attention toward social entrepreneurship from relatively early on, it is a form of business that transcends the conventional sectors of public, private, and voluntary. He suggested that the originality of social entrepreneurs produces a creative and open organization in flat coalitions of different industries and other stakeholders within a region (see Figure 1).

Tanimoto (2006) points out the limitations of a large government that uniformly manages a multifaceted socioeconomic system and provides social services to meet various needs in the context of the local community and global community, and he insists on the necessity of the emergence of
the social entrepreneur as a “function” that can provide social services to meet various needs by taking on the social challenges for reconstruction of a sustainable economic system. Tanimoto lists three fundamental characteristics necessary to a social entrepreneur: “sociality,” “entrepreneurship,” and “innovation.” He defines a social entrepreneur as one who launches a business rather than volunteering in order to resolve social problems. He then emphasizes the potential of social entrepreneurship for instituting innovations that can move society in a better direction, or in other words, that can produce social innovations. The effects are not only functions to compensate market failures but also they are strongly expected to generate an optimal amount of economic circulation for the size of the local community.

Figure 1: Sources of Social Entrepreneurship

source: Leadbeater (1997)

Now let us explore the definition of “social innovation,” a keyword when considering the significance of the social entrepreneur. Joseph Schumpeter stated in *Theorie der wirtschaftlichen Entwicklung* (Theory of economic development) that a spontaneous accumulation and discontinuous change of economic circulation will create a “new combination” and bring about economic development. Furthermore, a social entrepreneur will destroy the existing set of values and create a new set of values, that is to say, a social entrepreneur will engage in “creative deconstruction,” which is a source of economic growth.

As essential factors to bring about creative deconstruction, he raised five factors: (1) marketing of a new commodity, such as production and sales of
new products, (2) introduction of new production methods, (3) development of new market(s), (4) acquisition of new resources or a supply source of half-finished products, and, (5) reorganization of fields of activity. An important element for bringing about innovation is discontinuous change, but this means a new equilibrium point will not be achieved merely by taking different steps from the old equilibrium. He provided an example of this as follows. No matter how continuously “mail coaches” may have run, a “railroad” would not have been created from them. A discontinuity was necessary in the form of a combination of train cars and a steam engine.

Borzaga et al. (2001) discussed how social innovations as well as the five elements Schumpeter raised could be applicable to the social entrepreneur, and thereof, innovations will occur. Borzaga explained that “social innovations” are innovations originating from a combination of the innovative economic activity in Schumpeter’s examples and the traditional concept of the social sector integrated into a third sector which is recognized such as the non-profit sector or socioeconomic organization.

In other words, social innovations can be considered to be dynamic phenomena that generate new social services (or products) that are necessary to create a new set of social values. It may also be added that the concept of the social economy includes as its central standard the aim of contributing to the community as a whole and its members rather than generating profits. The purpose of the enterprises’ activity constitutes the major difference between ordinary corporations and social entrepreneurs. Innovations developed out of the social entrepreneurs’ sense of purpose are considered to be social innovations. The surplus generated by the social entrepreneurs will be re-invested in expansion of the activities that serve the social purpose, which creates a new type of “third sector” in which stakeholder and executives do not receive any type of surplus.

Next, let us examine the effects of social innovation. Phills et al. (2008) points out that social innovation “can remove the boundaries of public, private, and non-profit sectors, and it promotes solutions to common challenges in the local economy through dialogue (among all actors).” Phills mentions “amelioration” of the public-private partnership system itself as an effect of social innovation; that is to say, he includes the effects as “social capital.”

In this, one can find the proactive meaning of social entrepreneur. More
specifically, social capital can function to connect the consciousness of people, both as individuals and in groups, through trust and networks. Therefore, social capital is considered to be an important basis for reorganizing local communities.

In the context of the European social entrepreneur, social capital is utilized as a resource and contributes to the formation of community through development. This is considered to be the significant activity of the social entrepreneur. This means, as Phills et al. (2008) insists, that social innovations for meeting social needs and social challenges will bring more profits to society than to individuals “in more effective, efficient, and sustainable ways.”

There is a concept called “community business” which is similar to the concept of social entrepreneurship. What is the difference between the two? According to the interpretation of the Social Business Research Council (2009), both sides share “sociality” as common ground for solving social challenges, but a characteristic of community business is that it is launched voluntarily by locals. The continuity of projects remains an issue since voluntary businesses generally rely on grants or donation. Also, community business does not have such a strong business-innovation orientation, and most of its activities are specialized in a particular region. So, the target business domains of community business are mainly limited to particular domestic regions, while the target business domains of social entrepreneurship may be domestic or foreign. However, both often originate from consciousness of “local” problems, and that is undoubtedly because so many social challenges exist in local areas.

Traditional community business is not an economic driver, but it does deal with challenges at site, and it places greater emphasis on the aspect of volunteering; however, this factor has made it difficult to provide service “in a sustainable way.” Social entrepreneurship is like community business in that it originates from local challenges, but it also features the entrepreneurship and innovative characteristics of business, which are what make it sustainable. As a result, social entrepreneurship is considered to be a business model that can potentially be deployed globally. Furthermore, in this context, “business” means not being solely driven by economical profit but rather aiming at achievement of social profit.
Lastly in this section, I would like to touch upon the definition of “social entrepreneurship” as used herein. Borzaga et al. (2001) draws a definition of social entrepreneurship from an international comparative perspective out of examples of social entrepreneurs in 15 EU countries. From an economic perspective, the following four conditions define social entrepreneurship: (1) sustainable production and supply of a commodity or service (direct involvement in production of the commodity or provision of the service), (2) a high degree of autonomy (voluntary creation and self-control), (3) high economic risks (entrepreneurs will bear the economic risks), and (4) a minimum amount of paid labor (paid workers are essential). Next, from a social perspective, Borzaga states that the following five conditions define social entrepreneurship: (1) a definite purpose to contribute to the community, (2) an organization which is established by a private group, (3) decision-making without capital possession, (4) participation of stakeholders, and (5) limitations on profit distributions.

This article proceeds by analyzing the potential of social entrepreneurs, based on the above definitions and frameworks, in strategizing the revitalization of town centers.

2. The Fields of Activity to Which Social Entrepreneurs Are Expected to Contribute

As social entrepreneurship is a business activity specializing in sociality, it is deployed in certain fields.

Phills et al. (2008) enumerated ten specific examples of fields of activity to which social entrepreneurs are expected to contribute (see Chart 1). These fields all contain intractable social problems that are difficult to resolve without the engagement of the local community. Moreover, there are some fields that may be misunderstood as being part of the voluntary sector at a glance; the standard activity of social entrepreneurs is “to resolve social problems through business.” Accordingly, many businesses are expected to emerge which utilize community resources strategically to resolve social challenges. It should be noted that this framework will not merely make a business out of local volunteer activities; it means that, even if the business begins locally, the value chain will expand from local to nationwide, and eventually reach global
proportions. Thus, the fields to which social entrepreneurs are expected to contribute have the inherent potential to create a new set of values in society.

Chart 1 The Fields of Social Entrepreneurs

In addition, according to the result of a questionnaire survey, “Inquiry into Social Business and Community Business Entrepreneurs,” implemented by METI from November 2008 to January 2009, among the currently observable fields of activity of social entrepreneurs in Japan, the most common fields were “revitalization of local and town planning” (60.7%), followed by “health care, medical service, and welfare” (24.5%), and “education and human development” (23.3%). Looking at the survey, it can be observed that the fields of activity of social entrepreneurs in Japan at present are in the embryonic stage, where the activity in the local community extends to other domestic regions but has not yet spread globally. Henceforth, we need to consider how to support this “embryonic stage” so that it develops further.

In light of the above, in the next chapter, we will examine the roles and strategies of social entrepreneurs in revitalizing town centers in decline.
Chapter 2  The Role and Significance of Social Entrepreneurs in Revitalizing Town Centers

1. Current State of Town Centers

The “town center” is a concentration of commercial/industrial, residential, cultural, and administrative functions and provides citizens with employment opportunities. Furthermore, it functions as a place of interaction among residents and merchants, so that it flourishes as the “nerve center of the town.” The local community is self-created through the interaction naturally generated in the course of daily life. The community thus created is the source of the attractiveness of the local community, with its economic as well as cultural activities; namely, it is the attractiveness of town center that appeals to people. However, users of the town center have declined dramatically, and local commerce has largely moved to regional malls, leaving the town center in a predicament. This has occurred due to a combination of various factors, such as structural changes accompanied by economic development, motorization, changes in the transportation system, and the growing maturity of lifestyles, which has affected the development of the socioeconomic and business environment.

In response, Japan enacted the “Three Laws of Town Development” and implemented as an initial measure the “Law Concerning Revitalization of Town Centers” in 1998, under a policy agenda to revitalize town centers. More than 10 years have passed since Japan embarked on its policy to promote town center development, but no positive visible results have been produced. A key element of the law to revitalize town centers is the so-called Town Management Organization (TMO) which recommends establishment of a management organization for local commerce.

In contrast to town development led by an administrative office focusing on hard infrastructure, the TMO is expected to coordinate solutions to conflicts of interests in local commerce, which can be difficult to reconcile, and function on soft services to resolve issues arising out of the problem awareness of the local community. However, in implementing the law, many municipalities utilized the TMO only as a receiver of subsidies, and almost none of the areas developed lively business districts. Due to the lack of visible effects, in May 2006, the Diet approved amendments to the “Law Concerning Revitalization
of Town Centers” and the “Law Concerning Reformation of City Planning.” Through these amendments, Japan’s town development policy has restrained social capital costs by consolidating city functions and has begun to promote “compact town development.”

The policy orientation is not entirely mistaken, but recovery of dynamism in a town cannot be achieved simply by instituting compact town development. In order to avoid repeating the same mistakes, it is necessary (1) to elucidate the reasons why the previous policies and measures had minimal effects, (2) to explicitly define the fundamental problems that are hindering the recovery of a towns’ liveliness, and (3) to establish mechanisms to move forward in order to resolve the problems.

2. Lessons from the Experience of Revitalizing Town Centers in the United States

The United States faced the problem of declining town centers before Japan did and has addressed the process of realizing the “compact city” which Japan aims to achieve.

We can glean many ideas that are potentially useful in Japan by examining the process that led to the remarkable revitalization of town centers in the United States, some of which were once ghost towns. Hence, although the two countries have different legal and political systems and cultural practices, the experience of the United States in revitalizing towns from the bottom up includes some applicable lessons. Moreover, the lessons, some examples of which follow, express the universal “spirit” of revitalizing local economies.\(^vi\)

The most applicable point of the successful cases in the United States lies not in the slogan of “compact city” nor in its content, but rather in the origin and process of the emerging discussions about revitalization. In the United States around the 1980s, when decay of town centers was peaking at a critical point, discussions of so-called “smart growth” emerged and were actively developed.

Smart growth means management of growth in smart ways, and it is a policy concept that includes sustainable growth management to deal with problems of the inner city and the urban sprawl phenomenon.\(^vii\) This is the same as the compact city that Japan is aiming to implement. What is interesting is not the policy slogan of “smart growth” itself but rather the process of leading it.
Careful observation of this process will give us an understanding of what the United States citizen wanted to protect.

Engagement in the problems of decayed town centers was triggered more by awareness of the need to deal with the adverse effects of suburbanization, rather than by concern over protection of town centers. The problems of American town centers have been analyzed from the consumer side, and the necessity of the local commerce has been thoroughly discussed if it would be deserved as an infrastructure for residents living in there.

Therefore, the discussion is not based on the protection of local commerce as a premise nor on implementation of administrative polices, but it is purely a consequence of the process of prioritizing the best interests of the residents and thus focuses on recovery of community functions. Revitalization of a community can create a consensus on the benefits that local stakeholders can obtain regarding the “external economy, e.g., maintenance of scenery and assurance of safety.”

It appears that business initiated by a consensus of local stakeholders links services that satisfy the local needs and generates new economic circulation originating in the community. This offers valuable suggestions for the problems of town centers in Japan, which have not been fully revitalized despite enormous policy measures.

3. Survival of Town Centers

The town center as the nerve center of the town is entwined with the history of the town and is where various city functions which are structurally important for local space are concentrated. The local space is not only a locus of services where people, goods, and money circulate but is also the basis of the town’s existence because of its cultural transmission functions which are specific to each town, such as local festivals and the mixture of traditions. Therefore, the true concern over the decline and decay of the town center is not just a concern over the loss of the town center as infrastructure but loss of community functions in the town area, namely, the place that functions as living and socializing space for residents to live, play, learn, work, and interact.

In the United States, due to concerns from this perspective, some measures have been initiated to reformulate the community in local society. Furthermore, notable points in regenerating the town center are not just its
reliance on subsidies but, as a result of delving into ways to continue as a business, its success in restoring sustainable development of local commerce. Therefore, in order to analyze revitalization of the town center, one must consider promotion of sustainable development from a long-term perspective. So, what specific kind of strategies and social innovations would be desirable?

The lifestyle in the United States teaches us the importance of community values. By revitalizing the town center as a common property, residents are made to feel proud of living in their own town and find additional value in the time spent in there. In one example, alongside the main street maintained with beautiful roadside trees, rows of red brick retail shops are beautifully coordinated with the townscape. The street is full of people who enjoy walking, chatting about retail shops, having coffee at a nice café, taking a meal, and shopping. Off the main street, a park with splashing fountains is situated. There we can see street musicians, people reading books, and children playing around. In the park, while looking at the wide blue sky, from time to time, chants from the church can be heard from afar and a tolling bell rings beautifully.

This is a part of the scenery out of ordinary life in a small town where the author lived during his stay in the United States. As in the case of the author, generally the local residents living in the United States do not always spend their time in town center, and they do not consider the town center to be a place that meets their every need. Indeed, it is a part of their life to go to a wholesale market in the suburbs where cheap and abundant goods are available. In order to improve the quality of their life, they compartmentalize their life and have a number of “choices” of places depending on the purpose.

These choices can exist only if the services provided by local merchants are differentiated from the ones provided by the suburban wholesale market. From the beginning, the town center cannot compete against the wholesale markets with any realistic prospect of prevailing, and in addition, local residents do not hope for that either.

As mentioned above, social innovations suggested to local merchants have originated from consensus-seeking discussions among local residents that prioritize their own interests. Stakeholders in local commerce, where the main participants are local residents, have seriously conducted discussions to identify needs and have changed their businesses accordingly. Furthermore, owners
of local businesses have used their entrepreneurship to create new needs and thus have led the revitalization of town centers as they exist now in the United States.

4. Town Center Demands on Social Entrepreneurs

As the American cases show, for true recovery of a town center, local residents must look at the community functions of the town and repeatedly hold discussions for improvement of the quality of their own lives, and owners of the local town center must deploy new services based on the community identity to distinguish the town and satisfy needs.

For example, owners of the town center can analyze the needs of the community in detail and make efforts to bring together various goods and services with high added value that other wholesale markets cannot sell or provide. The key to success is to provide niche services that can only be deployed in each local community, and this kind of differentiation of services should be considered as a major premise.

Therefore, businesses should attempt to spot business opportunities by looking at both social services generated from changes in population structure and services lost or being lost due to externalities of suburbanization and which compensate for social problems. Furthermore, it is important to customize services to the given region, taking into account local culture, history, and environment. This kind of service cannot be mass-produced, for its business depends on the particular community in which it exists, and so it is meaningful to deploy it in the town center. Here we can see possibilities of social entrepreneurship.

However, communities must be careful not to stop at merely providing incubation facilities such as “challenge shops,” which is the name in Japan for shop space provided as support for would-be shop owners who are not yet prepared to open their own independent shops. In addition to promoting community business according to the conventional concept as businesses that resolve issues, it is necessary to engage in community business more strategically in order to produce profits and innovative elements that will lead to sustainable development. The role of social entrepreneurship is to launch businesses that can be sustainably developed and that start by supplying solutions to local community issues and by providing new values.
As “East Asianization” of local commerce progresses following the trends in manufacturing, creation of local employment is also becoming a severe problem for local cities. Here, social entrepreneurs may discern possibilities for new businesses in vacant stores or may establish a secondary business. In Japan, there are many concerns not only from an economic but also from a social perspective as Japan is the fastest aging society among advanced countries. As this phenomenon also entails aggravation of social structural problems and widening regional disparities, there may be business opportunities in correcting the disparities. The situation calls for quick action and proactive attitudes to implement structural reforms in a new local economy system.

In contrast to export-oriented manufacturing, micro enterprises engaged in local commerce target the domestic market through close connections with particular regions, and thus development of business that targets elderly persons is an essential management issue. Moreover, as the low birth rate is developing into a severe problem, role of women in the labor force is increasing. The recent tough economic situation has further escalated this trend, and so there exists a business opportunity in childcare support for women who return to work and advance their careers.

Developing the structures to promote social innovations through looking at these kinds of business opportunities, integrating the ideas into service functions in local areas in new combinations, and making them organically function as a collective entity is the only way to create a new set of values and generate economic circulation in local areas. This circulation will not only compensate for “Gaps of consciousness (Ondosa)” between the local government and residents but will also come closer to the goal of realizing the humane sustainable development in a compact city that the administration hopes to achieve.

Chapter 3 Conclusion –Toward the Resolution of Problems–

1. Issues

According to the results of the above-mentioned social business survey, the issues that social entrepreneurs face when starting a business include “boosting recognition” (45.7%), “fund procurement” (41.0%), and “human
resources development” (36.2%), with one of the largest actual issues being “fund procurement.” Regarding “boosting recognition,” recognition by the general public seems to be growing gradually in Japan as the activities of social entrepreneurs worldwide are reported there, but understanding of the significance of these activities is lacking, which makes it difficult for social innovations to occur. Similar to telephones and the Internet, there is no effect on the external economy unless there are human users; unless consumers understand the significance of social entrepreneurs (and of social business as a business) and accept social entrepreneurship as a business, the market will not develop and new values will not be created.

This lack of understanding also appears to increase the difficulty of fund procurement, which is a major factor that determines whether or not a business can be launched. In the case of social entrepreneurship in particular, because low recognition means low creditworthiness and because profitability is not necessarily high, first-time entrepreneurs have difficulty being approved for loans from financial institutions. Meanwhile, under the government’s subsidy system, most businesses are currently subsidized only for a single year, and so for social entrepreneurs with a long-term view, there is little assistance from the subsidy system, which actually only provides a push to get started.

The difficulty in procuring funds seems to hinder the entry of outstanding people who have an aptitude for social entrepreneurship. From the standpoint of support for social entrepreneurs so that they can become independent, human resources development is an important issue. There are not many cases in Japan of social entrepreneurs who have developed smoothly and have reached a state of full independence. This is because more than a few social entrepreneurs were unable to realize both the sociality and business aspects of their plans and were forced to scale back or abandon their plans due to the fact that, although they had the desire to fix social problems, they lacked business management capability and the ability to create innovations necessary to sustain and develop their business. Fundamentally, in this field which is more challenging than ordinary business and where there is the potential to alter social values, it would be desirable to have the active entry of human resources who not only have an excellent feel for management strategy and business but also personify a volunteer spirit that emphasizes sociality. However, under current conditions, increasingly impoverished local communities can hardly
be said to have the power to attract such outstanding human resources. In addition, the difficulty of fund procurement creates a vicious circle which multiplies the obstacles in attracting outstanding human resources.

2. Implications for Japan’s Support Policy for Social Entrepreneurs

As one effective method for supporting solutions to problems from here forward, Japan should place priority on establishing programs, similar to those in the US and Europe, for social entrepreneur development at educational institutions such as universities, so that future entrepreneurs can acquire basic knowledge and skills and thereby reduce the risk of starting a business. Such programs would be effective for boosting recognition of social entrepreneurship as well as for development of human resources. In addition to teaching the technical knowledge for the business-launching process, a university program would boost recognition of social entrepreneurship by increasing the absolute number of persons who understand it and who are working in the field.

On the other hand, a matter of even greater importance is ongoing support to trigger the social innovations that social entrepreneurs are expected to produce, including collaborative businesses with universities. The social entrepreneurs do not engage in volunteer activities but rather must improve productivity while maintaining sociality and must create new values. For this, they must engage in initiatives to create innovations.

Universities and think tanks go beyond the field of education and enlightenment and also act as platforms that form networks for linking local actors and promoting social innovations. The new “combinations” produced by such networks facilitate the generation of innovations. Consequently, to trigger social innovations more efficiently, support is needed to link networks of “knowledge” services such at those of universities and think tanks together with social entrepreneurs who are attempting to start businesses.

Finally, to touch again upon the issue of the shortage of funds, for support of start-ups by social entrepreneurs, it would be desirable to study a subsidy system that spans several fiscal years and incorporates a mechanism for progressive reduction of the subsidy. Simultaneously, it is necessary to have an evaluation system to determine whether or not businesses are operating properly and are functioning as engines of social innovation. Study should be
conducted on a system to patiently nurture the budding social innovations, while keeping open the possibility of reducing or terminating the subsidies, depending on the evaluation results.

**References**


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i  Borzaga et al. (2001) p. 25.
ii  See Phills et al. (2008) pp. 42-43. The function of social capital is to improve the effectiveness of society.
iii  See details in Borzaga et al. (2001).
iv  See Borzaga et al. (2001) p. 29. “Social entrepreneurship includes organizations with absolutely no distribution of surplus as well as some like cooperative unions in some countries which have limited distributions of surplus by which they refrain maximization of surplus.”

vi  Refer to Yoshida and Okuma (2009) regarding the measures implemented in response to declining town centers in the United States.

vii  This concept aims for 1) effective investment of public finance in the municipality, 2) protection of the environment, and 3) revitalization of the community and it is thought that realization of these goals will maintain local commerce as a side effect.

viii  See Development Bank of Japan (2000) pp. 26-27. Also, the author conducted an interview survey in the United States and heard the same comment from a local development expert (Mr. S.S., Rockville Economic Development Inc., October 2007).