

SOCIAL ENTERPRISE

A focus on entrepreneurship
for the common good

With a Foreword by Professors
CONCÈPCION GALDÒN
and **SHEILA M. CANNON**

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SOCIAL ENTERPRISE

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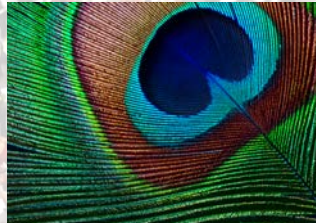
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FOREWORD

By Professors Concepción Galdón, Director of the IE Center for Social Innovation at IE University, Spain, and Sheila M. Cannon, Director of the Social Enterprise company project on the Trinity MBA, Trinity Business School, Trinity College Dublin.

THE OPPORTUNITY OF GLOBAL SOCIAL ENTREPRENEURSHIP

The idea of bringing in the best possible tools to solve the most pressing problems is as ancient as humanity. However, at some point, we started drifting apart from that very reasonable intuition to "box" tools in specific sectors: Financial planning belongs to the private sector; tracking impact belongs to the third; and delivering services belongs to the public sector. With some paradigmatic exceptions, most of us fell in that trap and many remain in it. Not social entrepreneurs.

Social Entrepreneurship is a field that has been practicing and generating frameworks to continue to bring the best possible tools, regardless of the sector that created them, to solve the most pressing problems.

The seeds of social enterprise originated in different ways across the globe simultaneously: in Europe with cooperatives and then work integration schemes; in Bangladesh in the 1970s with microfinance; in Africa with ubuntu and afropitalism; in Latin America with renowned examples of social entrepreneurship, such as digital social currency; in the United States with innovative individuals in the 1980s. With a long trajectory to back it up, social entrepreneurship has never been more relevant for the world than it is today.

At this point in history, faced with the double whammy of global pandemic and climate crisis, humankind has no choice but become more creative, innovative, and collaborative in how we organise ourselves. In terms of impact on the natural environment, business-as-usual was already broken. And then, with one third of the globe's population in some form of lockdown, business ground almost to a halt. Amidst the calls to get the economy back up and running, there are also calls to rebuild differently – greener and with greater equality for all. While the pandemic is dreadful, it also brings opportunity for change.

In this booklet, the authors invite us to consider the importance of accelerating change towards Capitalism 4.0, creating societies and economies capable of solving

problems for everyone, at scale. This requires reframing the roles and relationships of all actors in society, including companies, public administrations, NGOs and civil society. In reinventing ourselves and how we relate to each other, we need to consider how to adapt this new model to each context. Social entrepreneurship has already proven to be relevant across the globe and capable of adapting to the needs of each region. The authors walk you through examples coming from North Africa, Ireland, Japan, India, Brazil, Italy, Malawi, Bangladesh, Pakistan, UK, Spain among others.

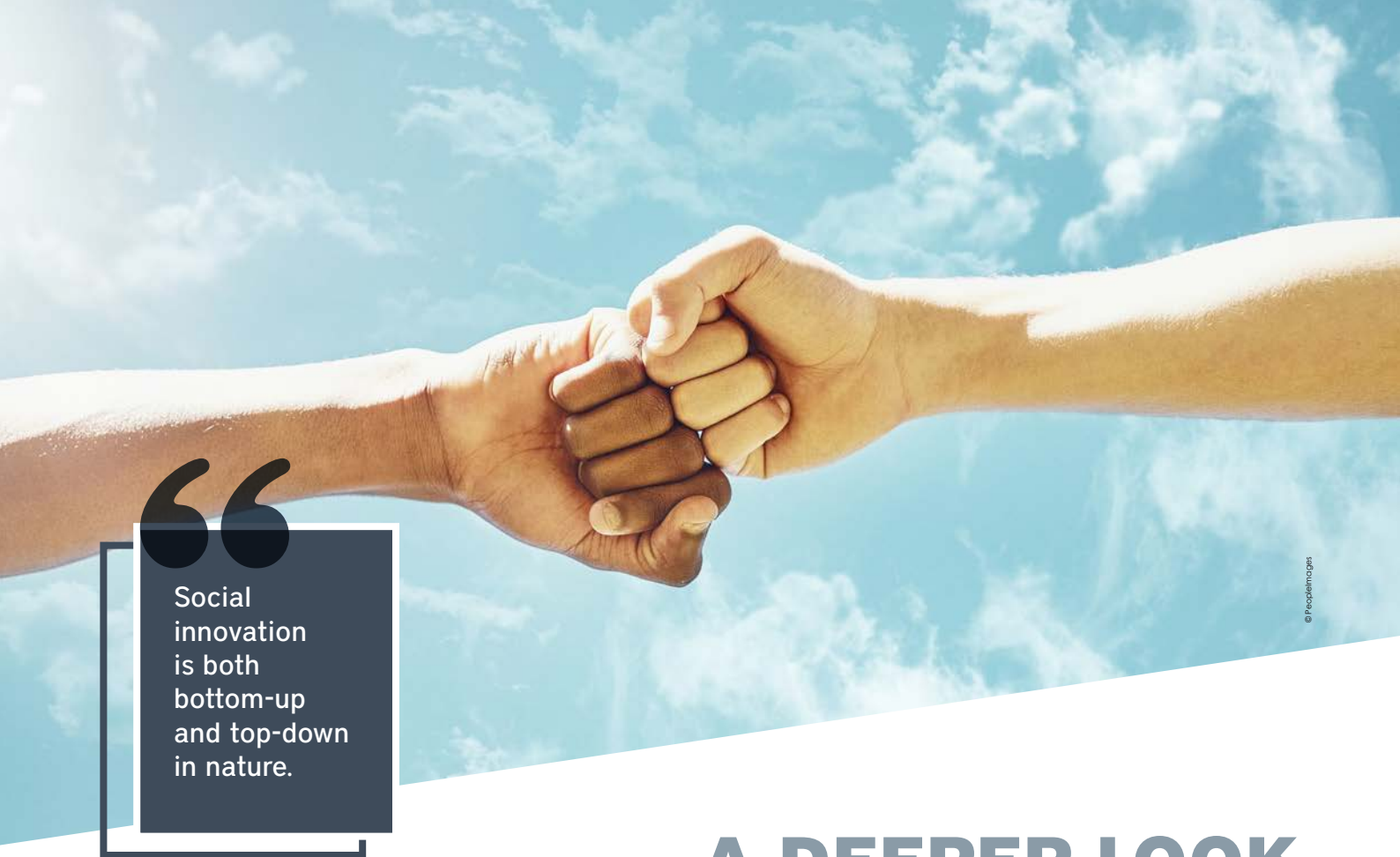
Not only has social entrepreneurship proven capable of adapting geographically, but it has also taken various forms that have made it all the more relevant. The articles in the booklet present examples of startups and big corporations, NGOs and Cooperatives, ephemeral organizations and others that are built primarily to address social and environmental challenges in a sustainable way. And they present us with some of the tools and frameworks developed in the field of social entrepreneurship, such as microfinance, triple bottom line, and crowdfunding, that other areas might benefit from.

Social enterprise is particularly useful and timely today because it cuts across left-right politics. Following the Cold War, the idea and practice of free-markets swept across the globe as the winning ideology of the time. This is evident in the trend of the nonprofit and public sectors becoming more business-like – part of the social enterprise story. Since then, there have been growing calls for businesses to become more social. We soon realised that free-markets were not a panacea. And the concept of social business and corporate sustainability emerged as another strand of the social enterprise story.

The solidarity economy moves us beyond the dichotomy of left-right politics that holds so much conflict and division and creates a space where we can rebuild together using the best possible tools, irrespective of where they come from. As we strive to build a world in which we would rather live during the most challenging crises our generation has ever experienced, let us take advantage of so much that the field of social entrepreneurship has to offer.



CONCEPCIÓN GALDÓN & SHEILA M. CANNON



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Social innovation is both bottom-up and top-down in nature.

A DEEPER LOOK AT SOCIAL INNOVATION

Social innovation and the social entrepreneur are increasingly being referred to as one of the bricks of a new, fairer and more bottom-up capitalism. **Professor Mario Aquino Alves** of **FGV-EAESP** in Brazil explores the many facets of social innovation, what it is and how it works.

By Prof. Mario Aquino Alves, FGV-EAESP, based on the research paper *Digital Social Money Implementation by Grassroots Organizations: Combining Bottom-Up and Top-Down Strategies for Social Innovations*, by Mario Aquino Alves, Eduardo Diniz, Adrian Kemmer Cernev, Eros Nascimento.

It all seems so simple at first glance. There is the word social. And there is the word innovation. Not surprising then that we might initially tend to understand social innovation as innovation aimed at improving the lives of the poorer members of our society. But that interpretation may indeed be influenced by both our own culture – be it Latin or Francophone or English-speaking – or whether we work in the field of business, an NGO, or local government. In fact, as with many fields of study, its facets are multiple, each seen in a different light depending upon school of thought, policy or even values. Let's look closer at these.

Social innovation seen from academia

Academia has traditionally associated social innovation with the literature of social and economic

development with particular focus on communities. It means working directly with – and within – these especially with people living in a vulnerable context. As such, it is often the structural causes of this vulnerability – poverty, unemployment, illiteracy – that are emphasized, as well as the influence of political power and the need to mobilize people to create social change. Social innovation therefore carries with it a notion of change in behaviours and the striving to implement initiatives aimed at freeing people from their limiting social contexts and environments. Social innovation seen from business and management

Social innovation from a business dimension tends to see things in two ways: firstly, the link to the social character of a venture, with the firm's transactions linked to and benefitting society; and secondly, the potential of social innovation as a tool to boost entrepreneurship, collaboration between companies and NGOs, and the dimension of social business. Moreover, the role of the social entrepreneur is emphasized – those entrepreneurs who have a vision for social change, have the financial resources to support such ideas and all the skills of successful businessmen, as well as a great desire for social change. Seen from a business and management angle, the social entrepreneur may also be seen as someone who seeks an opportunity to fulfil demands that the State's social initiatives and policies can't or simply won't provide.



Social innovation seen from different languages

It is interesting to note that differences in definition occur through different cultural dimensions. The French tradition of social economy, for example, sees social innovation as a keystone to representing a new response to an unsatisfactory social injustice that in all likelihood will occur across all sectors of society. It aims at the well-being of individuals and the community. American scientific research circles, however, have tended to use the notion of social innovation to sustain different theoretical and ideological positions on the nature of innovation in contemporary society. These include such concepts as Porter and Kramer's notion of shared value creation: doing good for society is fine, but profit for business should also be a pre-requisite; or the notion that social innovation should be encouraged because its end effect is increased shareholder value.

How does social innovation work?

It is argued that social innovation may take several forms. The first, and perhaps most obvious, is that of a product or technology. Such innovations include WHILL's new generation of wheel chairs in Japan, the Wikipedia Zero project in South Africa, where Wiki can be accessed free of charge on any mobile phone, or digital social money developed by the Instituto Palmas in Brazil. On the other hand, some researchers also define social innovation as a process, the result of cooperation between a variety of multiple actors and a collective process of learning and knowledge creation. This may also include what still other researchers see as the need for user involvement – opting to buy fair-trade products or those where a percentage of profit is transferred to community or education initiatives or even participating in the development of the social innovation itself.

Apart from its form, much depends on social innovation strategy – how it sees the light of day, is developed and sold. This inevitably involves the question of governance. Traditional approaches to social innovation have forwarded the argument that in order to achieve impact, scaling up and replication; social innovations are necessarily a process of top-down governance, especially to overcome problems in communities with low social capital or where even in the presence of some sort of social capital, rent-

seeking behaviour occurs. On the other hand, the argument for bottom-up strategies also finds its place in the social innovation debate. Here, bottom-up stands for grassroots organisations, citizens, NGOs or cooperatives seizing the initiative over government or firms and taking the lead in development strategy.

Mario Aquino Alves advocates that a mix of strategies can occur – and indeed be used – to develop social innovations. His argument is that if social innovation aims to improve both the individual, the community and/or the organization/firm, then it can occur from any of these, in different forms, and from different players interacting at all levels in a relational process. Social innovation is therefore both bottom-up and top-down in nature.

Prof. Alves attempts to prove this through research into the grassroots organization Instituto Palmas in Brazil, which first grew from organizing its community and later became recognized nationwide as a model of social innovation, community empowerment and collaborative collective learning. Basing research on the relational model of social innovation, he and fellow researchers Eduardo Diniz and Adrian Kemmer Cernev, studied the non-profit organization over time, from a bottom-up period covering Instituto Palmas' beginnings and the development of a local Community Development Bank (CDB), to a top-down period that saw it employing a replication strategy to disseminate social innovations, and finally a 'tech venture' period in recent times that has seen the development of digital cash – or digital social money.

As such, Mario Aquino Alves' research provides a telling case study of how an organization that grew from local community to nationwide recognition and dissemination of social innovation employed a number of strategies that combined multi-stakeholders and multi-level involvement driven from both the grassroots up, and top institutions down. Indeed, Prof. Alves sees this combination as an essential element in the success of such an organization and its projects.

KEY TAKEAWAYS

- Social innovation might seem to be innovation aimed at improving the lives of the poorer sections of society. However, this interpretation is merely an influence of our culture or our domain of work. It is in fact, multi-faceted, each seen in a different light depending upon school of thought, policy or even values.
- Academically, social innovation is associated with directly working with such people. It carries the notion of making necessary changes to provide freedom from limiting social and environmental contexts.
- From the context of business and management, it is associated with the pairing of the transactional value of the firm and the value it creates for society. A social entrepreneur is seen as someone who is successful in the field of business and who seeks an opportunity to fulfil demands the State does not or can't.
- Different languages see it from different perspectives from solely creating social good to seeing profits as a prerequisite first.
- It can use both bottom-up and top-down strategies to achieve its objectives as is demonstrated by Prof Alves' research on the Instituto Palmas in Brazil.
- Traditional approaches argue that in order to achieve impact, scaling up and replication, social innovations are necessarily a process of top-down governance, especially to overcome problems in communities with low social capital or where even in the presence of some sort of social capital, rent-seeking behaviour occurs.
- A bottom-up approach means that grassroots organisations, citizens, NGOs or cooperatives seize the initiative over government or firms and take the lead in development strategy.

FOOD FOR THOUGHT

- To what extent do you agree with the claim that doing good for society is fine, but profit for business should be a pre-requisite
- Think about your government and its policies: How does it encourage social innovation in your country?
- In your opinion, does your country do enough to support and encourage business for the common good? What? Why not?
- If you were to start up a social enterprise, what goods or services would you innovate? How would you market them? what would be the benefits of these and to whom?



**MARIO
AQUINO ALVES**



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A large majority of countries are yet to formulate a legislative definition of 'social enterprise.'

SOCIAL ENTREPRENEURSHIP: LOOKING BEYOND THE BUZZWORD

Professor **Savita Shankar** of **Keio Business School** takes a deep dive into social businesses in Asia and critically analyses the difference between Asian and Western social enterprises.

The dawning of a new era

When Bill Drayton, the founder of **Ashoka** (a non-profit organisation to support a global network of social entrepreneurs) used the term "social entrepreneurship" during the 1980s, literature around the concept began to take shape. But truth be told, social enterprises have been in existence from much before the time when the term was formally coined. Asia, in particular, has benefitted tremendously from social entrepreneurship in the 1970s and 80s. **Grameen Bank**, for instance, has been providing financial services to low income women in Bangladesh for decades now, while the **Aravind Eye Hospital** in India has been providing cataract surgeries to the poor at a cost that's only a fraction of that in developed countries. The emergence of such entities ushered in a new era where increasingly more emphasis is put in the creation of social value. Yes, economic value creation still continues to be essential, but merely as a means to ensure the sustainability of the venture. However, empirical research in the field of social entrepreneurship is still in an embryonic phase. This

is probably because a large majority of countries are yet to formulate a legislative definition of 'social enterprise'. As a result, not all organisations with social missions call themselves social enterprises. This makes the task of identifying social businesses in these countries quite challenging, as some may be "de facto" social enterprises as opposed to the ones that are "de jure." On top of this, a lot of the debates in social entrepreneurship literature have been rendered irrelevant to Asian contexts as they are framed in Western terms. As such, contributing to research in an Asian context is challenging without first redefining some of the theoretical concepts and restating the underlying assumptions.

Transforming Asia, one social enterprise at a time

Sixty percent of the world's population lives in Asia – a region with rampant pressing unaddressed social problems, market failure, government failure and inadequate public budgets. No wonder that Asian countries are the frontrunners when it comes to social entrepreneurship. Bangladesh is a striking example where non-profit organisations have been flourishing as an aftermath of the liberation war in 1971. The **Grameen Bank** founded by Nobel laureate **Muhammad Yunus** in 1976 is one of the pioneering social enterprises in



Bangladesh. It's a similar story in Indonesia where a relationship seems to exist between the growth of social enterprises and the social movement for independence. Pre-independence Indonesia was characterised by a quest for educational and economic empowerment. Today, social entrepreneurship in Indonesia is fuelled on by the perception that social enterprises promulgate economic empowerment, and to a certain extent, by the Islamic identity of social enterprises. China started moving towards social entrepreneurship ever since market reforms were introduced in the late 1970s. This was a time when the government was expected to provide social protection alongside public services such as health and education. The private sector, too, began to take an active interest in CSR with a lot of international players aiming to foster social entrepreneurship in China. Moving further east to South Korea, it is interesting to observe that the concept of social entrepreneurship was rooted in civil society before finding a place in the government agenda. But the government eventually enacted the Social Enterprise Promotion Act in 2006. Today, one of the popular types of social enterprises recognised by the South Korean government is the "work integration enterprise" where at least 50% of the employees are disadvantaged.

In Japan, the first generation of social enterprises dates back to the period from 1900 to 1975 when neighbourhood organisations with strong social orientation emerged. The second generation of enterprises appeared after the Great Kobe earthquake of 1975 and had a wider geographic scope. The third generation which emerged post 2000, is distinct from the first two owing to its greater market orientation and higher degree of innovation. The *Takurojos* or elderly care institutions in Japan are an innovative form of non-profit social enterprise in Japan. Unfortunately, though, unlike in Western countries, traditionally not-for-profit organizations in Japan do not enjoy much trust from the general public and are generally deemed to be less professional than private or government entities.

Through the lens of the developed world

The challenges faced by a society differ vastly based on the extent to which a country is developed. While the developing countries in Asia

have challenges of poverty, unemployment and health to address, in developed countries, social enterprises have a role to play to address other social problems such as long-term care for the aged.

In developed countries social enterprises are credited with addressing social problems caused by market failures. In the United Kingdom for instance, social enterprises have been acclaimed for helping with social exclusion while in Australia, they are applauded for providing employment opportunities to marginalized individuals. The analysis becomes a tad more complicated for developing countries where there are often multiple market failures. Similarly, the political debates in Western countries regarding whether the government is using social enterprises in order to shirk its welfare responsibilities are irrelevant in developing countries with minimal welfare policies.

The funding for social enterprises in developing countries often comes from foreign sources, which changes the political equations considerably. Another stark difference between the two contexts is that while in Western countries there is debate about whether social enterprises can balance their social and financial goals, in developing countries the more important question is about the extent to which market-based approaches can be used to address the large development challenges.

Socio-economic context is key

It is interesting to note that despite close geographic proximity, Hong Kong and Taiwan have very different notions of social entrepreneurship. In Hong Kong, social enterprises emerged subsequent to the Asian financial crisis in 1997 when unemployment levels shot through the roof. Subsequently, these social businesses are very market oriented in line with the capitalistic nature of society in Hong Kong. In Taiwan, however, the civil society is very strong. As such, the interest is more skewed towards community development than towards business-oriented enterprises.

A study has revealed that the number of social enterprises that obtain their revenues from sale of products and services is substantially higher in Hong Kong than in Taiwan. For Taiwan, the bigger source of revenues was government grants as

their government entities are required to prioritise purchase from such enterprises. It was found that Hong Kong enterprises were more focused on financial independence than their Taiwanese counterparts. This goes to show that even within Asia, the nature of social entrepreneurship varies depending on the socioeconomic context in each country.

Miles to go

The evolution of social enterprises in a country appears to be closely related to historical events in the country. But the ultimate model depends a lot on the country's socio-economic circumstances, cultural factors and regulatory environment. While in Western Europe, social enterprises can be said to be located "at the crossroads of market, public policies and civil society" in East Asia, they are currently located mainly at the intersection of state and the market.

Currently, most of the social entrepreneurship literature is from the business and entrepreneurship perspective. More research needs to go into the evaluation of the impact that social enterprises have on development indicators. In developing countries, the social entrepreneurship debate needs to include sociological and public policy perspectives in order to ensure a richer understanding of Asian social enterprises and their potential role in society and the economy.

KEY TAKEAWAYS

- Social Entrepreneurship has existed in South and South East Asia since long before the term was officially coined.
- The challenges addressed by social enterprises are not the same in Asia and the Western World. While Asia Grapples with large development challenges pertaining to poverty and unemployment, the more prosperous western countries are looking into pressing issues such as environmental degradation and the need for good quality food.
- A crop of different types of social business exist within Asia too – socioeconomic context and cultural factors, rather than geographic proximity, shape these different forms.
- Literature on social entrepreneurship has to be reframed from the western context to a developing world context in order to make it more relevant for Asia.
- There is a pressing need to step up research on development indicators and how adept social enterprises are at achieving these indicators.

FOOD FOR THOUGHT

- What sort of failures does your social enterprise aim to address?
- How can your organisation help in formulating a proper definition of social enterprise?
- How have your notions of social enterprise been challenged?



**SAVITA
SHANKAR**



“Social ventures exist to lift human society as a whole, even if done bit by bit.”

SOCIAL ENTERPRISE: 21st century JIGSAW

Professors **Tina Saebi**, **Norwegian School of Economics**, **Nicolai Foss** of **Copenhagen Business School** and **Stefan Linder** of **ESSEC Business School** take us on a quest to find the missing pieces that will aid and redirect the course of research on social enterprise.

Related research: Social Entrepreneurship Research: Past Achievements and Future Promises, Journal of Management Vol. 45 No. 1, January 2019 70–95.

If one were to say that social enterprise is a new phenomenon, it would only be partly correct, for in 1953 the American economist Howard R. Bowen penned an entire book titled 'The Social Responsibilities of the Businessman' on the subject. Yet, the notion of Social entrepreneurship as a powerful business agent that can catalyse significant transformation, has only been around for a little more than a decade. Especially in academia, the rapid growth of Social entrepreneurship research, the emerging nature of the literature, and the fact that Social entrepreneurship builds on different disciplines and fields (e.g., entrepreneurship, sociology, economics, ethics) have led to a rather fragmented literature without dominant frameworks.

As such, Tina Saebi, Nicolai Foss and Stefan Linder have brought to light the multidimensional nature of social enterprise, reviewed the achievements as well as shortcomings of the increasingly broad

and rich Social entrepreneurship research, and highlight the need to take a holistic approach—join all the pieces that make up social entrepreneurship and bring them under a one roof.

Finding unity in diversity

But in order to do so, it is important for Social entrepreneurship to be recognised for what it does and does not stand for. Given the differentiated research, there has been no single definition of what differentiates Social entrepreneurship for other related phenomena—CSR, philanthropy, sustainability etc. — which are often not well delineated from it. In the face of this, Saebi, Foss, and Linder focused on finding common ground among the variety of definitions.

In doing so, the researchers draw from previous research and showcase that what sets Social entrepreneurship apart from its close cousins is its hybrid nature. Commercial entrepreneurship is involved with all the traditional hallmarks of finding ways of creating value—opportunity identification, resource mobilisation and the like. Social entrepreneurship on the other hand draws on the hallmarks if and only if profitability goes hand in hand with solving a social problem.



Similarly, Social entrepreneurship differs from CSR in that the latter is an extension of a firm's traditional business activity to reach out to its stakeholders and with the aim of increasing profit. Charitable and not-for-profit organisations too are different, for their funding is usually from external sources, such as the government. Consequently, their social initiatives do not compete for resources with profit-seeking ones.

As such, they draw from the idea that 'the dual mission of social and economic value creation reflects the core characteristic of Social entrepreneurship.'

Two birds with one stone

This hybrid nature of social enterprises manifests itself in two ways. The first is whether the people—whom the organisation wants to reach out to—are also active participants in the Social entrepreneurship's model. Aravind, which provides free eye-care in rural India, is an example where social value is created for the beneficiaries. On the other side of the coin is Unicus—a Norwegian consultancy that employs people diagnosed with Asperger's syndrome—representing a model where the beneficiaries are part of the value creation chain.

The second dimension is the extent of integration of social and commercial activities. For example, commercial activities may subsidise social ones as in the case of TOMS shoes. Or, the social activity leads to economic value capture—the case of award-winning Grameen Bank, which provides collateral-free micro-credit to the destitute in Bangladesh.

When these two dimensions are crossed with each other, the resultant matrix gives 4 possibilities – as illustrated in Figure 1.

A Typology of Social Entrepreneurship			
		Social mission	
		For beneficiaries (beneficiaries are solely recipient)	With beneficiaries (beneficiaries are part of value creation process)
Economic mission	Differentiated (commercial revenue cross-subsidizes social mission)	TWO-SIDED VALUE MODEL	MARKET-ORIENTED WORK MODEL
	Integrated (beneficiaries are paying customers)	ONE-SIDED VALUE MODE	SOCIAL-ORIENTED WORK MODEL

First, social enterprises can have a 'two-sided value model', such as with TOMS shoes, which gives one pair of shoes to a needy child for every pair bought. Second, Social entrepreneurship may employ beneficiaries to produce goods or services sold in the commercial marketplace. For example, the UK's Jamie Oliver, who trained and hired disadvantaged youths in his restaurant, proceeds from which funded the said training. Next in line is where the beneficiaries are paying customers, as illustrated by VisionSpring, which sells high-quality eyewear to the poor at affordable prices. Last is when the beneficiaries are both internal and external customers—VisionSpring not only sells its eyewear to the marginalised, but also employs them in sales and distribution.



New-age superheroes

At the individual level, theory suggests that a key trait of social entrepreneurs is a prosocial personality—the inclination to empathise with others, coupled with qualities that promote the entrepreneurial spirit—self-efficacy, work-history with social organisations.

Yet, context is everything. While these qualities drive a person forward, people are also influenced by personal experiences—poverty, limited access to education etc.—that give a spark to further kindle the flame of emotions inside. Batman, Spiderman, the list is endless—it's the stuff superheroes are made of. Same for these entrepreneurs. The difference is between action and intent. Social entrepreneurs need to actually seek resources, gain support and mobilise them to form their ventures. As such, research needs to expand to what the entrepreneur does to create value after the green signal is given. To this end, organisational and institutional level analysis is equally required at the venture formation phase.

Drifting apart

Organisational analysis results have been divergent—focused either on the ability to finance a venture, or on the importance of networking, or stressing on marketing capability to name a few. Given the case-based nature of this research, little is known about the common features that can make or break the social venture, and whether these factors are different for commercial ones.

What is known is that the hybrid nature leads to rifts that need to be addressed properly in case the venture wants to thrive. This can be done in various ways, such as hiring managers who embrace this hybridity. Yet, Social entrepreneurship's mandate requires that answers be given to what kinds of social ventures exist, and what kinds may cause what problems.

Other areas needing exploration are the link between type of venture models and the nature of the legal and organisational structure as well as in the management of the venture, the factors influencing the choice of a particular model, and the choice of model on venture success.

A common currency

Research points us to the fact that the lack of strong institutions and the unwillingness of the private sector to step-up to meet social demands gives rise to social enterprises. These have been known to tackle problems with a wide array of ills that plague society today—poverty alleviation, women empowerment, inclusive growth, and so on and so forth.

In order to better understand the multi-faceted expression of Social entrepreneurship, the research team studied close to 400 articles from *crème-de-la-crème* journals and focused exclusively on Social entrepreneurship while discounting the similar fields of sustainable, developmental, and institutional entrepreneurship or entrepreneurship in general previously mentioned. As such, the researchers identified the factors that affected Social entrepreneurship at three distinct levels—individual, organisational, and institutional—and the links that were missing.

Management phenomenon are generally multi-dimensional. As such, the research team made a multi-stage and multi-level framework capable of integrating the various levels of analysis previously discussed. Drawing on theory, this is divided into 2 stages—before and after the venture is formed.

In drawing up such a framework, the research team forged linkages between the effect of the macro-environment and the individual's goals and beliefs (situational mechanisms), the effect of these goals on individual behaviour (action-formation mechanisms), and the effect of these in bringing about broader changes (transformational mechanisms).

These linkages are important because they try to accurately describe the relationships that affect the 3 levels of analysis. As such, pursuing these mechanisms further, both before and after the venture is formed, is necessary to fill existing gaps in academia, and to find out what makes Social enterprise tick.

Just as a fish cannot be judged by its ability to climb a tree, so too is the case with the measurement of the impact of different kinds of social ventures. But, the end goal of any social enterprise is the same—solving a social problem while staying profitable. To this end, it is imperative that a common framework be developed to gauge and assess the effectiveness of such enterprises. This void can be filled by institutions, which set the stage for social enterprises to work in and with, and thus can set some key metrics that are acceptable by a wider scholarly audience and applicable to multiple contexts.

The road not taken

As previously seen, personal experiences are important. Yet, in societies with multiple failures, different individuals may perceive things differently. Some may want to act as the few drops of water that make the mighty ocean. Others may want to revamp the water cycle itself. To this end, exploring how institutions can affect individual behaviour—say, preference for a particular cause—is one area requiring further study.

There is also little research on the different processes for different kinds of social missions. Building on the above example of what challenge the entrepreneur takes, it is important to understand the effect of judgmental and cognitive abilities of the individual on opportunity identification and action.

Further, studies have largely focused upon sole individuals as opposed to entrepreneurial teams. This leaves a blank in Social entrepreneurship research for how team dynamics may strongly affect the kind of social mission selected, design of the social venture, the motivation of the cohort and as such, the ability to secure funding and translating thought into action.

Another area requiring exploration is the cross-level mechanisms that relate individual decisions to organisational objectives, design on a broader scale, especially after the venture has been formed.

Dive-in

But all is not over when the venture takes-off. In fact, one might say that the journey has only just begun. As such, better understanding and practice will require further work on relationships that link individual motivations to the social value created. Especially given the decision and resource conflicts that can arise out of the hybrid nature of the model.

Other incentives, such as certifications for ventures that conform to high standards, may also affect motivation and need to be analysed.

Moreover, as these ventures are formed by teamwork, it is important to study Social entrepreneurship on the organisational level from an ethnographic perspective. This means looking into issues that shed light on the human condition outside of isolation—team-size, hierarchy and the like. The entrepreneur may also have empire-building on the mind when forming a venture. Or not wanting to delegate tasks. Some may perhaps lack enhanced communication skills, reducing their ability to effectively engage with other stakeholders.

The bigger picture

As such, there are many topics that require further exploration if we are to know the dark side of the moon that is Social entrepreneurship. However, in doing so, we must not lose sight of the bigger picture. After all, social ventures only exist to lift human society as a whole, even if done bit by bit.

To this end, research must not be limited to the triumphs of the social venture alone but rather should also focus on whether and how these ventures truly metamorphosed society on large-scale by creating value rather than redistributing it from one group to the other. Taking us all back to Howard R. Bowen and the mid-20th century.



KEY TAKEAWAYS

- The diverse nature of Social entrepreneurship — owing to a foundation in disparate fields such as sociology, economics, ethics and so on—can, and to an extent, has led to fragmented research.
- Social enterprises though, aim to create social value through the capitalistic idea of a market.
- This hybrid nature of social enterprises manifests itself in two ways. The first is whether the beneficiaries are also active participants in the Social entrepreneurship's model. The second is the extent of integration of social and commercial activities.
- The researchers identified the factors that affected Social entrepreneurship at three distinct levels—individual, organisational, and institutional—and the links that were missing.
- At the individual level, theory suggests that a key trait of social entrepreneurs is a prosocial personality.
- Research points us to the fact that the lack of strong institutes and the unwillingness of the private sector to step-up to meet social demands gives rise to Social entrepreneurship.
- These linkages are important because they try to accurately describe the relationships that affect the 3 levels of analysis.
- It is important to study Social entrepreneurship on the organisational level from a perspective that sheds a light on the human condition.
- Research must not be limited to the success of the social venture alone but rather should also focus on whether and how these ventures changed society on large-scale.



**TINA
SAEBI**



**NICOLAI
FOSS**



**STEFAN
LINDER**



A social entrepreneur is someone who not only aims to solve a problem in a specific place, but who has a more global perspective and looks to create a scalable model.

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SOCIAL ENTREPRENEURSHIP: DEFINITION AND RESEARCH TRENDS

José Javier Pérez Barea, IE Business School

winner of the CoBS 2020 CSR article competition, explores the chartered and uncharted waters of social entrepreneurship.

How to improve the unknown? One important point about social entrepreneurship (SE) becoming more sustainable is to delve into the knowledge and research about the term. Moreover, the issue of SE definition is a problem affecting research and sustainability in this field. The main aims of this article are i) further knowledge by means of a review of scientific literature to determine the conceptual development of SE and ii) identify the most interesting research trends.

SYSTEMATIC LITERATURE REVIEW: MICRO, MESO AND MACRO LEVELS

Social entrepreneurship is an emerging field that urgently needs reviewing to establish the key aspects of its definition. This article represents an attempt at doing so, but it does not solely focus on the conceptualization of this phenomenon. The conclusions of this article should contribute to the central debate surrounding the role of businesses today as creators of common good and the increasing closeness between these two worlds.

Most authors agree that the concept of social entrepreneurship has attracted a lot of attention in recent years, not only from academics but also from people working in this field and government agencies. To date, there have been three main approaches to the study of social entrepreneurship: social entrepreneurs as individuals, the micro approach; social enterprises as organizations, the meso approach; and the macro approach, which looks at the economic and social context and, more specifically, the implications of social innovation.

The micro level studies the perspective of social entrepreneurs as individuals. For Dees (1998), this type of entrepreneur must: (i) have a mission of creating social value; (ii) identify business opportunities to complete said mission; (iii) pursue a process of on-going innovation; (iv) act boldly; and (v) have a heightened sense of responsibility for socially excluded groups and for the results obtained. A social entrepreneur is someone who looks for innovative solutions to traditional problems and who has a strong social commitment to the community in which he or she operates. Furthermore, a social entrepreneur is someone who not only aims to solve a problem in a specific place,



but who has a more global perspective and looks to create a scalable model; that is, a model that can be replicated in other contexts to maximize its transforming impact. Social entrepreneurs do not focus on just providing aid – they work to generate sustainable change and authentic social transformation.

Social entrepreneurship is also understood on a meso level, where the focus is on the enterprise as an organization. The largely shared definition of a social enterprise is one whose central mission is to have a transforming impact or to create positive social change by means of a business model or activity that enables its said mission to be achieved in a financially sustainable way, using innovative and replicable business models (Murray, Caulier-Grice & Mulgan, 2010). Under the classic economic model, the mission of a company is to maximize financial gain and utility for shareholders, while the mission of a not-for-profit organization is to maximize social gain and utility. Besides the difference in mission, these types of organizations are also sustained in a different way. Traditionally, for-profit companies are sustained by the income generated from their economic activity, while not-for-profit organizations are sustained through charity and philanthropy. The unique feature about a social enterprise is that its mission will be to maximize social gain and utility, but its business model will ensure the organization is financially viable (Bagnoli & Megali, 2011). This new model of organization, which combines the for- and the not-for-profit tradition, is still not properly understood and is more often associated with not-for-profit organizations. Some authors have called social enterprises 'hybrid organizations – that is, companies that make most of their profit from economic activity, but that also combine it with non-commercial sources of income, such as donations or grants.

The last of these three levels is the macro level, which explains the relationship between social enterprises and their economic, social and organizational context. All new enterprises, regardless of their business model,

need to identify an opportunity based on an existing market and overcome any obstacles in setting up their business. In the case of social enterprises, their chosen social mission will largely define the context in which they operate and their specific difficulties and needs. To overcome these difficulties, experts advocate innovation, traditionally defined as the introduction of new production models or expansion into new markets (Schumpeter, 2013).

Many researchers suggest, although the limits of the concept are not clearly defined, that social entrepreneurship is an area of study with its own identity that can be approached scientifically. In fact, the novelty lies in the term 'social entrepreneurship' not in the concept itself, which has appeared in various guises over time. For Chou and Majumdar (2014), social entrepreneurship is a domain made up of multiple sub-concepts: (i) the creation of social value; (ii) the social entrepreneur; (iii) the organization focus; (iv) market orientation and; (v) social innovation.

RESEARCH TRENDS: VENTURE PHILANTHROPY, MEASURING SOCIAL IMPACT AND HYBRID ORGANIZATIONS

The other aim of this article is to find trends in new themes linked to social entrepreneurship. SE emerged from two different trends: from the field of business ethics and corporate social responsibility on the one hand, and from the field of NGOs and the third sector on the other. Over the years, trends such as those outlined below have arisen on which researchers have focused their work.

Venture philanthropy is a new concept that appears in the context of philanthropic foundations (corporate or otherwise) and individual investors seeking to measuring the social impact of their investments in charitable projects. For Scarlata and Alemany (2010), venture philanthropy is the process of investing in social enterprises that have a big social impact. For other



authors, it is a way of operating in the social sector in a more efficient manner. People who donate to not-for-profit organizations are seen as social investors – something that changes the concept of investor. The difference is that while a traditional investor seeks only financial return, a social investor's main aim is social return, measured in terms of the social impact or change generated by the organization. In turn, other authors see venture philanthropy as the application of entrepreneurial management processes and efficiency levels to not-for-profit organizations, in order to maximize both social and financial return (Buckland, Hehenberger & Hay, 2013).

In recent decades, the question of how to measure the impact of social enterprises has become increasingly pressing. As such, there is a growing demand for tools that verify the performance of inputs or capital – whether from donors or investors – in relation to the fulfillment of a social mission (Alvord, Brown & Letts, 2004). There is also a growing demand for tools to support decision-making and the evaluation of activities in order to identify areas for improvement within social enterprises. From the world of business, Performance Measurement Systems (Neely, Adams & Kennerley, 2002) have been defined as a set of metrics used to quantify the efficiency and effectiveness of the actions of a company. This method of measuring economic performance is now being used to measure social performance or the social and environmental impact of enterprises and organizations, entailing measuring the impact that a company's activity has on its stakeholders. By definition, a hybrid is something formed from two different species. In the context of organizations, it is used to describe organizations with structures and practices that coexist in different categories. Researchers often define social enterprises as hybrid organizations that aim to marry the fulfillment of a social mission with the creation of financial profit – that is, organizations that are financially sustainable (Lumpkin et al., 2013). Within these organizations, there

is a delicate, often conflicting, balance between the business proposal and the social objectives, and this issue is by no means resolved in academic literature. This concept is also used to describe, from an institutional perspective, organizations that fall between the binary categories of for-profit vs. not-for-profit, and private vs. public (Defourny & Nyessens, 2006).

The debate across the literature about how to define social entrepreneurship reveals that the line which separates for-profit and not-for-profit organizations is becoming increasingly blurred. Processes of innovation and, more specifically, social innovation are essential when addressing the context of social transformation and the mission of a social enterprise. Sustainability is another key concept in terms of explaining the nature of social enterprises as organizations that seek to combine, in the long term, financial profit and a social mission. In addition, countries with higher rates of traditional entrepreneurial activity also tend to have higher rates of social entrepreneurial activity (Lepoutre et al., 2013).

A NEW PHENOMENON

It would be worth considering whether this is the product of social and cultural change in the business and economic world at large. Whether the way of approaching social problems is changing and whether organizations with a social mission are changing into more efficient entities using more traditional business management models. However, this change has not come from organizations as entities, but rather from social entrepreneurs as individuals, acting as the driving force behind this type of incentive. Perhaps this is because we now have a new generation, the millennials, who understand the world in much more global terms thanks, among other things, to technological advances and new means of social communication.

To conclude, social entrepreneurship is an emerging phenomenon that would benefit from more empirical research to advance in the process of bringing the definition debate to a closure. For example, we need more success stories through which to understand the entire process, from the hatching of an idea to the creation of the corresponding social change. The main challenges concern the limits of social entrepreneurship as regards other more traditional types of entrepreneurship. The matter of individual social entrepreneurs is simpler as it seems clear what motivates them, where their main skills lie, and what sets them apart from other entrepreneurs. However, what is not so clear cut is the type of organization that defines a social enterprise – legally speaking – and the question of profits, especially for companies that make a profit and have various external investors. These trends point to future lines of research that we still know very little about. The big question of how to

measure social impact is one of the main concerns of researchers today. The problem of funding is another important topic as it is not fully clear how social enterprises are being funded, and it would be interesting to know who is financing this type of organization and why. Another interesting line of research would be to compare and explore the development of social entrepreneurship according to geographical location – e.g. Anglo-Saxon influence vs continental Europe.

KEY TAKEAWAYS

- On a micro level, social entrepreneurs do not focus on just providing aid – they work to generate sustainable change and authentic social transformation.
- On a meso level, the hybrid model of organization combines the for- and the not-for-profit tradition, making most of their profit from economic activity, but that also combining it with non-commercial sources of income, such as donations or grants.
- On a macro level – the relationship between social enterprises and their economic, social and organizational context – a social enterprise's chosen social mission will largely define the context in which they operate and their specific difficulties and needs.
- To overcome these difficulties, experts advocate innovation, traditionally defined as the introduction of new production models or expansion into new markets.
- Venture philanthropy is the process of investing in social enterprises that have a big social impact. For other authors, it is a way of operating in the social sector in a more efficient manner. People who donate to not-for-profit organizations are seen as social investors – something that changes the concept of investor.
- Sustainability is another key concept in terms of explaining the nature of social enterprises as organizations that seek to combine, in the long term, financial profit and a social mission.
- Countries with higher rates of traditional entrepreneurial activity also tend to have higher rates of social entrepreneurial activity.
- Important questions remaining include how to measure social impact, who funds social enterprises and how, and the development of social entrepreneurship per country and region.

FOOD FOR THOUGHT

- What factors encourage or discourage entrepreneurship and social enterprise in your country?
- Given the Corona virus crisis and resulting impact on economies, to what extent do you think there will be a surge in the number of social enterprise startups?
- Can corporate philanthropy from larger organisations and social enterprise merge? How?
- What indicators do you think could be used to measure the impact of social enterprise?



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**JOSÉ JAVIER
PÉREZ BAREA**



NGOs often work on a project basis, moving on from one critical issue to the next. A social enterprise exists for the long term and is better placed to see things through.



IN PURSUIT OF THE ELUSIVE TRIPLE BOTTOM LINE – IAIN CHURCH, HEROPRENEUR

Iain Church is a British Army veteran turned social entrepreneur, winner of the **Warwick Business School** Bursary Award in 2019. Join us as we go on a journey with Iain into a small, beautiful, landlocked country called Malawi in Southeast Africa to experience the winds of change blowing over this land.

Not all superheroes wear capes. Some just go about their normal lives, silently planting the seeds of change along the way. Iain Church undoubtedly belongs to the latter class and has been recently awarded the Heropreneurs Award. *Heropreneurs* is a registered charity in the UK which celebrates and rewards the energy, passion and dedication of war veterans aspiring to forge a new path in business. That's right, Iain Church was actively serving the British Army before he decided to focus all his attention 5,000 miles away – in a tiny country in Southeast Africa, called Malawi.

From bomb disposal to social entrepreneurship

Iain Church joined the British Army at the age of 21, right after graduating from university. As a bomb disposal expert, Iain was responsible for disarming mines and

other munitions in Bosnia and Kosovo, and for making potentially life or death decisions as a squadron second-in-command in Iraq. He even designed new protocols for attacking IED (Improvised Explosive Device) networks in Afghanistan while commanding bomb disposal operations in Helmand Province. He has served the Army in Northern Ireland, the Balkans, and the Middle East, eventually rising to the rank of Lieutenant Colonel. Dealing with matters of life and death for over two decades was no walk in the park. As Iain recalls from his days at the Army, "After you cleared a farmer's land he would ask, 'Is it safe to put cattle back in that field?' It's the children who herd the cattle, so while you want to reassure him and say, 'Yes, we've got everything', you have to caveat that with the fact that it's not an exact science and one or two bomblets may have fallen further outside the cleared radius. It is a huge responsibility." Yet he persevered relentlessly. In Kosovo, for instance, Iain and his team worked flat out every day for eight long weeks. If one had to find a silver lining in this war-ravaged cloud, one could say that once you have dealt with countless life-and-death decisions in the army, you emerge from it with nerves of steel: nothing in the civilian world can quite faze you anymore.

Iain's innate entrepreneurial spirit, however, did not get the opportunity to flourish much during those days. When the only priority is to save innocent lives, one simply has no option but to move on from one mission to the next as swiftly as possible. In the end, Iain decided to take a period of leave to focus his attention on his late father-in-law's brainchild "Moringa Miracles Ltd" in Malawi. It was a for-profit social enterprise intended to provide rural Malawians a self-sustaining, permanent way out of extreme poverty. Three years later, in 2016, Iain decided to leave the Army permanently in pursuit of this new passion to make a difference. It may not be easy to connect the dots from bomb disposal to poverty alleviation, but what can we say... Iain is, after all, no stranger to shouldering the responsibility for the lives of others.

Malawi and a miracle in the making

The Republic of Malawi is a land-locked country in southeast Africa and home to more than 18.5 million people. While this gem of a land is endowed with rich flora and fauna, it remains one of the least developed countries in the world. The economy is struggling, more than 95% of the population is considered to be either ultra-poor or poor, and the government relies heavily on foreign aid to meet its development needs.

Moringa Miracles Ltd was founded with the lofty ambition to combat the widespread poverty pervading across Malawi. Moringa Miracles provides free moringa trees for farmers to grow alongside their existing crops, and then buys back the seed to produce moringa oil for use in the cosmetics industry. Smallholders are trained on how to grow and nurture their trees and are shown how to turn the leaves into a powder that can help to ease the prevalent Vitamin A deficiency in the country. Similar projects have, in the past, strived to introduce self-sustaining models. But what makes Moringa Miracles stand out is the fact that it is here for the long haul. For example, there was a project which encouraged farmers to grow chillies instead of their staple crops. Sure, it was a success for the first couple of years. But soon afterwards, the prices for chili plummeted and Malawi was left with a swathe of smallholders who could neither afford to sell their chillies because the price was too low, nor grow food for themselves as their land had been put over to growing chillies.

Moringa Miracles, on the other hand, adopted an ingenious and simple approach. The 40 moringa trees they provide to each farmer, can be easily planted around the border of their usual crops. Those who have no space to plant the trees can pool their share and plant them in communal areas next to rivers to prevent soil erosion and flooding.

After just one year each tree produces 5 kilograms of moringa seed which the company buys back



from the smallholders for use in the cosmetic industry. The smallholders are encouraged to use the waste product as a water purifier and the leaves as a source of Vitamin A supplement.

Triple Bottom Line of People, Planet & Profit

NGOs often work on a project basis, moving on from one critical issue to the next. On the other hand, a social enterprise, like Moringa Miracles, exists for the long term and is better placed to see things through. Moringa Miracles works with two international NGOs. But if, at any point time, the NGOs need to move on and focus their resources on other problems, Moringa Miracles can continue to support the same smallholders and ensure a lasting legacy. Indeed, Iain Church believes that combining the best practices of NGOs with the best of the commercial world produces the concoction required to create a self-sustaining social enterprise.

Moringa Miracles Ltd. (MML) produces moringa leaf powder, seed and oil to deliver a triple bottom line: commercial success, social and environmental impact. It aims to sustainably break the aid cycle in Malawi by increasing smallholder incomes, food security, access to clean water and environmental resilience by reversing deforestation. To date, MML has partnered with 65,000 small holders and planted more than 3 million moringa trees. As an employer, MML believes strongly in offering equal employment opportunities for women and youth. This holistic approach means MML can deliver long term impact with a triple bottom line. It is rather interesting to note that MML's model can be replicated around the world. Moringa naturally occurs in some of the world's most under nourished regions – so their model can potentially provide countries with a home-grown solution to their problems, without the need for donor assistance.

The road ahead

Today Moringa Miracles has a team of 30 full-time staff who run a 20,000 strong smallholder programme. They also work with 45,000 smallholders in programmes run by two international NGOs. Their aim is to lift 325,000 Malawians out of extreme poverty within five years of operation. This is certainly a daunting challenge for even the most ambitious of entrepreneurs. But Moringa Miracles remains committed to providing farmers with a sustainable source of income while working on nutrition in a region where about 45% of the children suffer from stunted growth owing to Vitamin A deficiency.

Iain Church is now better positioned than ever before to materialise his lofty ambitions. He won the Warwick Business School Bursary Award, which includes a full scholarship to study for an MBA at WBS, so that he can acquire new skills to help Moringa Miracles thrive. This Executive MBA is bound to fast-track Iain's entrepreneurial journey and leave a lasting positive impact on the fortunes of Moringa Miracles Limited. In Iain's own words, "I am humbled to have won the inaugural Heropreneurs Warwick Business School Bursary Award. The size of this opportunity is huge and I look forward to repaying the faith that Warwick Business School has shown in me."

Iain Church is an inspiration for all the budding social entrepreneurs out there and we cannot wait to see this potentially game-changing approach to provide a Malawian grown solution to a Malawian problem come to fruition!



**IAIN
CHURCH**

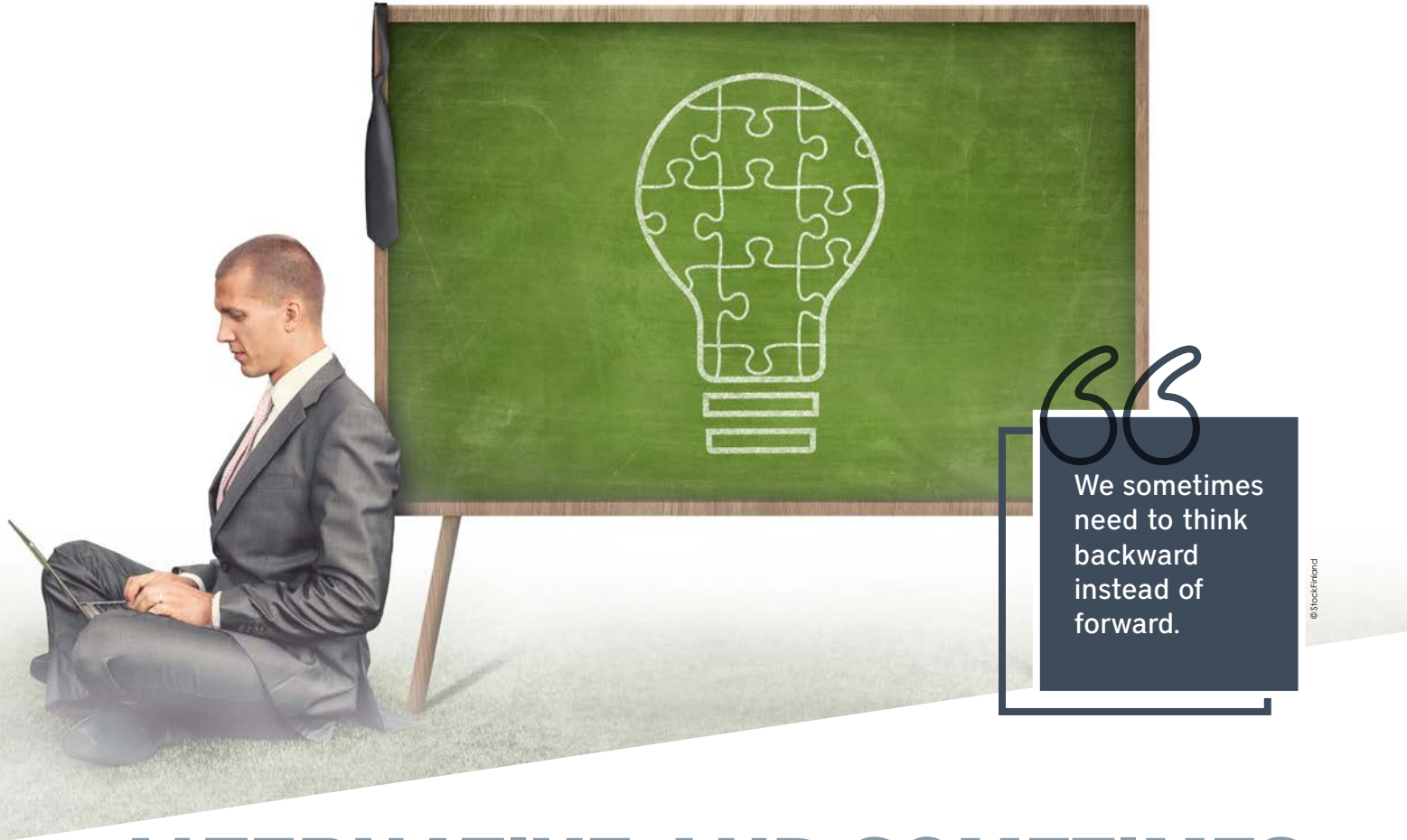
KEY TAKEAWAYS

- Extreme hardships, such as those faced by military personnel, prepare you for anything life can throw at you.
- Take a break from your regular job to prioritise your focus.
- Finding a common link between two roles perceived as very disparate may not be as difficult as it seems.
- Short-term projects/ goals can highly reduce impact.
- Think about adding value every step of the way, including re-use of waste products.
- Combining the best practices of NGOs with the best of the commercial can create a self-sustaining social enterprise.

FOOD FOR THOUGHT

- Can you think of situations when you felt you were under tremendous pressure? What happened and how do you think you can gain from it going forward?
- Can you think of situations where you can combine best practices from the social sector and from the business world to help you achieve your goals?
- To what extent can you think of your business as holistic, every step of the way? How can you help it achieve the triple bottom line?





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ALTERNATIVE AND SOMETIMES EPHEMERAL: SOCIAL INNOVATION IN ACTION

Mario Aquino Alves, Professor of Public Policy and Corporate Social Responsibility at **FGV-EAESP**, puts the spotlight on business from the bottom up and how it benefits the common good in an alternative and sometimes ephemeral way.

Humanity is not just the bright side of the world, it's also the dark side – and humanity is essentially two sides of the same coin when it comes to progress. Moving away from the shadow, one form of light comes in the shape of social innovation.

Social innovation can be considered in terms of being part of a business or as a process, with alternative organisations being an outcome of this. Moreover, on a political level, social innovation isn't necessarily a left-leaning notion – look at micro-financing or micro-credit. The Peruvian organisation Laboratoria is another example. Its aim is to provide employment opportunities to minorities – woman, the gay and black communities – and even if there is a notion of inclusion in its purpose, it still deals with business and with business models.

Generally, social innovation is not something you cannot completely control, an interesting point being that we need to treat it differently than industrial-era

business and management models that relied on plans, cycles and processes. In comparison, social innovation is more a question of trial and error, experimentation, learning and engaging. In different contexts, social innovation emerges in different forms – sometimes more society-driven, sometime more business-driven, sometimes government-driven. However, most of the time, social innovation is a question of a being a mixed model, an interaction between society and business, business and government. Moreover, sometimes business ventures turn out to be social innovations despite having not starting out in this way – banking services, for example. But there can also be both positive and sometimes negative externalities. Just think of Uber-type services whose by-product might be the creation of even greater traffic congestion, noise pollution, CO² emissions and even industrial disputes as witnessed in several countries this year.

As mentioned, alternative organisations often result from social enterprise. Firstly, an alternative organisation exists because there is an already existing traditional organisation to differ from – one characterised by vertical organisation, hierarchy, well-defined tasks, rationality (or at least the myth of rationality that runs through it) and processes.



Alternative organisations are those that do not follow the ordinary path – that is, not a profit-driven argument for existing or organised with a structured hierarchy. The alternative organisation may be horizontal, virtual, networks, or even ephemeral organisations.

In another sense, alternative organisations are alternatives to capitalist-type organisations. This doesn't mean they are against capitalism, but they find their leitmotiv in creating new forms of organising capital. Coops are a good example. Here, mutual gain is highlighted. Building on Darwin's theory that the evolution of the species is through competition, the cooperative model can be said to advance the idea that survival of the fittest may also occur through cooperation. Moreover, they are not a new phenomenon, and their roots go back to Mediaeval times with, for example, hospices financed by the wine growers of Burgundy. However, the interesting point is that after the 1980s-90s, cooperatives have moved to a more alternative model. This can be seen, for example, at grassroots level in Argentina where workers occupied their closed factories and started to manufacture the goods themselves, or garbage pickers who started to organise themselves into cooperatives, as well as middle-class initiatives working on alternative schooling models and housing systems and then again, in Quebec, Canada, the emergence of the cooperative housing

system 30 years ago. All in all, in various parts of the world there is a renaissance of the cooperative model.

At another level of alternatives is the emergence of the social impact model with a social goal in addition to a profit goal. Social fintechs in Brazil and Grameen in Bangladesh, for example, are new forms of delivering banking services – with a social customer base but also combining issues from the local social context and purpose. Laboratoria, the Peruvian alternative organisation that now has branches in several Latin American countries, is another example, the organisation having shareholders but whose main purpose is the inclusion of women. And then there is the movement that includes BCorps – where companies, putting the social goal before profit goal, gain benefit through a commitment to tackling social issues.

Alternative capitalist organisations constitute a final dimension to the notion with Portugal (social currency), The Netherlands (energy) or Japan (care of the elderly) catering for the wider community in exchange for a currency which can be used on the market. The other side of the coin, so to speak, is electronic currencies that use the block chain, such as the bitcoin, but they also include social electronic money. The difference must be made, then, between alternative forms of organising as opposed to alternative forms of organisation.

Ephemeral organisations

Here, the dimension of mobilisation and type of social capital that is generated is the most important aim – because the simple gesture of putting people together might give rise to other forms of business or organisation. The traditional imperative of organising people and resources through processes – with a view to long-term activities and growth – may in fact generate a whole host of problems that include mission drift and complexity. A new generation of entrepreneurs has come to light that contends that an organisation isn't necessarily meant to last in time. They come together with an idea in order to achieve a particular mission, be it political, artistic or even cultural – and then subsequently disappear once the objective is attained.

Once again, the phenomenon isn't brand new. Thirty years ago ephemeral organisations made the news, then disappeared. They are now re-emerging, mainly due to the fact that this form of organisation is very much adapted to the environment in which we are currently living – virtual offices, agile teams, uncertainty, rapid change, AI and social media. Why need a static building in downtown Sao Paulo when needs change and space needs to be occupied by something new? It's all part of the evolution of things. The shift is there – vertical organisations are disappearing as we know it. And who knows, perhaps even the vestiges of our Mediaeval past – the universities – may also one day follow suit.

Capitalism 4.0?

Capitalism is interesting in the sense that it is omnipresent, albeit in different forms, all around us. But what we need to do today is to raise awareness about capitalism and its sense. We need to be aware of what we are doing – to nature and to human beings – in the pursuit of capitalism and consumerism. It means talking about the impact we are making, not just for the shareholders but for the stakeholders as well – employees, suppliers, the local community, the country and even the planet. For this reason, we sometimes need to think backward instead of forward. We have come a long way over the past 1,000 years in terms of standards of living and openness to tackle issues such as equality. On the other hand, we are in a much worse state in terms of our relation with nature. We need to raise awareness on this issue. As an industrialist, for example, you may focus your activities on mining. But are you willing to be an accomplice to the genocide of a nation in Africa or in South America? These are some of the questions we need to ask. For the long-term good of both people, planet and also profit, the short-term must give way to a wider perspective and vision in the ways in which we do business – for the common good.

KEY TAKEAWAYS

- Social innovation can have multiple connotations. It can be considered a part of a business or a process, with alternative organisations being an outcome of this. It is also not necessarily a left-oriented paradigm and includes notions of micro-finance and business models.
- It is not completely submissive to control and industrial-era management protocols are not the best way to look at it. It is more a path of trial and error, experimentation, learning and engaging.
- It is paradigm of a mixed model, an interaction between society and business, business and government.
- Alternative organisations provide a way other than traditional capitalism to organise resources.
- These may also be very issue-specific and disband once the mission is accomplished.
- Capitalism is seemingly timeless. Only its manifestations change. What we need to do today is to raise awareness about capitalism and its sense. We need to be aware of what we are doing – to nature and to human beings – in the pursuit of capitalism and consumerism.
- It means talking about the impact we are making, not just for the shareholders but for the stakeholders as well – employees, suppliers, the local community, the country and even the planet.
- For the long-term good of both people, planet and also profit, the short-term must give way to a wider perspective and vision in the ways in which we do business – for the common good.



**MARIO
AQUINO ALVES**

FOOD FOR THOUGHT

- How does your organisation relate to the various forms of social innovation?
- How can you re-organise capital and people in your organisation to increase impact?
- How can you align your short-term profits with long-term sustainable objectives?



Cooperatives are businesses whose objective is not to earn profit, but to ensure the welfare of the involved members.

THE ITALIAN JOB: THE RISE OF CO-OP START-UPS

Michele Caiati, ESSEC GBBA student delves deep into the co-operative scene of Italy to unearth what could very well be the latest phenomenon on the social innovation front: The Co-op Start-up.

Experiential tourism is the future of tourism.' Or so thinks Vascitour, a start-up founded by four individuals in Naples back in 2014. The company offers clients the opportunity to live among the locals and experience local culture as its unique selling point, creating international scope for the otherwise local businesses and citizens. H2Boat is another start-up founded by engineering students and works for the development of zero emission energy. Or Consider 'Citta Della Cultura- Cultura della Citta' – A Ferrara-based Architecture start-up from 2012 that repurposes under-utilized and abandoned spaces and develops works to retain the cultural heritage of a locality.

The one thing all of these have in common are that they are examples of a social phenomenon in Italy that is set to take the world by storm: The Co-op Start-up.

A little of this, a little of that

The Co-op startups, or Co-operatives startups as they stand for, are a phenomenon which integrate the principles of a Co-operative model with the benefits operating in a start-up model. The Co-op Start-ups are

the latest trend that is picking up in Italy, in newer fields of activities such as tourism, arts, culture, environment and especially research and new technologies. These fields are very different from a traditional Co-operative which usually revolve around sectors like banking, consumer goods, production and worker welfare, education and housing.

The core issue that these innovative startups are addressing is one which has become critical off late in Italy – the unemployment among youth and the difficulty to find work and start businesses. The current rate of unemployment among the young in Italy is 31.7%, which is almost double of that of Europe as a whole. Further, Italy also ranks 31st in the world in terms of competitiveness (World economic forum) and as such starting a new business can be a hassle in this country. One could point a finger at the crippling financial crisis as a causative factor. As such, the Co-operative startups are well suited in addressing this problem particularly due to the co-operative tag that they come with.

If you want to go far, go together

In the testing years right after the 2008 crisis, the co-operative model has resiliently stood the toppling economy and has even showed a 25% growth rate where several conventional models of business crumbled leading to the loss of livelihood for numerous hardworking employees in Italy.

Essentially, a 'Co-operative' is a model of business which operates on the principles of mutuality, solidarity and democracy. They are businesses whose objective is not to earn profit, but to ensure the welfare of the involved members. Every member is usually given profit share and equal decisive power. Italy is particularly adept to this mutual model of operation, given its long history in association with it.

The History of Co-operative Italians

Indeed, Co-operatives are a model with a long history in the Italian landscape and are, in recent years, also the outcome of the financial crisis of 2008.

- The first Co-operative movement took flight in the first half of the 19th century after the enactment of the Albertine Statute in 1848 which reaffirmed the powers of then king, Carlo Alberto. The main development of the movement was seen in the north of Italy which incubated the first Italian Co-operative called 'Magazzino di Previdenza'
- In the 1860s, Italian politicians, philosophers and activists fostered the growth of Co-operatives – in a time where the model was seen as an answer against the businessmen who chased after profits.
- In 1893, a formal body of Co-operatives called the National League of Co-operatives was established which allowed Co-operatives a medium to voice out to the government on issues that affected them.
- The rise of the Co-operatives continued into the beginning of the 20th. During this period, Italy experienced tremendous economic growth under the leadership of Prime Minister Giolitti and Co-operatives were seen as one of the primary players responsible for this boom which was later dubbed as the 'golden age of the Italian Co-operation'.
- But things took a turn for the worse after the First World War, when Benito Mussolini rose to power as a dictator. Under his regime, the Co-operative movement was disbanded and in many cases, the protagonists were killed to assert control.
- In the 1930s, Mussolini's fascist wing did start implementing a form of Co-operative, although this new model was in many ways an expression of fascism and, as such, was significantly different than before.
- The end of the world war two brought some stability to the Co-operatives, when the Italian republic was established and the Co-operatives were once again able to return to their original principles: that of Solidarity, democracy and Social Policy.
- The period of 1950s- 1970s saw tremendous growth as Co-operatives started building networks and synergies for mutual benefit which eventually led to the formation of larger bodies.
- These larger structures posed an issue and were at the centre of debate in the 1980s. Due to the sheer number of decision making members involved in the process, Co-operatives were becoming less and



less efficient. Additionally, during the same time, it had become common practice for Co-operatives to overstep labour laws in order to win contracts.

- At the end of the 1980s, a new model of Co-operatives spread throughout the country – 'type B' social co-operation which provided for its members who were socially marginalised: disabled individuals, reformed prisoners, former drug addicts, and single mothers. The formation of such Co-operatives empowered these individuals and helped them become contributors to society.
- In the second decade of the 21st century, the latest innovation was seen as an answer to the new needs of the people, arising as a consequence of the financial crisis. The new model of Co-operatives embraced new models of economy – sharing economy, green economy, sustainable economy. The 21st century also saw the 221/2012 law linked to articles 2511 and 2548 of the Italian constitution, which promoted the incorporation and growth of new businesses and startups.

In the spirit of the law

In 2012, the Italian government promoted law 221/2012, which talks of innovative start-ups. In light of the financial crisis of 2007-08, the purpose of this law was to promote sustainable growth, technological development and employment, particularly for young people. It was believed that this would lead to strengthening of links between universities and businesses and attract foreign talent and capital by establishing an entrepreneurial culture.

The law encompassed benefits such as no start-up costs, flexible governance, assistance for work discipline and consultation to overcome debt and financial losses. The law also brought into the picture equity crowdfunding. Moreover, these start-ups were not subject to bankruptcy rules and, as such, these favourable conditions provided a backdrop for the incubation of startups and their growth.

Almost like a cherry on the icing, the long history of Co-operatives in the country provided the infrastructure and right environment to integrate the Co-operative model into the startups. The possibility to obtain financial funding from veteran Co-operative funds like **LegaCo-op** and Co-opFund, institutions,

lower starting capital requirements and certain tax exemption opportunities incentivised entrepreneurs, both young and old to venture into the Co-operative territory, from a generic Limited Liability Corporation.

Paving the way forward

Today, there are 85,000 Co-operatives in Italy. The innovative start-ups account for 6,745 in number and the Co-op Start-ups represent 3% of this population, which is around 200 or so. Although this number is fairly small, it also shows promise. The legislation is fairly young and recent, and as such, there is immense scope that this number will multiply fairly quickly.

In order to further propel this phenomenon, Michel Caiati has a few ideas in store. Caiati suggests that finding a synergy between more established, veteran companies and these budding startups could be a beneficial alliance for both the parties. The older companies could benefit from an influx of innovative ideas from the young minds and the experienced backing from the veteran managers could help the young entrepreneurs avoid many a failure.

Caiati also brings forth the need to revise corporate governance within the Co-operative model, which would better address the needs of these young entrepreneurs and encourage startups to increasingly take on the swanky 'Co-op' prefix.

As such, Italy shows great potential as an incubator and a propagator of this social innovation or alternative enterprise called Co-op Startup. And with the direction that we are currently headed in, the world might just need more Vascitours and H2Boats!



**MICHELE
CAIATI**

KEY TAKEAWAYS

- Co-operative start-ups integrate the principles of a co-operative model with the benefits operating in a start-up model.
- They primarily address the issue of unemployment amongst the youth and the hassle of starting a business in the Italian landscape.
- A co-operative is a model of business which operates on the principles of mutuality, solidarity and democracy. The objective is not to earn profit, but to ensure the welfare of the involved members. Every member is usually given profit share and equal decisive power.
- Historically, very active in Italy since the first half of the 19th century, and continued to develop till its decline due to the instability of WWII and Italy's regime during that period.
- Post-war periods saw growth, development and adaptation to answer the new needs of the people, especially after the 2008 financial crisis. The new model embraces the sharing economy, green economy, sustainable economy. The co-operative model also found support in Italian law.

FOOD FOR THOUGHT

- To what extent is this model applicable or can be adapted to your social enterprise?
- What do you think the pros and cons of a Co-op-type structure would bring?
- To what extent should the cooperative model be the norm and not the exception in business?
- Think of any successes or failures in history of such models. To what extent are coops utopian?





A mix of strategies can occur – and indeed be used – to develop social innovations.

SOCIAL INNOVATION STRATEGIES – FROM BOTTOM TO TOP

Professor **Mario Aquino Alves** of **FGV-EAESP** Brazil focuses on the Instituto Palmas and its digital social money initiative to argue that social innovation can blend both top-down and bottom-up strategies to reach success – but perhaps at a price.

Traditional approaches to social innovation have argued that in order to achieve impact, scaling up and replication, social innovations are necessarily a process of top-down governance, especially to overcome problems in communities with low social capital or where even in the presence of some sort of social capital, rent-seeking behaviour occurs. On the other hand, the argument for bottom-up strategies also finds its place in the social innovation debate with the notion that grassroots organisations, citizens, NGOs or cooperatives must seize the initiative over government or firms and take the lead in development strategy.

Mario Aquino Alves advocates that a mix of strategies can occur – and indeed be used – to develop social innovations. His argument is that if social innovation aims to improve both the individual, the community and/or the organization/firm, then it can occur from any of these, in different forms, and from different players interacting at all levels in a relational process. Social innovation is therefore both bottom-up and top-down in nature.

Prof. Alves, together with research colleagues Eduardo Diniz, Adrian Kemmer Cervev and Eros Nascimento, proves this through research into the grassroots organization Instituto Palmas in Brazil, which first grew from organizing its community and later became recognized nationwide as a model of social innovation, community empowerment and collaborative collective learning. The NGO's rise in influence effectively provides Prof. Alves with a distinct, three-phase model of development which adds a new dimension to existing research in that it is possible, through the example of Instituto Palmas, to study social innovation over a long period of time.

Bottom-up social innovation strategy

His research begins with a focus on the institution's beginnings as a grassroots organisation which in 1998 developed an innovative initiative for social inclusion known as the Community Development Bank (CDB). Created in the early 1970s from the displacement of low-income families, the town of Conjunto Palmeira in north-east Brazil finally, under much lobbying, gained access to basic public facilities in the '90s. However, this brought a problem: it generated additional living costs that many families were unable to afford, forcing many of them to sell up and move out. The local neighbourhood association realised that it was urgently time to seek an answer to help reduce the high social risks faced by the community. As a result,



Banco Palmas was born, with a starting capital equivalent to 25 Brazilian minimum wages, to offer microcredit – with a difference. That difference lay in its methodology that focused not on the individual, but on generating income, wealth and social development on a territorial basis. The central idea was to create a solidarity network from the local community and its social capital that integrated a virtuous circle between local producers and consumers through a social paper currency only exchangeable in the local community. As such, the greatest possible proportion of local wealth circulated locally, remaining in the community instead of disappearing elsewhere. This bottom-up strategy, born from the grassroots, led to an increased volume of purchases by residents in the local stores, benefiting not only the local merchants but also local producers. The CDB model developed by Banco Palmas proved effective – via its microcredit operations and local social currency – in three ways: it helped construct a communal identity, developed the community from within, and educated people by making residents rethink the concept of money and currency.

From local community social banking to nationwide network

From this success, the Banco Palmas experience became to be considered as one of the most iconic in the field of solidarity economics in Brazil. As a result, the decision was made to extend the initiative to other states and a spin off, Instituto Palmas, was created with a mission to do this. Effectively, the impact of this was to modify the approach, indeed the identity of the initiative. From a former position as grassroots activist implementing a bottom-up strategy promoting the local development of the community, Banco Palmas necessarily took on the role of disseminating its model to other towns and communities, thereby assuming a top-down strategic approach in its bid to replicate the model.

Two partnerships endorsed this dimension: with the National Secretary for Solidarity Economy in 2005, and with the Banco do Brasil – the largest commercial bank in the country – in 2006. As such, the scale of the project and its nationwide implementation saw a need for the information and communications technology to gain in effectiveness. And with this new technology at hand, the nature of the original offer – microcredit and social currency in paper format – changed too. Its new, institutionalised partners meant that the offer at hand was similar to that offered by a normal, high-street banking service: opening and management of accounts, collecting bill payments, and digital cash instead of paper currency. Subsequently, the Instituto Palmas was to provide technical support in replicating the initiative.

While the project saw the successful replication of the Community Development Bank initiative in other parts of Brazil, the top-down position brought with it several issues, most notably that of conflicting agendas between the ‘institutionalised’ role of Instituto Palmas, working under the ‘push-down’ process of the federal government, and the community associations it was working with to roll out the initiative. Moreover, the technical and project management activities of workers and managers in the CDB seemed to be far removed from those of the original community bank hallmark.

Going digital – the venture phase

The introduction of digital cash to the social innovation initiative further changed the nature of Banco Palmas. It increased the distance between the organisation’s original grassroots identity and the key feature of social currency. In effect, the second pillar of the social innovation became digitalized. And the projects greater in scale.

In 2014, the Instituto Palmas was contracted to create a CDB in the city of Maricà, 63 kilometres from the capital Rio de Janeiro. While located in an oil-rich state, Maricà possesses 4 districts with high rates of poverty. Aware of the success of the Banco Palmas model in creating local wealth, the mayor of Maricà was also wary of the so-called ‘paradox of plenty’ which claims that regions blessed with abundant natural resources – especially petroleum – usually tend to maintain themselves in conditions of poverty. The Instituto Palmas mission was therefore to set up a two-pronged strategy with this in mind: encourage a demand-side policy of income cash distribution to low-income earners via a municipal debit card, and introduce a supply-side policy aimed to encourage and develop local entrepreneurs and shop owners through microcredit.

Although cash transfer using digital cards is common in many countries (the [Bolsa Familia](#) in Brazil benefits 12 million families, for example), the Instituto Palmas initiative was the first time this type of benefit occurred in combination with a local social currency. Once again, the new project made an impact on the identity and approach used by the Banco Palmas. The digital debit card, whereby the population receives a monthly grant worth \$32 which can only be spent at registered local stores, was something inexistent in the original model of the community bank. Moreover, the scope in the latest project is municipal, changing the concept of the community as territorial to a broader sense of ‘municipal community’. And finally, the relevant social groups involved include a debit card infrastructure manager and the decisive participation of the city government, responsible for the cash input of the whole system.

The initiative met with satisfaction from the three main project stakeholders: the city authorities and the Instituto Palmas because it ties in with their solidarity economy philosophy; the community banking staff because it is a

way to attract clients and offer more profitable services; and finally the local store owners who saw the occasion to increase profit through the poor having more cash in their hands. However, the experience also generated drawbacks. The sense of community that was a successful feature of the former grassroots projects seemed to be lacking – beneficiaries seeing the community bank more as a simple outlet from which to pick up the debit card and discuss any possible difficulties. A further reason for lack of community spirit also comes from the fact that the area covered by the latest initiative was 362 km², a far cry from the handful of kilometres covered by the original projects in 1990s Conjunto Palmeira. In addition, since commercial and operational issues with the digital system were activities catered for by the company hired by the City Hall, store owners had no strong relations with the community bank which was seen as merely an agent to deal with beneficiaries' concerns.

Bottom-up or top-down?

Prof. Mario Aquino Alves concludes that it is important for such social innovation initiatives to find the right balance between top-down and bottom-up strategies and decisions. When sharing knowledge and success, it seems that top-down strategies are required. Indeed, such strategies help enable social innovation to produce social changes on a larger scale. However, it must be taken into account that a sense of community bond and social capital is strong when initiatives come from the grassroots. This bond and use of social capital in the community stabilizes when social innovations become institutionalised or seek to replicate. And it becomes weak when such social initiatives become, in sort, tech ventures.



**MARIO
AQUINO ALVES**

How to retain that precious wealth of local identity and togetherness, as well as involving the commitment and passion of the local people and stakeholders who learn from the experience, remains a challenge to be taken up for future social innovation projects. As Prof. Alves says, in the light of the Instituto Palmas case, yet to be learnt is how to group together different concepts of community, and to foster social capital by issuing social currency instead of a social capital coming before the issuing of social currency.

KEY TAKEAWAYS

- Social innovation aims to improve both the individual, the community and/or the organisation/firm, and thus, it can occur from any of these, in different forms, and from different players interacting at all levels in a relational process. Social innovation is therefore both bottom-up and top-down in nature.
- The Community Development Bank developed by Banco Palmas was very successful in implementing this bottom-up approach. This success was then reapplied with Banco Palma trying to use the top-down approach in other areas to replicate the success.
- The scale of the project sparked other needs of communication and IT to gain effectiveness. This led to services being offered almost at par with other financial institutions such as account management, collecting bill payments, and digital money.
- However, the top-down approach needs to be deployed with caution for it may not have the same level of community commitment.
- When sharing knowledge and success, top-down strategies seem to be required. Such strategies help enable social innovation to produce social changes on a larger scale.

FOOD FOR THOUGHT

- How do you think your social enterprise can find the balance between the bottom-up and top-down approaches in the context of its operations?
- What might be a counter-argument of setting up social currency schemes using credit and debit cards? To what extent do you think the shadow economy actually helps the poorer more?





In Brazil, many basic needs are not fulfilled – something that enables social enterprises to fill the gap.

REVERSING THE PYRAMID THROUGH SOCIAL ENTERPRISE

Professor **Edgard Barki**, Head of the Entrepreneurship Research Center at **FGV-EAESP**, base-of-the-pyramid researcher and expert on social enterprise, shares his experience gained on the Brazilian testing ground.

More than one model of social enterprise

As the idea of business with a wider purpose slowly but surely gains ground around the world, social enterprise is increasingly being seen as an effective way to hit several birds with one stone – create jobs, empower civil society, foster community bonds and innovatively lift people left on the sidelines off the poverty line. But whereas the social entrepreneur largely seeks to develop an initiative that has a social or environmental impact, social entrepreneurship is not a one-model affair, states Prof. Edgard Barki of FGV-EAESP.

There are several options open to the aspiring social (ad)venturer. One possibility is to create an NGO-type structure that has as its main objective social impact though which is not financially sustainable due to its operations being funded by donations. On the other hand, some entrepreneurs may choose to create social enterprises adopting business models that diminish social vulnerability or negative environmental impact but avoid dependency on donations through their sales of products or services. Broadly speaking,

these types of social enterprises have two operating models. In the first, as defined by Muhammed Yunus, Nobel Peace Laureate and the founder of the Grameen Bank, the organisation's profits are reinvested in the company with no distribution of dividends, the purpose being to avoid dilemma between fostering social impact and maximizing shareholder benefits. The mantra here is "no loss, no dividends". On the other spectrum, other types of social enterprises accept distribution of dividends in order to attract more investment. In Brazil, one of the most active countries in the world in terms of social entrepreneurship, most social enterprises do accept dividend distribution.

Brazil, a testing ground

Why is Brazil so active in responsible enterprise? Paradoxically, Prof. Barki states that it may have to do with the fact that Brazil is one of the most unequal countries of the world, where services such as education, health and housing are inadequately offered in quantity and/or quality by the Government. True, the state offers universal health and education for the population, but the best schools in Brazil are private and it is not too uncommon to find people having to wait for months or even years for surgery. As such, many basic needs are not fulfilled – something that enables social enterprises to fill the gap. And demand is high.

Under such a context, social enterprises seek innovation in order to offer these services with high quality and low cost. But besides the difficulty of offering these types of services, social enterprises also suffer from a high degree of bureaucracy in the country, struggling to both attract and retain talent as well as raise capital. Moreover, although they offer products and services that should be provided by the Government, social enterprises pay the same high taxes as other, traditional for-profit companies.

A cornerstone in the pyramid

The main beneficiaries of social enterprises in Brazil are those at the base of the pyramid – people earning less than US\$ 8 per day. Typically, social enterprises flourish mainly in the education, health, housing and financial services sectors, though there is currently increased interest in social enterprises in the fields of recycling and clean energy.

Brazil is noted for its success stories in terms of social innovation and entrepreneurship, those such as *Banco Palmas*, the developer of a social local currency, serving as a model for many others around the globe. A more recent, and successful, initiative – *Terra Nova* – focuses on the housing sector. Many cities throughout Brazil are marked by the absence of proper shelter for the poorest – something that gives rise to families illegally occupying private property and the appearance of shanty housing with no access to light, water and proper sanitation. Brazilian society tends to view the occupants as unwelcome invaders and the families run the daily risk of being evicted. *Terra Nova*, one of the organisations dealing with the issue, takes on negotiations between the people that illegally occupy a private property and the landowner in such a way as to ensure that families pay monthly instalments for their presence. This payment eventually leads to the opportunity to gain the property rights to the land.

The initiative is beneficial on several levels: the original owner receives money for land, and the families become owners – a turning point in their lives that leads to a feeling of belonging to society since they also gain access to basic services such as water and energy. Moreover, they also gain something that most of us in developed countries take for granted – a zip code. Not only does having one increase self-esteem, families also feel that much safer as it dispels the fear of eviction and opens the way for improving the quality of their housing without the risk of losing everything overnight. The government also wins: the initiative solves a social and relevant problem, not to mention sparing it the nasty legal and ethical issues such situations can generate. *Terra Nova* is financially sustainable too, having also received financing from the impact investor *MOV Investimentos*.



Another example is the social enterprise *4you2* which operates in the education sector. With a large majority of modestly-off Brazilians unable to speak English, this can be an important differential in getting a job and gaining self-esteem. *4you2* tackles this problem by offering good quality, low cost English classes for the base of the pyramid populations. The difference lies in the fact that *4you2*'s teachers are not volunteers but paid professionals, English-speakers living in Brazil for 6 months to a year and seeking a different kind of teaching experience. This has an advantage, since the students don't just take English lessons but also earn a cultural experience, discussing Brazilian culture with their teachers and themselves reaching out to other ways of living beyond the limits of the poor districts.

As such, both *Terra Nova* and *4you2* indeed fulfil, through their different initiatives, the art of hitting several birds with one stone.

As for himself, Prof. Edgard Barki is involved in an innovative project to build an incubator dedicated to nesting social enterprises. 'In Brazil, most social entrepreneurs come from the high income classes trying to solve a problem of the base of the pyramid,' he states. Inversely, the objective of the incubator, NIP, is to accelerate and support social entrepreneurs that come from the peripheries of São Paulo city. NIP will see the light of day thanks to a partnership between FGV – a foundation created in 1944 and home to a cluster of leading South American higher education institutions – *Artemisia*, the largest Brazilian accelerator of social enterprises and A BANCA, a social organization with grassroots in the outskirts of São Paulo city.

The focus of the incubator is to find and foster entrepreneurs that have a social impact and need management tools. Workshops and mentoring will be the staple diet during a six-month period, after which fledgling social entrepreneurs will present a business

plan and, depending on the quality and perspective of the business offer, gain access to a seed fund of US\$ 7,000 and another six months of mentoring.

For the first semester of 2018, the NIP has mapped 51 social enterprises, five of which have been selected for acceleration. The whole process will be based at A BANCA, placed at the heart of the community, close to the entrepreneurs, and with an unparalleled knowledge of both the entrepreneurs themselves and the challenges they face.

There are still many obstacles to surmount when it comes to social enterprise, notably that of finding good business models that are at the same time characterized by effective social impact and the potential to scale up and be financially sustainable. Pressing too, is the need to support social entrepreneurs in managerial skills and to offer a higher variety of access to capital. 'Most investments currently available are for the beginning of the operation,' says Prof. Barki, 'or else are aimed at well-developed businesses. There is a gap in the support and investment offered to small organisations that have an already-proven sales record, but aren't yet prepared to raise bigger capital.' But as business with a societal purpose slowly but surely gains ground in Brazil and around the world, maybe these young birds need to sing louder that their bold enterprise is able to effectively hit several others with one stone.

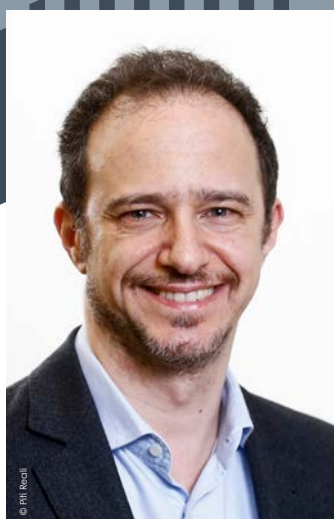


KEY TAKEAWAYS

- Social enterprise is being viewed as one-stop shop solution to various needs—job creation, empowerment, and poverty alleviation among them.
- Various models of social enterprise exist, such as NGOs running on donations, organisations with a 'no loss, no dividends' philosophy, to name a few.
- Inequality has paradoxically given high stimulus to the need of social enterprise in Brazil.
- Social enterprises can create long-term, ethical win-win situations for multiple stakeholders in areas such as housing and education.
- Incubators play a crucial role in searching for social entrepreneurs who need management tools.
- Major obstacles are finding good business models that simultaneously are socially impactful, have potential to be scaled-up, and are financially sustainable
- Lack of support and investment offered to small organisations that have proven impactful yet can't raise a lot of capital.

FOOD FOR THOUGHT

- To what extent is your social enterprise solving multiple problems?
- How can you improve its effectivity? How can management tools, if needed, help? Which ones?



**EDGARD
BARKI**



The crucial ingredient for success in Latin America, North America and Europe appears to be the partnerships and networks created around the business.

BRAZIL: A HOTBED FOR SOCIAL BUSINESSES THAT TRANSFORM LIVES

Edgard Barki, Professor of Social Entrepreneurship and Marketing Strategies at FGV-EAESP, along with Prof **Graziella Comini** and **Dr. Luciana Trindade de Aguiar**, illustrate the different perspectives on social businesses brewed in the Brazilian context.

Based on an article titled "A three-pronged approach to social business: A Brazilian multi-case analysis social businesses" penned by Edgard Barki, Graziella Comini and Luciana Trindade de Aguiar.

Brazil is a land of opportunities. The living conditions of low-income population segments in Brazil have undergone major transformation in recent years thanks to thriving social businesses. These social businesses present a new paradigm to capitalism, in which private companies, non-profit organizations and civil society join forces to co-create solutions to social problems. *Social enterprises or businesses* have managed to bring together two goals which were once seen as mutually exclusive – financial sustainability and social value creation. No longer do we live in a world where the collaborative co-existence of business and civil society is unfathomable. Today, private companies and nonprofit organisations engage in win-win partnerships.

Barki et al analysed three completely different social businesses in Brazil in order to illustrate three popular approaches to social businesses, namely:

1. **The European perspective** which emphasises the role of civil society organisations with public functions
2. **The American perspective** whereby private organisations apply market logic to the resolution of social problems
3. **The developing country perspective** that prioritises market initiatives aimed at poverty reduction and transformation of social conditions for marginalised groups.

Banco Pérola: A European perspective

A social enterprise in Europe may focus on producing goods or services with a social utility, or be driven by the aim to promote social inclusion and employment. Such an entity may even contain an element of social ownership, whereby local government and citizens participate in management of activities. Irrespective of the type, however, the primary purpose of a European social businesses is to achieve social goals rather than to maximise profits. Any profits in such companies are meant to be reinvested for social impact. *Banco Pérola* in São Paulo replicates the characteristics of

this European perspective rather well. It's a nonprofit NGO that offers credit to young people at the bottom of pyramid (BoP). There are many 18 to 35-year-olds in the lowest social segments of the Brazilian population who harbour a strong entrepreneurial spirit. It's a pity that this spirit runs the risk of getting extinguished due to lack of adequate finances. Banco Pérola's portfolio of products supports these budding entrepreneurs in the creation and expansion of their businesses. Alongside working capital and fixed capital, it also provides technical assistance for credit management. Its entrepreneurial solidarity groups are designed to ensure the socioeconomic sustainability of the different businesses. No wonder Banco Pérola has a default rate of only 0.5%. Partnerships with other NGOs and a government bank has enabled Banco Pérola to structure its business model and offer an active portfolio. From the private sector, it has the financial support of Citibank to compose its loan portfolio. Perfectly in line with the European perspective, Banco Pérola's primary purpose is income improvement and the inclusion of youth in the job market.



Coletivo Coca-Cola: A North American outlook

From the North American perspective, a social business is any entrepreneurial market activity that has social impact within its business activities. This approach is distinct from the European one owing to the fact that the achievement of social goals is not the overarching priority here – rather financial returns and social impact are pursued concurrently. It is mostly the MNCs that are expected to catalyse the process of social business. As such, governance is through centralised, corporate decisions, but the idea of co-creation through partnerships is growing. Along with the idea of integrating social and economic value, there is also the emergence of business models that integrate the environment in a real triple bottom line view.

In Brazil, MNCs such as Coca-Cola are beginning to adapt this American view of social business. *Coletivo Coca-Cola's* primary objective is to contribute to the

improvement of life at the BoP, by offering education to facilitate income generation and skills development. To make the programme relevant for the local communities, Coca-Cola partners with NGOs. But this programme is more than just a CSR initiative. Coca-Cola has the dual aim to provide financial independence to the young generation and enhance its brand equity at the same time. As such, Coca-Cola analyses and evaluates efficiency in terms of sales and distribution in the regions in which it has conducted its initiatives. At the end of the day, *Coletivo Coca-Cola* leads to circulation of more money in the neighbourhood. But at the same time, Coca-Cola benefits by gaining access to a market that is difficult to reach, thereby increasing its distribution and brand equity.

Multi-purpose internet cafés: An emerging market approach

In emerging countries, inclusive businesses (the more common term for social businesses) exhibit a strong concern for poverty reduction initiatives. An inclusive business may take the form of an NGO or a for-profit private sector organisation or even a business owned by the disadvantaged, but it should be based on the premise of transforming the standards of living of low-income populations. Unlike the traditional BoP proposals, the proponents of this approach believe that the greatest impact emerges when low-income populations join the value chain as suppliers of large corporations, as opposed to serving as consumers only.

Grameen Bank and its microcredit facility – the brainchild of Nobel laureate Prof Muhammad Yunus – serve as an emblematic example of inclusive business. In Brazil, it inspired the foundation of *CDI LAN*, a social business that was created within an NGO named *CDI* (Committee for Democracy in Information Technology), a digital inclusion pioneer in Latin America. *CDI LAN* strives to provide digital inclusion and education to the low-income segments. It began by conducting a study on the usage of LAN houses (the local term for internet cafés) in partnership with the Wharton School of the University of Pennsylvania. The study revealed that LAN houses had the potential to be a place of transformation within the community. Since then, *CDI LAN* has engaged in myriad partnerships to bring together 6,200 affiliated LAN houses and improve the income generation of LAN house owners. The LAN houses now serve as online consultation points for aspiring entrepreneurs, study centers for distance training and even one-stop centres for financial services! The partnership with Banco do Brasil, one of *CDI LAN's* many partnerships, allows LAN owners to provide banking support to BoP communities who have never before had access to microcredit, bank accounts or savings accounts. On top of it all, *CDI LAN* also aims to transform affiliated LAN houses into distribution centers for goods and services linked with social media tools to have a higher social impact and gain scale within BoP communities. Imagine all of this stemming from mere internet cafés!

Who is the right catalyst?

Many academics believe that MNCs are better equipped to innovate and generate social impact at a scalable level. But then again, there are some who believe that local companies excel over MNCs when it comes to social causes. They cite three key reasons for this:

- While MNCs and local companies face the same challenges in emerging markets, the local companies are much better adapted to operate under the precarious circumstances.
- As they acquire some measure of success, companies from emerging markets can tap talent and capital in developed countries. For instance, it is much more common for these companies to list themselves in the New York Stock Exchange or NASDAQ and raise money than vice-versa.
- Many multinationals are reluctant to tailor their strategies to the needs of emerging markets, especially for the BoP.

Harmony between financial sustainability and social value

There are multiple perspectives on social businesses. The North-American perspective has a greater emphasis on the market whereas the European perspective has a more social approach, with the standpoint of emerging countries lying somewhere in between the two. But from the Brazilian examples it is clear that social businesses exist to address structural problems of the BoP population: Banco Pérola tackles credit, Coca-Cola Coletivo provides education and CDI LAN facilitates access to information and a host of services through technology.

The crucial ingredient for success in all three cases appears to be the partnerships and networks created around the business. One can look towards the future of social businesses with immense hope now that the two goals previously seen as incompatible – financial sustainability and social value creation – have become inseparable!

KEY TAKEAWAYS

- Formats of social businesses vary vastly with market initiatives developed by nonprofit organisations in one extreme, and initiatives aimed at the BoP market created by MNCs at the other.
- Under the European perspective, social enterprises exist to offer services, originally in the sphere of the public sector, at lower costs and to generate employment opportunities for unemployed or marginalized populations. Banco Pérola in São Paulo which offers credit to aspiring entrepreneurs, follows this model.
- Social impact, rather than profit maximization, is the overarching priority in the European approach.
- The American viewpoint asserts that a social business is formed when MNCs ensure access to goods and services previously available only to the affluent population segments. Coca-Cola Coletivo in Brazil fits this viewpoint.
- The emerging countries perspective views inclusive businesses as SMEs or NGOs which focus on poverty reduction initiatives that exert a positive, effective and long-term impact on society. This outlook is exemplified by CDI LAN which have transformed internet cafés in Brazil.



**EDGARD
BARKI**

FOOD FOR THOUGHT

- To what extent does financial hardship create the best entrepreneurs? What key qualities do you think people who have tasted poverty bring to business?
- Should large MNCs be encouraged to help out social enterprise? To what extent is there an ethical argument – for and against?
- Think of your company or organisation – how could it work with local communities to tackle the various issues that inclusive business attempts to solve?





“Efforts to attain social goals often compromise short-term financial results.”

PROFITABILITY OR SOCIAL IMPACT? A CONSTANT DILEMMA PLAGUING SOCIAL BUSINESSES

Professor **Elisa Rodrigues Alves Larroudé** of FGV-EAESP, together with colleagues Prof. **Edson Sadao Lizuka** and Prof. **Carmen Augusta Varela** of Centro Universitário da FEI in São Paulo, investigate the dilemmas facing **Rede Asta** – a social business in Brazil.

Based on the paper *Social Business Dilemmas in Brazil: Rede Asta Case*, Elisa Rodrigues Alves Larroudé, Carmen Augusta Varela, Edson Sadao Lizuka.

Spotlight on Rede Asta

Rede Asta is a social business in Brazil that transforms artisans into entrepreneurs, and waste into beautiful, new products. The artisanal products, produced using 70% of recycled and reused raw materials, are marketed through its salespeople, website, brick-and-mortar stores and also as corporate gifts. In 2017, Rede Asta generated more than US\$ 950,000 in revenues from the combined efforts of 1,100 artisans in its network. With offices in Rio de Janeiro and São Paulo, Asta operates under two legal entities: a for-profit corporation called *Asta Corp* and a non-profit association called *Asta Institute*. Asta's activities are aimed towards achieving multiple sustainable development goals such as poverty alleviation, reduction of inequalities and responsible consumption and production.

In pursuit of the elusive “Triple Bottom Line”

As a social business, *Asta* seeks to improve the lives of Brazilians from low income groups in an eco-friendly and profitable manner. However, chasing the triple bottom line of Profit, People and Planet is no mean feat. Efforts to attain social goals often compromise short-term financial results and can potentially lead to internal discord between the various stakeholders. The challenges facing Rede Asta are multi-faceted.

• The Performance Dilemma: Getting the priorities straight

For Rede Asta, Internet sales have been growing rapidly in recent years, and it is also less expensive to maintain compared to Asta's salesforce. One would imagine that it would make perfect sense to prune a costly salesforce. However, Asta is reluctant to deprioritise the sales force since each salesperson serves as an activist and plays a critical role in disseminating the network's social and environmental cause. So, clearly, the numbers alone have not been sufficient to prioritise one sales channel over another.



Rede Asta's operations are faced with dilemma too. For one, it aims to practice fair trade but has no means to ensure that the funds obtained via the network reach each artisan with equity and transparency. There is also significant mismatch when it comes to Rede Asta's beneficiary. According to its founders, Rede Asta is a staunch proponent of gender diversity. Yet, the managers and over 90% of the production group members are female.

- **The Organisation Dilemma: Co-ordinating for efficiency**

Another challenge for Rede Asta stems from dealing with multiple cultures, processes and practices. Its operations span across different production groups that do not share the same history, values or culture. Groups that have been established by middle-class women are often more structured than those formed by women from low-income communities. When there is a large order, for example, each group has its own unique way of managing it and Rede Asta's difficulty in harmonising these diverse groups means that delays in delivery may frequently occur. There is a clear imperative for scaling up to improve financial results, but the concept of artisanal production is not quite in tandem with large-scale operation

- **The Learning Dilemma: The art of agility & adaptability**

Managers in a social business undergo continuous learning because the challenges experienced are often distinct from the ones experienced by a typical for-profit enterprise. For instance, Rede Asta had initially started off as an NGO focusing on capacity-building and the training of artisans. However, the pursuit of profits eventually led them to consider selling their products as corporate gifts. This required an invoice, which could only be provided by a corporation since the legislation in Brazil does not acknowledge social businesses. So, Rede Asta had to adapt and start a micro-corporation called Asta Corp. For the managers, this meant being well-versed in operating under the purview of both the for-profit micro-corporation and the non-profit association, depending on the task at hand.

There have been numerous other obstacles challenging Rede Asta from reaching solid financial stability. In efforts to reach the triple bottom line, since 2011 it has started to invest in strengthening its brand value. And despite the complexities involved in economically enfranchising artisans, managers have realised that they will have to find a way to scale up production in order to be sustainable.

The light at the end of the tunnel

Despite all the predicaments facing Rede Asta, not everything is gloom and doom. In fact, Rede Asta fares better than many other social businesses when it comes to employee morale. In social businesses, it is quite likely to have employees who are divided in terms of how they identify with the organisation – some identifying more with the social mission while others identify more with the business aspects. This, however, does not apply to Rede Asta. All employees believe in the greater causes fostered by their organisation and feel that the network provides them with a sense of belongingness.


It is true that the path to attaining the triple bottom line is fraught with pitfalls. Nevertheless, Rede Asta is well on its way to reaching financial sustainability and hopes to continue to serve as the long-awaited wind of change that Brazil needs.



KEY TAKEAWAYS

- Social businesses face a gargantuan task of achieving the Triple Bottom Line of Profit, People, and Planet. Efforts to attain social goals often compromise short-term financial results and can potentially lead to internal discord between the various stakeholders.
- It is difficult to rely on numbers alone when making decisions. For example, reducing the salesforce can increase cost efficiency, but it also means reducing the number of people who are critical in raising awareness about the enterprise.
- An intent to practice fair trade does not mean that these protocols are put in place to ensure compliance.
- Differences in the social set-up lead to differences in management style. Artisanal products are not easily attributed to large scale production.
- One must be ready to wear different hats, depending on the task at hand, which may be due to viability concerns or applicable laws.
- Sustainability of the business might require you to find ways to expand production, even though your goals were differently aligned.

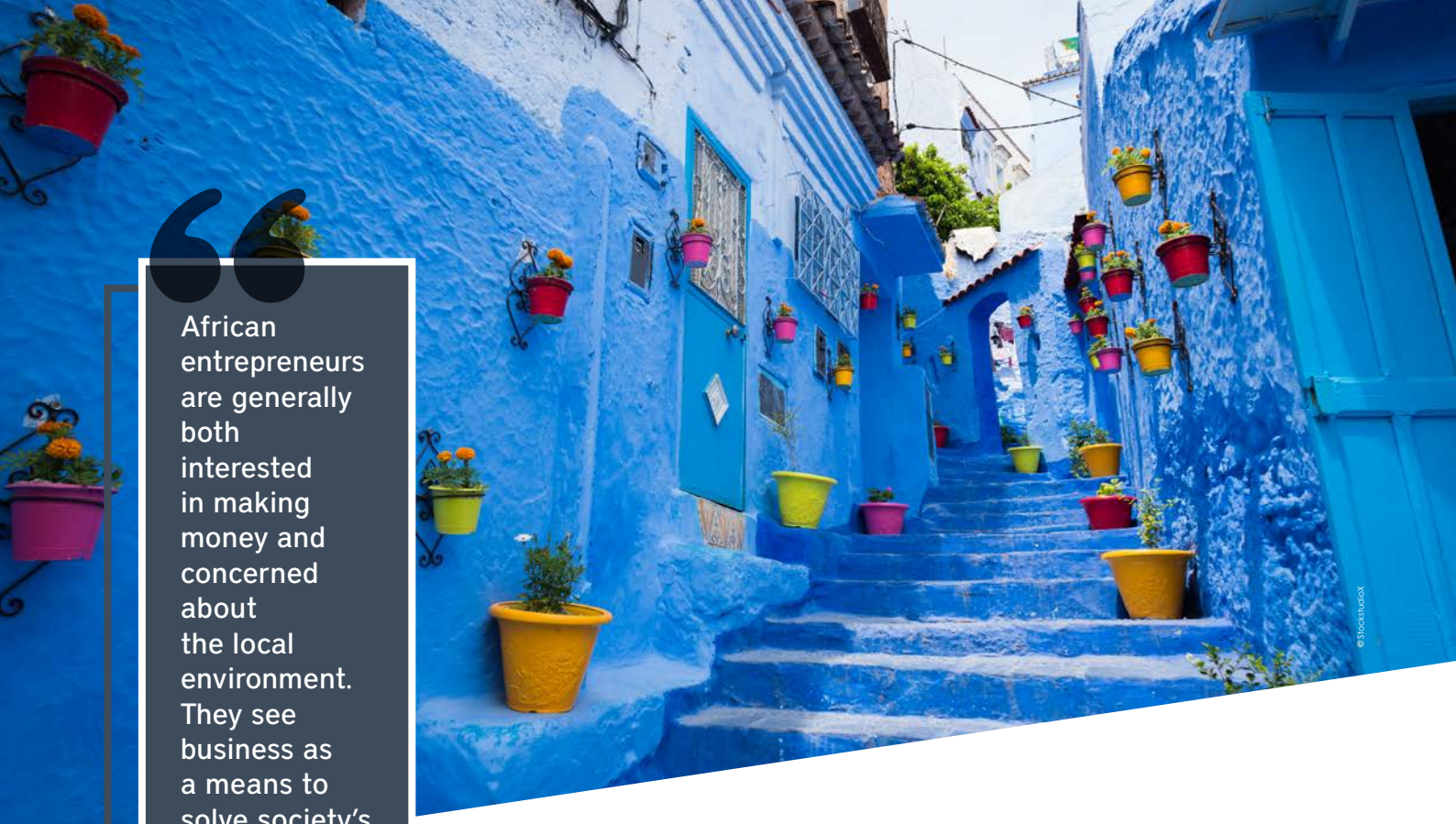
FOOD FOR THOUGHT

- 
- To what extent does your business find the Triple Bottom Line an elusive goal to pursue?
 - How do you take your decisions—are the numbers a deciding factor or do they only help in providing another dimension?
 - How would you respond to the challenge of financial viability and sustainability?



**ELISA
RODRIGUES
ALVES**

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African entrepreneurs are generally both interested in making money and concerned about the local environment. They see business as a means to solve society's problems

HOW SOCIAL ENTREPRENEURSHIP COULD DRIVE DEVELOPMENT IN NORTH AFRICA

Professor **Thierry Sibieude** of **ESSEC Business School** analyses the social entrepreneurial opportunities in North Africa and how they will impact the local economy.

Developing countries generally enjoy dynamic socio-economic environments: their economies are becoming more structured, their populations are gaining access to a growing number of services (healthcare, public transportation, education, housing, etc.), and their local businesses are becoming increasingly diverse and interconnected. In fact, this kind of ecosystem should provide developing countries with the tools to become fully developed, providing the majority of citizens with access to all vital needs.

North Africa in particular offers the kind of exogenous internal dynamics favorable to the development of entrepreneurship: progressive developments in government, education, and communication.

Seizing opportunities through entrepreneurship

Economic leaders, financiers and business representatives

from developed countries tend to have only a superficial knowledge of realities in Africa and tend to dwell on the risks. Indeed, sub-Saharan Africa has the lowest electrification rate in the world, estimated at 64% in Cities and 24% in the rural areas. The region also lacks skilled labour, with only 8% of young people gaining access to higher education. Low levels of access to healthcare also impact local economic development, resulting in high rates absenteeism. And lack of infrastructure is still a serious issue, with the region potentially lacking the equipment essential to a growing market. On the other hand, over the next 15 years, investment in African infrastructure is expected to grow to over \$90 billion.

These actors are rarely able to see these problems as opportunities for wealth creation, even while the region reaches annual growth rates of 5-7%. The rate of return on Foreign Direct Investment is 13%, higher than the average for developing countries, despite falling prices for oil and other raw materials.

Morocco in particular looks set to rise to the challenges of economic industrialization and digitization and the

increasingly international flow of people, goods and services. In this regard, the current economic development plan foresees a five-year shift in GDP, with industry growing from 14% to 23% and the creation of 500,000 jobs.

Morocco: Where social entrepreneurship is anchored in local culture

In recent years, the Social and Solidarity Economy (SSE) has generated real enthusiasm from social, economic, and political actors in Morocco. In fact, SSE and collective work are not new to Morocco. Traditionally, the *touiza* system has ensured mutual assistance between members of the same community, particularly at harvest time and during other endeavours aimed at the common good. Here, the social economy was represented by the JMAA, an organization whose aim was to manage the common interests of the whole community.

The 2010-2020 strategic plan for the economic and social development of the country defined SSE in Morocco as "all economic initiatives seeking to produce goods or services in a way that is respectful of man, the environment, and the land." With a new law passed in 2014 to regulate the operation of cooperatives, they look set to play a new economic role. In 2013, SSE accounted for only 3.8% of jobs in the Maghreb. Beginning in the 1990s, social enterprises, in addition to the traditional players in the social and solidarity economy, emerged in Europe and the United States, becoming integrated players in these ecosystems and contributing to their evolution and enrichment.

Social entrepreneurship is booming

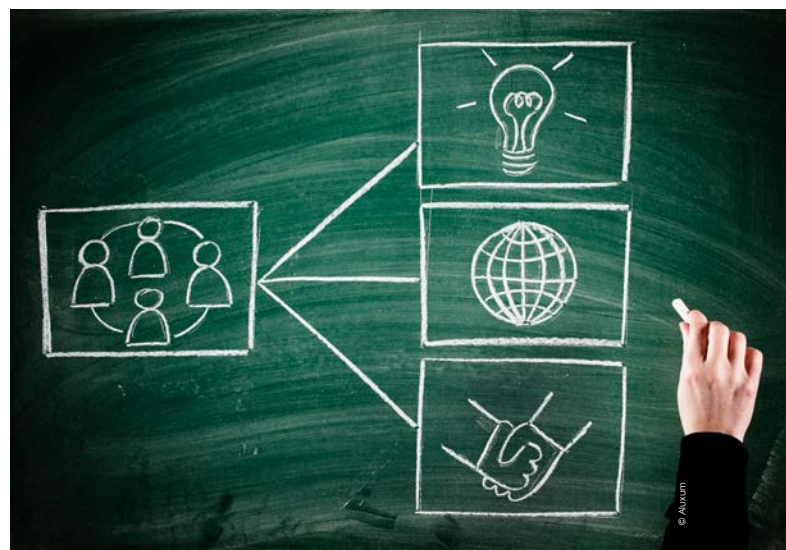
Social entrepreneurs put economic objectives at the service of social objectives. Their economic goals work hand-in-hand with their social ambitions to maximize the impact of their business. In so doing, social entrepreneurs contribute to the development of the societies they inhabit with entrepreneurial efficiency.

In developing countries, in Morocco as in other African countries, being profitable and meeting the local social and environmental needs is one in the same thing. They share a single long-term goal: development.

This is why it tends to be quite easy to get permission from governments to work in Africa. The real challenge for entrepreneurs is gaining the support of the local communities where they plan to develop. Indeed, if local populations fail to see the added value of a venture, it will surely not survive. This is why social enterprises are generally better equipped to take all their stakeholders into account.

The African entrepreneurial boom is furthermore amplified by micro-finance which has sprouted up from the local population's desire to create jobs and family businesses and bodes well for the nascent market economy. In any case, African entrepreneurs are generally both

interested in making money and concerned about the local environment. They see business as a means to solve society's problems. They are Social Entrepreneurs.



The local ecosystem: Still some way to go

A report published in 2014 by MCISE (Moroccan Center for Innovation and Social Entrepreneurship) highlights the challenges faced by Social Entrepreneurs in Africa.

In fact, public policies don't yet reflect the importance of Social Entrepreneurship, even as national and international actors work to build an ecosystem conducive to the development of social entrepreneurship in Morocco. So MCISE works to raise awareness and support high-potential social entrepreneurs. Similarly, the OCP Foundation has launched a program to support local entrepreneurs. And finally, student associations like the International Enactus Network are involved in promoting Social Entrepreneurship and developing local projects.

The CMERES (Moroccan Center for Studies and Research on Social Entrepreneurship) in Fes also offers much needed support to the local social entrepreneurship eco system and helps to create for these start-up businesses the conditions conducive to growth.

Nigerian entrepreneur and philanthropist Tony Elumelu, former president of UBA (United Bank for Africa) and President of Transcorp, created the term "*Africapitalism*": an economic philosophy whereby private-sector investment in local prosperity and social wealth will bring about the economic transformation of Africa. This concept is well in line with that of *impact investing*, a term that first appeared in 2007 in the words of Sir Ronald Cohen, Chairman of the UK investment fund Apax Partners, to define an investment class that explicitly pursues profitability and social impact.



KEY TAKEAWAYS

- Dynamic socio-economic environments should provide developing countries with the tools to become fully developed, providing the majority of citizens with access to all vital needs. North Africa particularly offers progressive developments in government, education, and communication, all required to develop entrepreneurship.
- Economic and business leaders are not able to see that the realities offer tremendous opportunities for wealth creation. Instead they only look at only the risk involved, even though the rate of return on FDI is higher than the average for developing countries.
- Social entrepreneurs put economic objectives at the service of social objectives. Their economic goals work hand-in-hand with their social ambitions to maximize the impact of their business, contributing to the development of local societies.
- The good thing is that in developing countries in Africa, being profitable and meeting the local social and environmental needs is one in the same thing. They share a single long-term goal: development. Thus, government permission is easy. The hard part is obtaining community support.
- However, public policies don't reflect the importance of Social Entrepreneurship and thus other organisations work to raise awareness and support high-potential social entrepreneurs.

FOOD FOR THOUGHT

- How can you and your social business benefit from social innovation in Africa?
 - Are companies and business leaders right to view social enterprise as a risk? What can be done to allay their concerns?
 - To what extent is impact investing relevant you?
- 



**THIERRY
SIBIEUDE**



SOCIAL ENTERPRISE AND ITS MULTI-FOLD IMPACT

Taking the unconventional route has its benefits – both for individuals and society. An exclusive interview with **Davoud Mohamed**, an upcoming social entrepreneur in France.

Social Entrepreneurship as a career choice

Not all businesses have the sole objective of making profit. Not all businessmen want to become billionaires. Some Entrepreneurs step into the field with a clear objective of impacting society and environment in a positive way.

Social Entrepreneurs have existed ever since the 19th century. We may have all heard of Verghese Kurian and the AMUL revolution, Bill Drayton and his Ashoka Foundation or Muhammad Yunus of Grameen Bank in Bangladesh. However, the notion of Social entrepreneurship became popular in the 2000s, especially after the publication of "The Rise of the Social Entrepreneur" by Charles Leadbeater. It involves creating businesses with the primary goal of social change which may or may not be accompanied by profit generation. Today, in UK alone, there are over 450,000 social enterprises! So, what makes social entrepreneurship so attractive? They certainly aren't in it for the money.

Davoud Mohamed, a young social entrepreneur and

a recent alumnus of ESSEC Business School shares his journey with us and uncovers what makes social entrepreneurship lucrative for him and his team.

The question WHY

It is believed that to work for the betterment of society, one's motivation must be in the right place. Davoud first began to challenge his resolve during his engineering years. Realising that engineering was not the right choice for him, he quickly dropped out and switched career lines, joining the field of business administration. Being a self-motivated individual, Davoud realised that the quickest way to test out his motivation and skills was to start his own venture. So began his journey towards social entrepreneurship.

As a youth from the 21st century, Davoud had multiple interests, of which two were particularly significant. As a conscious teenager, he always volunteered for social causes, particularly with regards to the global water crisis. On the other hand, he was a sports fanatic and loved to organise sporting events and tournaments in his locality. As such, an amalgamation of these two things led to the foundation of *Unité du Monde* in 2016.

Unité du Monde was started with the objective of raising funds in the form of events, sporting or otherwise, and

utilising them to construct wells in regions that face relevant water issues. In the last 3 years, he and his team have organised over 20 events, constructed just as many wells in countries such as Senegal and Mali, and engaged with over 5000 people. As such the idea is simple – funding social initiatives through commercial events and activities. But what takes the cheese is his execution.

On one hand, Davoud and his team leveraged their connections to reach out to the masses for marketing their events. An early endorsement from Moussa Dembélé, a renowned football star, was instrumental in his success. In the span of the next three years, the team has garnered support from several footballers and artists like Presnel Kimpembe, Kingsley Coman, Dadjou and Marwa Loud as well as the Facebook community. You can picture how many people attend his events now!



On the other end, in order to garner support and expedite the process of his activities, he forged strong connections with local communities and activists in drought-affected regions. Involving the locals in the activities seemed to make the process even faster and engaging, he believed.

But all of this would not be impossible to do single-handed. Davoud believes that the movement has only been successful due to the undying contribution of his teammates, or 'pearls' as he likes to call them.

His necklace of 'pearls'

With a strength in numbers, upwards of 40, Davoud states that the team is the most important part of an organisation and that the very existence of organisation depends on it. However, not everyone who joins necessarily stays. People are enthusiastic and supportive of his cause, but it takes a certain passion and drive to stay put with the rigorous challenges, especially when there is no monetary gain associated with it. As such, the ones who endure and remain turn out to be the most

driven and dedicated individuals he has ever met. These individuals are highly valuable and rare according to him, which is why he calls them 'pearls'. He believes that for individuals staying committed to a cause and undergoing the challenges that come with it is difficult, especially when there is no monetary gain associated with it. As a result, the ones who stay are the ones who are passionate and committed to the cause beyond comprehension. In his eyes, this makes them special. So back to the question: Why are people taken to social entrepreneurship?

The multi-fold impact of Social Entrepreneurship

Davoud believes that the social enterprise has four impacts. On the front end, a social enterprise is like any other business – adding value to the lives of people by providing them with a service or a product at the right price.

In a social enterprise, the revenues generated from the sales are utilised for the betterment of society. In the case of *Unité du Monde*, funds are raised through entertainment and sporting events in the city areas on the front end and used for the providing hygienic and clean water sources for affected regions.

A third impact that Davoud talks of is that working for a social cause sensitises individuals about the hardships faced by the affected populations. This has a network effect and pushes more and more individuals to lead meaningful lives.

And finally, social enterprises such as his give the volunteers an opportunity to face real-world challenges and tasks which help them to grow as professionals. Davoud pushes for autonomy and pushes his team to tackle issues on their own by putting them in full control of individual projects. He believes this will empower them to start their own initiatives someday and increase their impact.

Seeing the benefits of social entrepreneurship and the challenges associated with it, one can conclude that this line of work is certainly not for the mild-hearted. For those who wish to embark on the path of social entrepreneurship, Davoud recommends that it is essential to first find out one's own motivation for doing it. The main objective should be to impact lives and not to make a profit off one's activities.

Secondly, you should and be clear on your vision and share it with your team to ensure that everyone's objectives are aligned. The social impacts should be well defined for each of the stakeholders involved.

And lastly, you should not be afraid of failures. Because it is only through failures that you actually learn the right way of doing things. In failure, it is the team and the shared vision that will help you to get support.

Davoud smiles as he quotes one of his favourite author, Mark Twain: *"The two most important days in your life are the day you are born and the day you find out WHY."* So go find your why.



KEY TAKEAWAYS

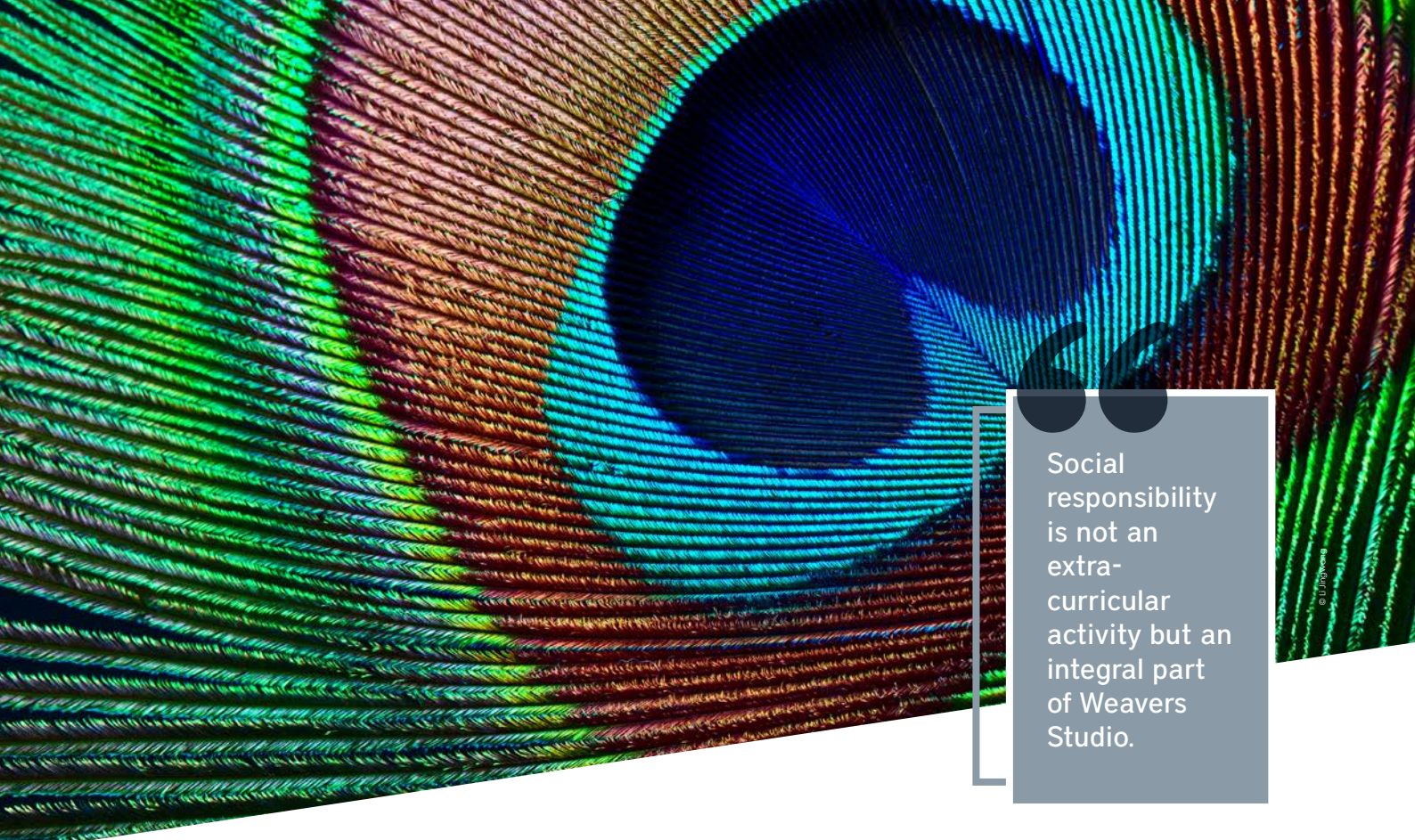
- Social enterprise involves creating businesses with the primary goal of social change which may or may not be accompanied by profit generation.
- For Davoud, the team is the most important part of an organisation and the very existence of organisation depends on it. for him, social enterprise has 4 impacts.
- A social enterprise is like any other business – adding value to the lives of people by providing them with a service or a product at the right price.
- In a social enterprise, the revenues generated from the sales are utilised for the betterment of society.
- Working for a social cause sensitises individuals about the hardships faced
- By the affected populations: this has a network effect and pushes more and more individuals to lead meaningful lives.
- Social enterprises give volunteers an opportunity to face real-world challenges and tasks which help them to grow as professionals.
- For those wishing to embark on the path of social entrepreneurship, Davoud recommends: first find out your motivation for doing it. the main objective should be to impact lives and not to make a profit off one's activities.
- Be clear on your vision and share it with your team to ensure that everyone's objectives are aligned. the social impacts should be well defined for
- Each of the stakeholders involved.
- Don't be afraid of failure – it's how you learn the right way of doing things!

FOOD FOR THOUGHT

- To what extent is our motivation driven by altruistic motives?
- How aligned is your personal mission with that of your team's? To what extent can it be improved to create the best impact?
- How do you engage with and include the local community to maximise impact?



**DAVOUD
MOHAMED**



Social responsibility is not an extra-curricular activity but an integral part of Weavers Studio.

WEAVERS STUDIO OF BENGAL: BOTH SEWING AND SOWING FOR THE COMMUNITY

Following the publication of a recent case study Weavers Studio of Bengal: Use as many hands as possible, Prof. **Arijit Chatterjee, ESSEC Business School, Asia-Pacific** explains the CSR endeavours of this exceptional Indian enterprise.

Weavers Studio of Bengal: an exception for the common good?

When Darshan Shah launched her business of textiles in 1993, she kept her motto simple: "Use as many hands as possible". Indeed, an important consequence of building successful luxury brands that sell hand-made products could be the creation of jobs. This proposition presents an interesting imagery: democratization of commerce at the supply side and exclusivity at the demand side. In one of the densely populated states in India with a total population of 90 million people and more than 5 million unemployed people, using as many hands as possible makes a lot of sense. Darshan works with over 1,000 weavers from West Bengal, Odisha and Bihar and employs a large number of artisans doing embroidery, tailoring, dyeing, and printing. It should be noted that since its founding, social responsibility is not an extra-curricular activity but an integral part of Weavers Studio. From

this perspective, Weavers Studio is an exception not only in India but for businesses in general. There are numerous examples of businesses doing a lot of harm – think of the carbonated soft drinks industry – to society and using CSR as a tool for image make-over.

Weavers Studio of Bengal – so special

I read about Darshan Shah, the founder of Weavers Studio, in a newspaper article and got interested in this organization. Before it fell upon bad times, Bengal was famous for producing fabric that was highly sought after all over the world. However, barring a few, Bengalis have not been very successful in reviving the rich tradition of weaving and setting up successful enterprises. Fashion designers have begun to make their mark but Darshan stands out for two reasons. She started early and she is a Gujarati. Her success and commitment in Bengal piqued my interest to know more about this organization. I was also interested in the motto of Weavers Studio – *use as many hands as possible* – and the promise of putting that motto to use in business.



Active in CSR

Weavers Studio Resource Centre – the non-profit organization of Weavers Studio – was set up by Darshan to share the vast collections of Weavers Studio, document them, and bring them to public domain. The resource centre had two divisions. The *Textile Study Centre* is a collection of textiles and books put in service of textile enthusiasts, scholars and students for research. The *Weavers Studio Library* brings together a collection of rare and interesting books from around the world. Workshops are held at regular intervals for exchanging views and evolving new ideas. This also helps to nurture awareness for textile design. The centre also runs charity activities: vocational training, literacy and healthcare programs, and formation of self-help groups.

In 2007, ten years after the creation of the resource centre, the non-for-profit activities were reinforced with the creation of *Weavers Studio Center for the Arts* with the aim to encourage a variety of artistic initiatives. It holds numerous programs to promote all kinds of arts – visual arts, cinema, theatre, photography, ceramics, sculpture, paintings, performing arts, and informal interactions – and has evolved into a space that encourages young talent.

Weavers Studio is a flexible organization that is characterized by the close interactivity between the profit and non-profit activities. According to Darshan, “this interactivity is something which is very critical, but unprofessional and not very organized.”

A sustainable strategy for profit to finance not-for-profit activities

The role of the for-profit part of Weavers Studio is to produce, sell, and export a wide range of hand-made textile products: art textiles, scarves, garments, shawls, shirts, fabrics, and saris, characterized by high quality, ethnic and original designs through retail and wholesale channels. This segment is mainly organized around two entities: *Rangeen* and *Veda*.

Rangeen is organized around four main activities: weaving, printing, dyeing, and embroidery. Master crafts

persons who specialize in dyeing, block making, block printing, screen printing, and tie and dye techniques are capable of producing approximately 750 meters of cloth per day. Some orders are sourced from the villages directly. Once or twice a month, a team from Weavers Studio goes to these villages and deals with the agents. They identify original hand-made pieces and bring them to the Rangeen center where crafts persons and designers put additional creative work on them before selling them to the final customer.

Weavers Studio started to export its products in 1993 through its export arm Veda Commercial. Meticulous quality control represented a crucial part of the production process and it was all the more enhanced for exported products. Veda exports to clients in Japan, Italy, USA, UK, Australia, and South Africa to name a few. To promote their products abroad, Veda regularly participates in exhibitions and trade fairs.

The returns from these for-profit activities fund Weavers Studio's not-for-profit activities. Whether this method is sustainable or not depends on the business acumen of the managers at Weavers Studio.

Skills through tacit knowledge – how Weavers Studio preserves the tradition

Weaving techniques are often handed down within weaving families. This knowledge transfer process has been a consequence of the caste system in India. The two essential features of the caste system are hierarchy and endogamy. Moreover, the feeling of superiority or inferiority has resulted in caste hierarchy. The desire to keep the caste structure pure is responsible for the rigid observance of endogamy – the practice of marrying within a specific ethnic group, class, or social group. Other features such as commensal taboo and occupational status can be derived from these two. The caste system provides the individual member with rules which must be observed by him or her in the matters of food, marriage, divorce, birth, initiation, and death. However, with changing times, people do not want to adhere to the occupation of their earlier generation. The craftsmen, therefore, are becoming a rare resource in the industry, with the young generation being less interested in the traditional weaves. Moreover, the pay is little compared to what they can get working in a hotel or a restaurant in a big city with the result that skilled labor is drifting away and expertise dying out. In addition, as people are becoming more educated at national and local levels, they are less willing to do printing jobs. Lots of people are also going into mills but fine cloth is only made in handlooms.

Weavers Studio's not-for-profit activities, especially the *Resource Centre*, the *Textile Study Centre* and the *Library* ensure that the oral and exchange-based culture is codified, preserved, and disseminated.

CSR and India

To conclude, corporate philanthropy has been a constant endeavour for many reputed business houses in India. However, the government has made it mandatory for companies above a certain size to donate money for CSR activities. From April 2014, the Ministry of Corporate Affairs in India has notified that large companies need to spend at least 2% of their average net profits for the immediately preceding three financial years on CSR activities.

KEY TAKEAWAYS

- Creating employment can be used as a key feature of social enterprise, especially in a country such as India.
- Returns from for-profit activities fund the organisation's not-for-profit activities. Whether this method is sustainable or not depends on the business acumen of the managers at Weavers Studio. The sustainability of this set-up is dependent on managerial skill and business acumen.
- Here, the social enterprise set-up has provided a platform to formally preserve 'heritage knowledge' of the weaving process, which was usually handed down through the generations, given India's caste system.
- Companies in India of a certain size are legally obliged to give 2% of their average net profits for the immediately preceding 3 financial years to CSR, thereby giving legal backing to the idea of social entrepreneurship.

FOOD FOR THOUGHT

- To what extent can you combine the goal of luxury on the demand side and democratisation on the supply side?
- How can you employ more people while still being profitable?
- To what extent can you provide common vocational technique trainings, knowledge sharing groups and other welfare activities not linked to your core business?

**ARIJIT
CHATTERJEE**





Large companies generate positive socio-economic outcomes for the community.

BASE-OF-THE-PYRAMID DNA: COMPANIES AND THE COMMON GOOD IN BRAZIL

Professors **Edgard Barki** and **Juracy Parente** from **FGV-EAESP** explain the particularities of Brazil's poorest socio-economic market and what it takes to be in business at the base-of-the-pyramid.

From the paper by Edgard Barki and Juracy Parente: "Challenges and opportunities of the last mile for the base of the pyramid: the case of Brazil".

Touching base

The base of the pyramid market (BoP) is used to refer to the demographic of a population which is the largest, but poorest socio-economic group in a marketplace. Since the 1940's there has been plenty of discussion about the poverty penalty, which means that despite being poor, this population usually pays more than the wealthier population for the same products. There are several reasons that explain this phenomenon, such as the need of credit, the behaviour of buying in smaller packages, and the difficulty to access larger, more efficient and cheaper retailers. In Brazil, covering the last mile to reach this market is the toughest, yet some companies have made it. In recent years, businesses have developed new strategies and business models to

reach this demographic in an efficient manner, which has had a two-fold impact. For the business, performing well in this tough-to-reach market implies a distinct competitive advantage, while for the population itself, it implies a reduction in vulnerability, improvement in well-being, and access to basic products. Profs. Barki and Parente have identified the three criteria which have led companies to success in this market.

Jumping through hoops and hurdles

To start off, Profs. Barki and Parente describe the obstacles that companies accessing this market are confronted with. First, retailers in this market face higher transaction costs. Usually the marketing channel is longer, and for a product to reach its destination, it must pass through several intermediaries. This is made more difficult by the infrastructure – such as roads and transportation – which is poor and costly. Moreover, in the shanty towns of metropolitan regions, there is a lack of urban infrastructure and safety. Geographically speaking, this market is defined by a network of capillaries and as a result, customers are usually far and difficult to reach. Profs. Barki and Parente explain that these factors are responsible for making distribution

relatively costly and more challenging. Many decades have thus seen small retailers as the only force that powers this market. The institutional voids and challenges have inhibited large retailers to set shop in Brazil's poor socio-economic areas. As a result of their prolonged exposure to this market, small retailers have managed to build a distinct competitive advantage with their customers – an emotional relationship. Although small retailers tend to be more expensive, these emotional bonds have developed high loyalty among customers, and have transformed the small stores into fierce competitors for large retailers who more recently have been trying to enter the base-of-the-pyramid market.

The magic DNA

Due to the very distinct nature of this market, some companies have designed specific business units to serve the particularities of this demographic. 'Base-of-the-pyramid DNA' is the term Profs. Barki and Parente use to refer to the strategy and tactics, the fundamental aspects of company culture that are deeply ingrained in an organisation, and which are specific to a typical company successfully doing business in this market. Profs. Barki and Parente emphasise that only a business which 1) recognizes the market potential of the BoP and gives priority to sell and serve this market; 2) develops deep knowledge and understanding of the needs and peculiarities of the market; 3) treats this market with the same respect as it does others and 4) develops an empathic and two-way communication with the BoP players can claim to possess this particular DNA. Companies with base-of-the-pyramid DNA, that understand the peculiarities of the market and have an aligned strategy, are likely to possess a strong willingness to serve this demographic, and consequently more likely to create a satisfactory distribution strategy.

Pushing costs down

Execution is the second ingredient to attain success within this demographic. The institutional void presented by the market, which is characterised by lack of professionalisation, informality, unsafe routes, tedious network capillarity, distance, and lack of infrastructure are responsible for higher transactions costs for businesses. Profs. Barki and Parente's research finds that given the complexity of the market combined with the need to provide 'affordable' goods, business execution is a competitive advantage successful players laud over the rest. Efficient and suitable business execution ensures that overall costs stay low in a price-sensitive and tough-to-reach market. Consequently, small companies are known to be more successful since they are more flexible, more agile and operate in a small region, which ensures efficient distribution and low costs.



Everlasting bonds

Finally, relationships. Given that the base-of-the-pyramid is characterised by a low level of professionalisation and a high level of informality, relationships, although important in any market, have a higher degree of relevance for this one. Difficult-to-access regions, different tastes, and customers are easier accessed with a network of strong partners. Partnerships tie the barely held together network of suppliers and retailers. Smaller retailers – often under the impression of isolation from suppliers – are exceedingly receptive to supplier friendliness. Part of the same community, retailer-supplier relations are friendly, intense and key to ensuring a strong and extensive distribution network.

The successful case of Coca-Cola Brasil

Coca-Cola's Collective Platform has managed to make significant headway to the base of the pyramid while developing a mutually beneficial relationship with the community. The objective of the Collective Platform is *'to provide and contribute to the improvement of life of the base of the pyramid, offering tools for income generation and education and training to develop working and job skills.'* This project, developed in partnership with local NGOs, illustrates how Coca-Cola Brasil was able to generate positive socio-economic outcomes for the community, while at the same time reaping benefits from the value chain it helped establish. So far, the project has served more than 248,000 youngsters in 67 cities of Brazil. Surely, the company ticked the three checkboxes identified by Profs. Barki and Parente.

- 1. BoP DNA:** To kick-off the program, and in order to develop its understanding and knowledge of the market, Coca-Cola Brasil created a dedicated 'social' business unit and engaged in extensive market research.
- 2. Execution:** The company defined a set of metrics to accompany the project which included a mix of business and social indicators. These metrics, such as youth employment, confidence in the future, retail sales increase etc. allowed Coca-Cola Brasil to monitor, evaluate and execute its business operations in a way which was cost-effective and adapted to the functioning of this particular demographic.



3. Relationship: The Collective Platform has established two distinct relationships. On one hand, it has developed partnerships with NGOs. The company works directly with local NGOs to facilitate interaction with communities, and to help identify potential NGO partners. Moreover, Coca-Cola Brasil developed partnerships with other corporate giants, such as McDonald's and Microsoft. On the other hand, Coca Cola Brasil has organised community mobilisation programs, which necessitate the active participation of the community. To ensure this involvement, the company has developed programmes that are relevant and focused on the youth's need to become financially independent. Combined, these initiatives have helped increase brand love and improve Coca-Cola's relationship with the community.

A mutually beneficial relationship

Other crucial sectors face their own set of problems in reaching this set of customers. Health, financial, and education services across Brazil have all seen the development of new business models and innovative alternatives to reach the base-of-the-pyramid consumers. Interestingly, many businesses have employed technology as an ally to distribute services and diminish the distance to the base-of-the-pyramid. Technology has helped bridge the gap between business and this hard-to-reach demographic. Profs. Barki and Parente summarise the impacts of an efficient distribution as threefold: 'It allows consumers to access products and services that otherwise would be difficult to reach,' they state, 'which is more especially pertinent when we think of basic services, such as health, education, and financial services. Secondly, an efficient distribution is likely to diminish the poverty penalty and therefore reduce the vulnerability of the population. And thirdly, it might be developed into a meaningful source of competitive advantage for companies, both large and small.'

KEY TAKEAWAYS

- The base of the pyramid market (BoP) is used to refer to the demographic of a population which is the largest, but poorest socio-economic group in a marketplace.
- In Brazil, covering the last mile to reach this market is very tough, yet some companies have made it, implying a distinct competitive advantage. The population is benefited through reduction in vulnerability, improvement in well-being, and access to basic products.
- Operating in this market has high costs. The marketing channel is longer and the product passes through more intermediaries. Other problems are of general security and poor infrastructure. Small retailers have a strong competitive advantage—emotional bonds and customer loyalty—over large retailers, who are trying to enter this market.
- Being successful in this market requires 'Base-of-the-pyramid DNA' as company strategy. It includes recognising the potential of such a market and treating it with the same respect as compared to other markets. Such organisations are more willing to serve the demographic and are more likely to create a satisfactory distribution strategy.
- Execution in these markets is important to attain success. Here, small companies are able to achieve more success since they are more flexible, more agile, and operate in a small region, ensuring efficient distribution and lower costs. Relationships have a higher degree of relevance in this market, which is more informal and less professional. Coca-Cola Brasil successfully leveraged this DNA to make an impact and reap benefits.
- The use of technology is a key supplement to this DNA. The technology allows easier access to the market for organisations and consumers alike, particularly for education, health, and financial services. Technology helps in efficient distribution systems, thus reducing the poverty penalty.

FOOD FOR THOUGHT

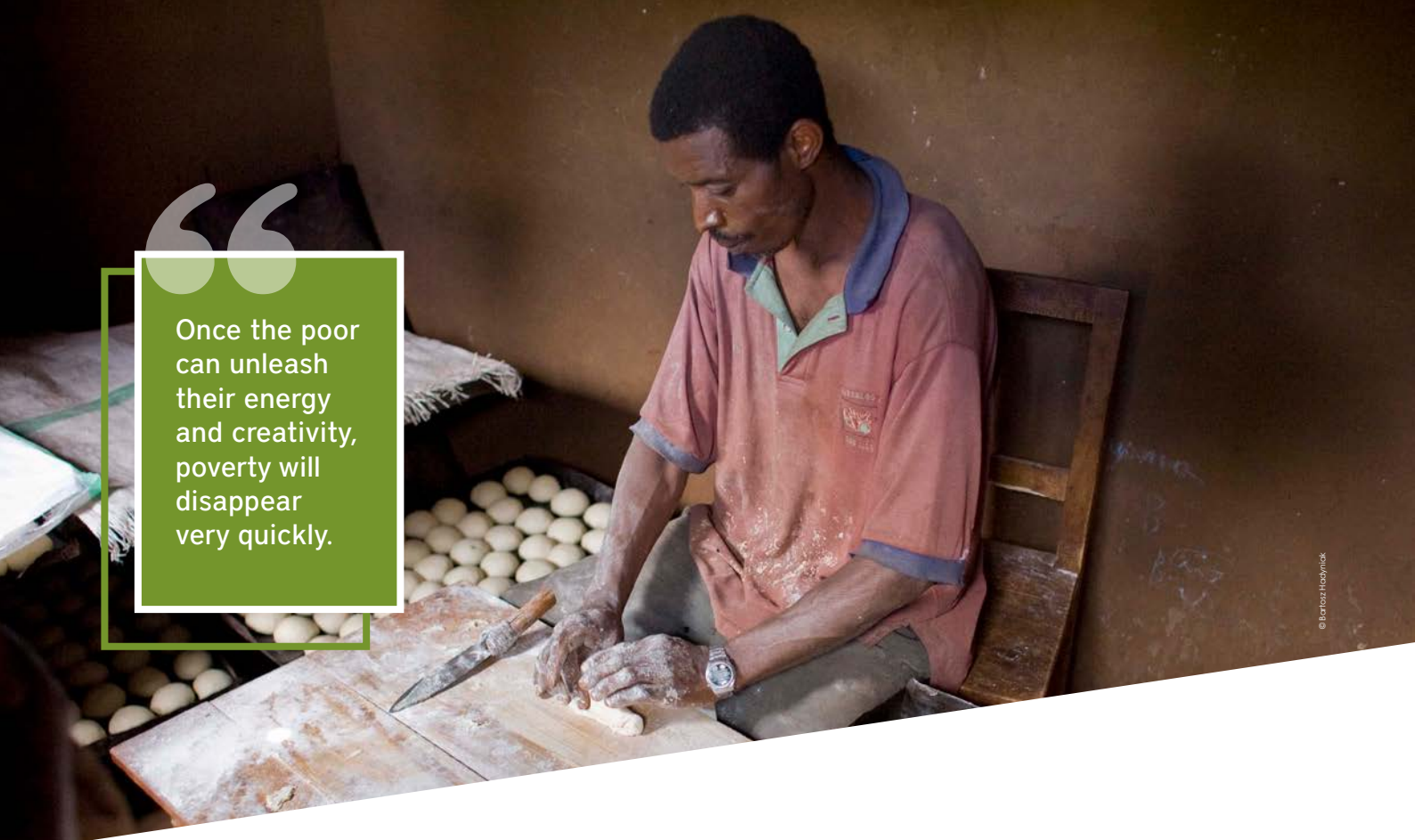
- How does your organisation reach the base of the pyramid market?
- What is the extent to which these hurdles are common to your situation?
- What is the nature of your relationship with stakeholders in this demographic?

EDGARD BARKI



JURACY PARENTE





“Once the poor can unleash their energy and creativity, poverty will disappear very quickly.”

HOW MICROFINANCE CAN HELP ENTREPRENEURS BEAT THE POVERTY TRAP

Through her research, **Giorgia Barboni**, Professor of Finance at **Warwick Business School**, provides compelling evidence in favour of affording entrepreneurs more flexible microfinancing options, highlighting the potential benefits for developing economies around the world.

In 1976, Muhammad Yunus, a young economics professor, lent \$27 to a group of 42 women living in a forgotten Bangladeshi village named Jobra. He couldn't have known at the time, but with this small act of goodwill, Mr Yunus had sown the seeds of what would blossom into a global microfinance industry. Billions of dollars have since been disbursed to impoverished borrowers, financing small entrepreneurial ventures around the world. However, as the aspirations of these micro-loan recipients have evolved, the microfinance industry has not always evolved along with them. Today, highly rigid repayment structures can often inhibit the growth and even sustainability of borrowers' businesses. Through a partnership with a microfinance institution in India, Professor Giorgia Barboni of Warwick Business School tests the viability of affording entrepreneurs more flexible micro-loans.

From humble beginnings

Following his first \$27 loan, Mr Yunus founded Grameen Bank in 1983 and pioneered the microfinance industry—earning a Nobel Prize in the process. The organization has since disbursed more than \$29 billion to impoverished borrowers while its microfinancing methods have spread around the globe. As one early recipient of a Grameen micro-loan once noted: «My parents gave me birth, but Grameen Bank gave me a life». At the time, Mr Yunus' intention was to provide immediate relief for the hunger and poverty he saw around him in Bangladesh. He sought to help people «get through another day with a little more ease». In doing so, he empowered women, entrusting them with loans that, until then, had only been obtainable through informal moneylenders, along with the responsibilities that accompanied formal financing arrangements. However, what borrowers initially saw as assistance to survive, often sparked a desire to create economic prosperity for themselves through entrepreneurial ventures.

In many developing countries, the economic transformation from agriculture to industry has created new business opportunities. However, many small entrepreneurs need flexible funding options to bring their



ideas to life but often lack sufficient collateral to obtain it. At present, microfinance institutions allow them to borrow small sums of money on a highly rigid repayment structure which entails frequent repayments starting immediately after the loan is disbursed. But these types of contracts do not offer these micro-entrepreneurs enough liquidity to grow and sustain their businesses. According to Professor Barboni, one of the reasons for this is because lenders are worried that providing a suitably flexible contract to micro-entrepreneurs will lead to greater default rates. Moreover, it is often difficult for lenders to gauge a borrower's suitability for riskier, more flexible loans. What little research has been conducted on the issue seems to validate these concerns. A study that put forth a standard loan contract with a flexible one found that, although the flexible contract increased the borrowers' revenues, it also raised default rates. This contributes to explain why no microfinance institution in India incorporated any sort of flexibility into their microfinance contracts.

A flexible solution

However, theory predicts that it is possible to devise a flexible contract structure that attracts "good" borrowers. These contracts would have to be given to micro-entrepreneurs that were no more likely to default with a flexible loan than with a standard contract. Professor Barboni argues that offering a more flexible contract at a higher rate of interest than the standard contract would trigger a positive self-selection mechanism that would filter out risky borrowers. Indeed, the flexible element and additional cost of the loans would discourage borrowers that needed to be tied to a rigid repayment schedule while attracting micro-entrepreneurs with the potential to create greater expected returns on capital to compensate for the additional costs. Therefore, the additional interest rate would allow to disclose borrower's characteristics and create a sustainable product for microfinance institutions.

To test this theory in the field, Professor Barboni and her research team partnered with Sonata Microfinance, a micro-loan provider based in India. They designed their flexible contract with an interest rate priced two percentage points higher than the regular loans. The new contract allowed borrowers to take a three-month payment break, whenever needed, adjusting

the repayment amount upwards accordingly once payments resumed. A randomised contract trial was organized in Uttar Pradesh, India, involving 28 of Sonata's bank branches. Half of the branches offered customers a choice between the flexible and standard contracts while customers at the other branches were only offered the standard contract. Nearly 800 borrowers were included in the study. They had all previously borrowed from Sonata and had successfully repaid at least one loan. This made them eligible for slightly larger individual loans worth an average of approximately \$500. According to Professor Barboni, as previous customers, the existing element of trust between borrower and bank may have helped overcome any reluctance to enter into a flexible contract.

Returns on investment

Professor Barboni's study provides encouraging findings for micro-entrepreneurs, microfinance institutions, as well as for policymakers interested in promoting entrepreneurship and economic growth. The data across the 24-month loan cycle showed that the repayment rates were not statistically different across the flexible and standard contracts. This indicates that microfinance institutions can offer a flexible type of micro-loan and increase revenues without incurring higher debt default rates. Furthermore—and of particular interest to policymakers—based on self-reported sales figures, borrowers under the flexible contract reported on average approximately 20 percent higher sales. They also reported that they incurred smaller losses than their standard loan counterparts and were less likely to request a "loan top-up" from Sonata. This suggests that the additional liquidity provided to micro-entrepreneurs by the flexible contracts benefits their business with no additional cost to the lenders.

Moreover, interviews Professor Barboni conducted with some of the micro-entrepreneurs in question revealed the opportunities provided by the repayment holidays. The borrowers reported using the repayment holiday in anticipation of periods where there is a downturn in business and below-average revenues. Borrowers added that they used the repayment holiday also to capitalise on opportunities to earn above-average revenues during periods of high demand such as during India's festival season. Having demonstrated a proof of concept, Professor Barboni argues microfinance institutions and policymakers should promote flexible micro-loans, if only due to competitive forces.

Unleashing energy and creativity

The new micro-loans Professor Barboni and her team offered in their pilot study provided the cash-flow flexibility for only a few hundred micro-entrepreneurs. But if scaled, flexible micro-loans have the potential to give millions of micro-entrepreneurs the freedom they need to grow

their businesses sustainably and, in doing so, benefit developing economies around the world. As Mr Yunus noted in his 2006 Nobel Lecture, "all [the world] needs to get the poor people out of poverty is for us to create an enabling environment for them. Once the poor can unleash their energy and creativity, poverty will disappear very quickly." According to Professor Barboni, flexible micro-loans can help create that enabling environment.



KEY TAKEAWAYS

- The emergence of microfinance has enabled countless people to beat the poverty trap through small, entrepreneurial ventures.
- As the aspirations of micro-loan recipients have evolved, the microfinance industry has not always evolved along with them.
- Highly rigid repayment structures which entail frequent repayments starting immediately after the loan is disbursed do not offer micro-entrepreneurs the liquidity needed to grow and sustain their businesses.
- By offering more flexible micro-loan contracts with higher interest rates, microfinance institutions can empower the right borrowers while avoiding the risk of increased loan default rates.

FOOD FOR THOUGHT

- 
- What other financial mechanisms can you think of or propose that would help sole traders or micro-companies grow and flourish?
 - Should large companies directly finance social enterprise in the communities in which they are located?
 - If financial bodies are so rich, why should they show such low levels of trust in financing entrepreneurial projects?



**GIORGIA
BARBONI**



Catering to the financing needs of missing middle firms has great potential to invigorate South Asian economies – making them more inclusive and dynamic.

THE MISSING MIDDLE IN MICROFINANCE

Savita Shankar, associate professor at **Keio Business School**, Japan, shares her research on how to address the needs of millions of micro entrepreneurs who form the 'missing middle' as their financing needs are met by neither microfinance institutions nor commercial banks.

The missing middle

Anika, Babar, and Saba met during a festival organised by their village community hall and hit it off straight away. All three had a dream to start their own business selling local snacks and specialties to the business people and merchants of the area. They had no capital, only their passion and expertise in cooking, and the motivation to offer their snacks to people in the village and beyond. Luckily, they had heard of a micro-finance bank in the nearest big town some seventy miles away and, after convincing the lender that their business idea was worth it, they became the happy beneficiaries of an initial Rs25,000 (\$384) loan – enough to set them up in a stall near the market place and pay for the ingredients for their first snacks. Business boomed and Anika, Babar and Saba, naturally encouraged by the signs, wanted to grow and add an area in front of their stall where customers could sit and eat their snacks and engage in conversation. So they returned to the micro-financier and obtained another loan – this time for Rs50,000 (\$768). The stall grew, and the quality of their snacks and passion for service spread by word-of-mouth further and further afield until they realised

that the opportunity for yet another venture was there to be explored – a food truck. So once again they returned to the micro-finance banker who, very pleased with the regular repayments and slight margin he gained from the youngsters' business success, announced that he was ready to accord them a grand Rs100,000 loan, equivalent to \$1,536. Now this might have been enough to purchase a very old van, but certainly not a reliable and newer van as well as all the outlay required for ingredients, petrol and wages for the two people they wished to hire as driver-sellers of their famous snacks. But when they mentioned this, the lender sadly shook his head – he could no longer help them because his type of bank could not lend over the limit of Rs100,000. It was the law. Thanking the lender for the help already given, undeterred and believing in their dream, Anika, Babar, and Saba decided to go and see a commercial bank in the city for a bigger loan. The commercial banker listened with interest to their story and congratulated them on their success and entrepreneurial spirit. But then, when they had finished explaining their case and fell silent for the banker to make them an offer, all she did was sadly shake her head – she could not, unfortunately, grant them a loan. No – the smallest amount she was allowed to grant was Rs1 million – and that was for targeting small-to-medium enterprises, not informal start-ups. Anika, Babar, and Saba looked at each other in disbelief. Little did they know, but they had just become victims of what might be called the microfinance graduate syndrome or missing middle.



The context and issues

Savita Shankar, Professor at Keio Business School, Japan, decided to research the phenomenon of the *missing middle* in three key countries for micro-finance – India, Bangladesh, and Pakistan. The term *missing middle* is generally used to describe the disproportionately small number of SMEs in relation to the number of micro or large enterprises in developing countries. In her research, Prof. Shankar uses the term more specifically to refer to the lack of financing options for enterprises whose needs fall in between the typical loan sizes offered by micro-finance institutions and commercial banks – exactly the case of our young heroes Anika, Babar, and Saba. They were successful 'graduates' in their entrepreneurial venture but capped on the amount of micro-financing required to grow further, and too small to benefit from the size of loans offered to SMEs by the commercial banks: almost like striding across a series of stepping stones only to find, mid-river, several of them missing and the other side of the river heart-achingly out of reach. This problem creates something of a conundrum for millions of fledgling entrepreneurs in developing countries. But there is hope.

Financial exclusion and the growth of micro-finance

'In recent times, financial inclusion has been on the policy agenda of many developing countries,' states Prof. Savita Shankar. This implies availability of a continuum of financial services for all income groups, the idea of an inclusive financial system being to 'provide credit to all bankable individuals and firms, insurance to all insurable individuals and firms, and savings and payment services for everyone,' she continues, quoting the United Nations definition of financial inclusion. The figures speak for themselves. In India, Bangladesh and Pakistan – the three countries analysed in Prof. Shankar's research – financial exclusion is widespread. According to the World Bank's Global Findex database (2014), only 56.3%, 35% and 13% respectively of individuals in those countries above the age of 25 years possessed a bank account while only 8.8%, 13% and 2% respectively had a formal borrowing account.

However, spurred by the UN, the willingness to promote financial inclusion helped pioneers such as the Grameen Bank in Bangladesh and hundreds of others who followed to grow. The result today, is that the microfinance sector, having reached maturity, sees the need for successful micro-financed entrepreneurs to aim for higher loans that don't actually exist. Hence, the 'missing middle' – those whose needs are neither met by microfinance institutions nor commercial banks. Indeed, India, Bangladesh and Pakistan have sizable missing middle segments with considerable employment potential. 'And as employment generation is an important goal for all three countries,' she asserts, 'catering to the missing middle is a priority. This means that it is firmly on the policy agenda.'

Microfinance and the challenges

Prof. Shankar based her research on interviews with key personnel from the microfinance and banking sectors in each of the three countries. Thirty-two interviews were conducted in all, with at least ten interviews conducted in each country, mostly with chief executive officers of microfinance institutions and banks including stars such as BRAC, Grameen Bank and the Basix Group. She found that the biggest challenge faced in lending to the 'missing middle' firms in the three countries is the high degree of informality of their operations. In India, a large urban-based NBFC-MFI, Janalakshmi Financial Services, surveyed 13,177 potential missing middle customers with surprising results: 90% of them had never filed an income tax return, 67% had not maintained a book of accounts, and 65% had no enterprise registration of any form. 'This informality,' states Savita Shankar, 'is a primary reason for their financial exclusion, as banks typically ask for various documents and records before lending.'

These entrepreneurs also miss out on finance for another reason: they are unable to offer collateral – security pledged for the payment of a loan – to lending institutions. 'And even if they do have property,' explains Prof. Shankar, 'often the accompanying papers and documents may not be complete, making it hard for lenders to create a title and mortgage it.' As a result, lending to them has to be based on an assessment of their cash flows. But this isn't easy. Try gaining a clear picture of a small company's accounts and transactions when most of their business is cash-based. It makes it tough for financial institutions to obtain a clear picture of their volumes.

High-touch and hand-holding: Where the solutions lie

So how can these challenges be overcome? The top ingredients for success are highlighted in Prof. Shankar's research results, successful models in all three countries having two features in common. First, credit appraisal of potential borrowers must involve a specially designated lending officer who spends considerable time observing the business, interviewing

the owners, cross-checking the records, analyzing the business model and assessing suppliers and customers. Altogether, it is a very high-touch and hand-holding experience and it is often the case that these officers themselves draw up cash flow statements for the potential borrowers. The second essential feature often involves training the potential borrowers in financial accounting practices – either formally or informally.

In addition, other in-the-field factors have an important impact. The issue of collateral can be circumnavigated by banks accepting notional security such as original land documents or identity cards. Pragmatically, microfinance banks can also develop in-house model cash flow statements for specific sectors that are commonly financed. And on another level – that of eliminating bias – banks can offer a more objective treatment of potential missing middle companies by separating the credit function from the sales function within their organisation.

'The problem is that these strategies call for upfront investment in employee time before obtaining any financial returns from the enterprise,' states Prof. Shankar. 'But if microfinance institutions manage to build a robust lending model, in the long term the benefits of this strategy can pay off by way of potential repeat business as well as savings in recovery and loan write-off costs.'

Stepping up a level

On a more macro level, Prof. Shankar's interviews and analysis pinpointed other measures that could help increase the availability of funds to missing middle enterprises. For example, in India, Bangladesh and Pakistan it has now become easier for microenterprises to open and operate bank accounts due to the availability of mobile-based digital finance and debit cards. 'So it should be possible for them', argues Prof. Shankar, 'to switch to account-based transactions.' However, this will take time – their entire ecosystem, including suppliers and customers, needs to change. And this is where Intervention from NGOs and government may be required to nudge things forward through policy, technical help, funding and training initiatives.

Other recommendations include developing new, customized financial products to address entrepreneurs' specific needs and constraints – one criticism being that microfinance banks tend to offer a one-size-fits-all model. Another way is what is termed *value chain financing*: microfinance providers can analyse the value chains of small enterprises and finance the various participants with a view to improving the overall efficiency of the chain. 'This would involve assessing the enterprise's suppliers and customers,' explains Savita Shankar, 'and financing all of them as a cluster so as to reduce overall risk for the lender.'

And finally, other areas for hope include the role of credit bureaus. In India and Pakistan at least, most large microfinance providers now report to them. This means that if individuals have borrowed from these institutions in the past, their credit histories will now be available – a way to both check a small enterprise's legitimacy for a bigger loan and also reduce risk for the bank. Moreover, the payment history for utility and telephone bills of potential borrowers can also be scrutinized to check creditworthiness. Not to mention the fact that specialized credit rating agencies focusing on small firms may soon develop.

Steps at the micro level

'In India, the infrastructure to cater to this segment is being put in place,' says Prof. Shankar, something that can be seen in the launch of a public sector financial institution, the Micro Units Development and Refinance Agency, known as MUDRA. Its job is to assist micro-finance banks – which report to credit bureaus – with a hefty Rs200 billion available for onlending and Rs30 billion for provision of credit guarantees.

'Bangladesh, the earliest microfinance market, has also been the first to observe and address the needs of microfinance graduates,' states Shankar. Larger MFIs dominate the segment as smaller ones are constrained by availability of funds. 'However,' she continues, 'the lack of a credit bureau increases risk levels considerably and is a significant drawback in the Bangladesh microfinance sector.' This high risk reduces the incentive for lenders to provide larger-value loans and Prof. Shankar stresses the importance for regulatory action to address this lacuna. The prevailing uncertain political climate in Bangladesh also increases the riskiness of microenterprise loans, as small businesses are often adversely affected by shutdowns and at times even sustain damage during political disturbances.

In Pakistan, microfinance banks providing microenterprise loans have met with success and two banks are in the process of scaling up the product to cater for the missing middle. 'As the loan sizes and number of loans increases,' asserts Prof. Shankar, 'the availability of a credit bureau in the country should help lenders. An area for concern,' she adds, 'is that the overall penetration of the microfinance sector in the country is low, though the recent efforts being made to increase funding for MFIs may be helpful in this regard.' Prof. Shankar points to the fact, however, that the political disturbances in the country and prevailing shortage of electricity are risk factors that could affect the performance of microenterprise loans.

'In all three countries, governments need to support lenders with funding options, make reporting to credit bureaus compulsory, fund financial literacy

campaigns targeted at microenterprises, introduce measures to reduce use of cash-based transactions, and make registration of enterprises easy and universal,' concludes Prof. Savita Shankar. 'Catering to the financing needs of missing middle firms has great potential to invigorate South Asian economies – making them more inclusive and dynamic.'

KEY TAKEAWAYS


- In emerging Asian economies, entrepreneurial ventures are capped on the amount of micro-financing required to grow further, and too small to benefit from the size of loans offered to SMEs by the commercial banks.
- The microfinance sector, having reached maturity, sees the need for successful micro-financed entrepreneurs to aim for higher loans that don't actually exist.
- Credit appraisal of potential borrowers must involve a specially designated lending officer to observe, discuss, cross-check and analyse the business model.
- Microfinance providers can analyse the value chains of small enterprises and finance the various participants with a view to improving the overall efficiency of the chain.
- If individuals have borrowed from credit bureaus in the past, their credit histories will now be available – a way to both check a small enterprise's legitimacy for a bigger loan and also reduce risk for the bank.
- Governments need to support lenders with funding options, make reporting to credit bureaus compulsory, fund financial literacy campaigns targeted at microenterprises, introduce measures to reduce use of cash-based transactions, and make registration of enterprises easy and universal.

FOOD FOR THOUGHT

- Many researchers point towards the state playing an important role in helping entrepreneurs learn skills and grow their businesses. To what extent do you agree with this? And what alternatives can you think of?
- If you yourself have started your own business or are thinking of doing that, what skills do you possess and what skills would you like to learn to improve your chances of success?
- Should banks be the only institutions to offer loans to finance entrepreneurs? What other financial bodies could offer such services? And how?



**SAVITA
SHANKAR**



“Whether you are talking about cardiac care or education, the fundamental question is: how do you provide it for everyone?”
Thulsi Ravilla,
Exec Director
of Aravind.

SCALING UP SOCIAL INNOVATION: THE ROLE OF GOVERNMENT IN INNOVATIVE SOLUTIONS

Professor **Concepción Galdón**, Social Innovation Director at **IE Business School**, and **Joshua Entsminger**, Applied Researcher in International Affairs, propose an approach to scaling up innovation to enable everyone to benefit equally.

Is innovation for the privileged few?

Social Innovation and social entrepreneurship have become well-established processes to come up with solutions for prevalent social and environmental problems. Accelerators, incubators, social impact funds, labs, contests and awards have emerged globally in the last few years focused on inspiring the birth of such initiatives. As a result, myriads of talented people are putting their mind and effort today into creating new and better ways to tackle a broad variety of issues ranging from access to education, health care or civic participation. This is certainly good news. However, in the face of such diversity of tested existing solutions Ravilla's question resonates louder than ever: How do we provide them for everyone?

Government's role in scalability

Far too often, we hear much criticism of the limitations of government when it comes to innovating in public service. All that social entrepreneurs and innovators usually request from government is for it to remove red tape and provide funding directly or via tax breaks. However, it should come as no surprise that innovation is not governments' main skill. They need to maximize impact of taxpayers' money and innovation is intrinsically a risky activity with uncertain results. Put otherwise, we are not sure we want to have government experimenting on our tax money. Now, guess what government is incredibly good at? Universal provision of public services. That's the animal government is. That's what it was built to do, and that's its very nature. In our opinion, government has a protagonist role to play in scaling up social innovations.

Governments around the world share the intuition that they have a role to play and are looking for their fit in the social innovation process. The UK has launched the UK Big Society Initiative, which attempts to create



1BN impact bond market by 2020. In Canada the MaRS center for impact investing, together with the Government of Ontario has launched SVX with the goal to conduct due diligence on social impact investing opportunities. The White House Office of Social Innovation and Civic Participation has launched the US Community Development Finance Institution, aiming to gather 20 dollars of private funds for every 1 dollar of Government funding. Malaysia's MOSTI has pledged a 7.3 million social innovation fund to pair innovators with Government. All these initiatives will inject cash in the social ventures. But, what if government focused on doing what it does best: provide universal access to solutions through its own structure. How about government actually buying over selected projects and incorporating them to their "business as usual"? Piggybacking on the big fish

How do many startups with commercial products/ services quickly scale up access to their solutions? Through M&A with big corporations. Here is how it's done in the private sector. Big corporations are in a permanent pursuit of innovation. In the words of David Fogel, head of acceleration & deputy director at Wayra UK by Telefonica: "if you don't innovate, you die". Together with the traditional strategy to bet on internal R&D processes, more and more corporations have understood that internal innovation is too risky financially and they engage in Open Innovation schemes. Corporate accelerators are only one common way of engaging in open innovation. Corporations set up units whose duty is to systematically search for startups with solutions that meet the corporation's challenges. Once these startups have been identified, and after thorough due diligence, tested solutions are bought over and incorporated to the company's value chain. This way, solutions initially offered to several thousand people are available to millions worldwide. Startups do what they do best: innovate and test. Corporations do what they do best: deploy big time. Entrepreneurs cash in for the effort of innovating and are ready for their next adventure. Win-win all around.

Innovation aligned with national needs

Unfortunately, today this path is not available for social entrepreneurs/innovators. Who would be interested in buying their tested solutions and making them available universally? Who would be able to incorporate those social solutions to its own value chain and processes? Social entrepreneurs/innovators, and the investment funds that support them in the initial phases, have few to none exit strategies today, leading to stagnation in the sector. Government is in a privileged position to fill in this gap. We propose a new approach to public innovation that is cheaper and lower risk than insulated government research and development: Public Open Innovation Initiatives. By having an open innovation program, government can match existing innovative public sector start-ups with already tested solutions to national current needs. These solutions can be identified both internationally and locally. Keeping an active international radar allows for a broader pool of potential M&A opportunities but calls for a dedicated team to prototype locally prior to scale up. Buying and scaling up local social innovation solutions will expand on existing social innovation ecosystems. Also, it has the advantage of tapping into solutions built from the understanding of the local culture and rules of the country, region or city.

In a nutshell...


The specific design of the Open Innovation Program requires a case-by-case approach, given the specificities of national regulations when it comes to procurement and sourcing. However, any design should guarantee that government focuses on what it does best, moving from being the elephant in the room, to putting its know-how at the service of scaling up of social innovations. Public service at its best.



KEY TAKEAWAYS

- The number of initiatives pertaining to social issues such as healthcare and education is certainly on the rise today. But they are often not scalable.
- While the government provides mass access to public services, it can often be sceptical about assisting with social entrepreneurship and innovation, owing to the inherent risk in them.
- Corporate accelerators and m&as are one proven way to scale up commercial products and services in the private sector. The same, however, does not apply to social innovations.
- Public open innovation initiatives can be a solution that enables governments to match existing innovative public sector start-ups with already tested solutions to national current needs.
- Such initiatives can be explored with entrepreneurs at both local and international level. they are likely to cheaper and lower risk than insulated government research and development.

FOOD FOR THOUGHT

- 
- To what extent do you think governments should work hand-in-hand with social enterprises dealing in issues such as healthcare? What shape would that take?
 - Who would benefit and how?
 - How can your social enterprise benefit from government support?
 - What sectors do you target so that you can have exit options later?



**CONCEPCIÓN
GALDÓN**



**JOSHUA
ENTSMINGER**



An NGO's mission success should be the occasion to step back, question, and ask ourselves if it is always prudent to let the curtain fall – or revive and launch version 2.0.

NONPROFIT VERSION 2.0: ARE NONPROFITS ALLOWED TO REINVENT THEMSELVES?

Do nonprofits disappear into thin air after they achieve their missions? Or can they re-orient around a new and different purpose? Prof. **Sheila M. Cannon** from **Trinity Business School** and Prof. Karin Kreutzer from **EBS Universität für Wirtschaft und Recht** take us down the road less taken.

From the paper *Mission accomplished? Organizational identity work in response to mission success*, by Cannon, S. M., & Kreutzer, K. (2018) *Human Relations*, 71(9), 1234–1263.

Success, oh no!

This is not a tale about how two nonprofits achieved success, neither is this a cautionary tale about how they didn't. We shall neither provide council on how a nonprofit might achieve its mission nor on how it might create a good mission for itself. Instead we shall sojourn to the barely touched lands of what it might mean to have an existential crisis as a nonprofit: mission-success.

Once upon a time, born on the eve of World War II, the National Foundation for Infantile Paralysis (NFIP) was a systematic program created to uncover the mysteries of polio and to lend a helping hand to Americans suffering from the disease. It achieved instantaneous

popularity, reflecting that of its founder Franklin D. Roosevelt. Little was known about Polio then. However, soon fortune struck. The Polio vaccine was invented, and a fearsome disease was put to rest. Mission accomplished! But what of the NFIP? Where would it go from here and did this mean closure? And how could the NFIP respond to successfully completing the very purpose it had been created for? It attempted to fight Arthritis, but those efforts were wasted.

Very little has been said about what happens to nonprofits post-mission success, perhaps because mission success represents the single greatest achievement for any organisation. Is closure an inevitable next step? A study conducted in 2007 indicates that mission completion was the primary cause for closure among Spanish Nonprofit Associations. Closing shop, though easier, may not be the only option it would seem. Professor Sheila M Cannon and her team believe that social organisations can effectively and efficiently shift their focus to address new related challenges once they have successfully achieved what they set out to do, rather than recreating new organisations each time. However, most existing advice to nonprofits is to avoid "mission drift" at all costs.



The quest for purpose

Not unlike this world's struggle to reuse and recycle, a nonprofit's struggle to reuse its own organisation too proves to be a formidable challenge. As nonprofits achieve success, they are faced with a major threat – a threat to their identity. With success in hand, organisations experience a period of identity ambiguity triggering a need for management to alter the organisational mission.

This may be different than organisational change as we are familiar with it. In a more conventional for-profit context, organisational change is usually triggered by dynamic external factors (economic unpredictability, changing technology, fierce competition etc.). Moreover, it has a poor track record; as per the Boston Consulting Group, 50% of change programs fail to achieve their objectives and the failure rate increases to 75% for more complex programs. In light of these bleak numbers, a change in mission is even more daunting. Mission success requires a more fundamental identity change if social organisations wish to be resurrected. Finding a new organisational purpose, that can inspire internal and external stakeholders and at the same time attract potential investors or funders, proves to be an intimidating task.

In with the old, in with the new

Professor Cannon and her team studied two Irish peacebuilding organisations (Alpha and Beta for the purpose of this article) over six years to explore what happened when their *raison d'être* was fundamentally challenged. A successful peace process in Northern Ireland resulted in reduced support for peacebuilding organisations and a perception of their missions accomplished. Mission success paradoxically threatened the very being of these organisations as it led to member and donor dissociation. The organisations started asking themselves: 'Maybe we've done ourselves

out of a job?' Consequently, these two organisations adopted two different approaches in dealing with this bubbling existential crisis. While Alpha decided to turn outwards for funding opportunities and external consultants, ridding itself of old members to grapple with the challenge, Beta decided to turn inwards, by involving stakeholders to figure out who they wanted to be in the future. Beta proved to be more successful.

Alpha took a *competitive* approach to finding itself. Followed by a restructuring effort and a strategic review process which involved bringing in a new CEO, stakeholders from Alpha rejected founding beliefs such as the idea of community in the race to embrace newer ones (the idea that Alpha is a formal business-oriented organisation). Conversely Beta took an *integrative* approach to this burgeoning need to redefine itself. In engaging with its founding values, members negotiated the tension between old (the belief that they are a community) and new beliefs (the potential to be a formal business-oriented organisation), therefore more successfully managing to integrate these values than letting one defeat the other. By embracing potentially conflicting identity beliefs and turning to its stakeholders, Beta was able to reinvent a new purpose with which members and donors could identify. In this way, Beta was able to continue its operations at a consistent level, whereas Alpha experienced contractions and downsizing.

In integration, there is light

In the quest to define a new mission, setting new identity beliefs in competition with old ones can lead to fragmentation and an inconsistent organisational identity. On the contrary, drawing on founding beliefs and integrating old values with new ones helps bring coherence and consistency – which can be key in successfully reforming organisational identity. Organisations however, are prone to taking on the competitive approach. Redefining

organisational identity is a cyclical process. Professor Cannon's research suggests that if organisations take the competitive approach (where certain beliefs are rejected in favour of others), they are very likely to end up with more ambiguity and eventually return to the process of redefining themselves. However, eventually members will find ways to integrate some of the competing parts and converge on a new identity, or else the organisation will break up, possibly leading to closure.

Can we be X and Y at the same time?

While previous studies have indicated that having conflicting ideas may lead to clash, Professor Cannon's research proves otherwise. A multi-vocal identity - when different organisational members have different perceptions of the organisational identity - does not necessarily invoke fragmentation. What can help social organisations in such a context, is a pluralist approach i.e. stakeholders bridging the gaps between various identity beliefs by acknowledging the difference between different beliefs, while expressing the possibility of their coexistence simultaneously. Different members may have different perceptions of the organisational identity and to reach a new one, all stakeholders must be engaged to reconcile conflictual positions.

How to resolve an NPO identity crisis?

For practitioners dealing with mission redefinition, the best way to respond to an identity crisis post mission-success is by being aware of the need to reinvent organisational identity. Organisational leaders must trigger the strategic planning process to provide room for reinventing the organisation's purpose. Although turning outwards to secure funding seems to be a more obvious reaction, turning inwards and carefully reflecting upon history values and mission may prove more beneficial. Active co-creation of identity change through various actors at all hierarchical levels is pertinent to the development of coherent identity. Bringing in financial experts on board and introducing managers into the mix may on the other hand introduce potential risks. Subsequently, as organisations advance to defining their identity, consistency between values and action, between the past and the present must be preserved for organisational survival as it helps in retaining and attracting volunteers, skilled employees and even funds in the long-run.

Returning to NFIP, only recalling their core identity beliefs ('citizen army against disease') enabled the NFIP to voice a new mission ('to promote health for pregnant women and babies') - which was then widely shared by volunteers and other stakeholders. Renaming the organisation as 'March of the Dimes', the name of a very successful fundraising campaign in the past, further strengthened the bonds with the

organisation's history. The example of 'The March of Dimes' shows us that when a nonprofit actually does achieve its mission, it is possible, although challenging, for that organisation to retain the loyalty of its members and redirect its mission to a new cause, while also displaying consistency in its identity.

Must the curtains fall?

What has skipped the attention of governments and funding bodies involved in addressing social needs, is to measure the impact of mission success on organisations and individuals when a mission ceases to exist or is replaced by a new one. Skills, knowledge and procedures developed in response to one social challenge can be redirected to address other challenges rather than allowing those resources to disappear with organisation closure. As such, policy-makers could offer funding to support reorientation initiatives by organisations - an approach that might be more efficient and effective than the establishment of new nonprofits for each new set of challenges. Of course, if the new mission is too different, the NPO constitution needs to be re-written.

While the idea of redeploying an already existing organisation seems efficient, the survival of nonprofits' post-mission success continues to be questionable. Survival for the self-serving goal of preserving the organisation does not seem prudent. A nonprofit mission is both a way of expressing certain values, and an aim that can be accomplished. You can never finish the former (expressing your values), but you can achieve the latter, accomplish your mission, like find a cure for Polio. For Prof. Sheila Cannon, an NGO's mission success should be the occasion to step back, question, and ask ourselves if it is always prudent to let the curtain fall - or revive and launch version 2.0.

KEY TAKEAWAYS

- Nonprofit mission success does not necessarily imply organisation closure. By way of finding a new mission and new identity, nonprofit organisations may be repurposed and redeployed to fulfill a new mission.
- Mission success can lead members to question organisational identity in the face of an out of date mission. organisations must reinvent organisational identity by employing self-reflection and involving stakeholders across hierarchies.
- An integrative approach – acknowledging conflicting belief and permitting them to co-exist - has proven to be more successful than employing a competitive approach – the rejection of certain beliefs in favour of others.
- Using an external frame of reference such as bringing new members in, ridding of old members, and looking for short-term financial solutions may lead to an identity crisis and the extinction of the organisation.
- Finding a new organisational identity that is consistent with existing organisational values, integrates conflicting member beliefs, and brings together old and new beliefs enables member loyalty and redirection of the organisation.
- Funding from governments and other donors to support reorientation initiatives by nonprofits might be more efficient than building new organisations for a new purpose.

FOOD FOR THOUGHT

- How many charities and non-profits can you think of in a minute? Which have become household names and which ones are relatively new?
- Have any of the above been through a change in their purpose? How did they transform and how different is their new purpose from their founding one?
- What makes you trust in a nonprofit?
- Why is it that the general public hears a lot less about the leadership and figureheads of nonprofits than the leadership of for profits?



**SHEILA M.
CANNON**



“
'Hybrid'
crowdfunding
projects,
neither purely
commercial
nor purely
altruistic,
are the most
successful.”

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CROWDFUNDING AS MUTUAL GIVING

Research by **ESSEC Business School** Professors **Arthur Gautier** and **Kevin André** focuses on how reward-based crowdfunding platforms are shaking-up the self-interest vs. altruism dichotomy. Food for thought for your social enterprise start-up!

From the paper “*Beyond the Opposition Between Altruism and Self-Interest: Reciprocal Giving in Reward-Based Crowdfunding*”, published in the *Journal of Business Ethics*.

Crowdfunding is big business. As of 2015, hopeful entrepreneurs have raised over \$34 billion on platforms like [Kickstarter](#), [Indiegogo](#), [KissKissBankBank](#), and [Ulule](#). And by 2025, that sum will likely surpass \$300 billion (CFX Alternative Investing Crowdfunding Statistics).

From an entrepreneur's perspective, it's fairly easy to explain the popularity: unlike many traditional financing options, reward-based crowdfunding lets entrepreneurs raise money to develop their projects without generating debt or relinquishing some control to a shareholder. But perhaps best of all, reward-based crowdfunding helps founders validate their business ideas by getting feedback on prototypes and pricing directly from their future consumers or patrons. But, why do people give to crowdfunding campaigns?

Crowdfunding: a hybrid phenomenon

The opposition between self-interest and altruism in human behaviour – in other words, the extent to which the relationships between members of a society are driven by selfish or selfless motives – is a cornerstone of the ethics debate. However, we can escape this dichotomy through the theory of reciprocal giving developed by the French sociologist [Marcel Mauss](#).

According to his famous essay *The Gift*, “the idea that inspires all economic acts [...] is neither a purely free and gratuitous provision nor a purely interested, utilitarian notion of production and exchange, but a sort of hybrid.”

Many of today's phenomena are hybrid. On the one hand, for-profit corporations are multiplying their philanthropic and socially responsible activities in order to create shared value. On the other hand, philanthropy is increasingly influenced by values and methods drawn from venture capital. Donors and foundations develop systematic processes to solve social problems, by evaluating the social impact of their donations – sometimes quantifying a “social return on investment”. Meanwhile, hybrid organizations like social enterprises, for example, skillfully combine commercial and social welfare logics.



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Crowdfunding is also a hybrid phenomenon, allowing entrepreneurs and founders of a wide array of projects to directly raise relatively small contributions from a large number of individuals. Reward-based crowdfunding platforms like Kickstarter, Indiegogo, and Ulule, accept both non-profit and for-profit projects, leaving ambiguity around the nature of projects and the underlying intention of their founders. Even the vocabulary used on crowdfunding platforms reflects this ambiguity: users neither “buy” products nor “give” money; they “back” projects and receive “rewards”.

Indeed, our analysis of more than 3,000 projects funded on the Ulule platform shows that “hybrid” crowdfunding projects, neither purely commercial nor purely altruistic, are the most successful. In essence, the more contributions exceeding the value of the proposed reward (the “return on investment”), the more likely that project is to achieve and even exceed its fundraising goals.

Crowdfunding to forge relationships

Entrepreneurship is more than an economic process, it's a practice involving many social ties. First and foremost, entrepreneurs rely on the empathy, feedback and support of their inner circle. Family and friends often help “bootstrap” their business ideas. Young entrepreneurs might use a spare room in their parent's house as free office space, or borrow money to pay for a new laptop computer.

Crowdfunding helps entrepreneurs extend their inner circle and blend different kinds of relationships: personal acquaintances, social network connections, and commercial interactions. In fact, the results of our analysis show that crowdfunding fosters specific kinds of relationships relying on reciprocity.

We argue that reciprocity is not only based on relationships between users throughout different campaigns, but also within each project. Reciprocity on

crowdfunding platforms implies that each campaign is also based on an internal process of giving and receiving, where backers give a pledge (the gift) to founders and receive a reward (the counter-gift).

Interestingly, we observed three forms of contributions in the crowdfunding space which echo the rationales Mauss described in *The Gift* a century earlier.

- **Transactions** correspond to pledges equalling the amount of the reward, which in fact constitutes a pre-order of a product or service.
- **Reciprocal giving** corresponds to pledges exceeding the amount of the reward, where the backer voluntarily sends a ‘gift’ beyond the value of the reward.
- **Non-reciprocal giving** corresponds to backers who “just want to help the project” by giving without anything in return (they refused any reward).

Following the sociologist **Marcel Mauss'** insights, reciprocal giving is a way for members of a society to develop and maintain relationships, as giving obliges the recipient to engage in a reciprocal, cyclical relationship, i.e., giving, receiving, and giving back.

Reciprocal giving: the key to entrepreneurial success?

Many research projects underline that the most important drivers for success are related to the founder himself, and especially the founder's ability to mobilize social capital early in a campaign. Even if close friends and family members are not sufficient to guarantee a successful campaign, they remain critical to initiate a virtuous circle of contributions as they offer a positive signal to the community. Bonds between community members matter.

Our findings show that the remarkable success of the reward-based crowdfunding platforms is based on strong reciprocal relations between contributors and project promoters, within one or more communities. In other words, contributors give, but they also receive something in return, even if that something is uncertain and not equivalent in value. The “return on investment” is often personalized, unique, and may even involve a face-to-face meeting with the entrepreneur. Even in a “virtual” universe, which goes beyond the first circle of family and friends, the link between people seems at least as important as the money or the objects in their hands.

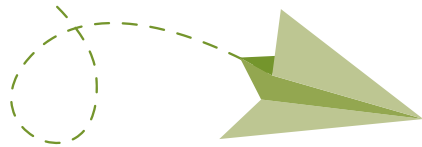
In our analysis, we note that projects that are more clearly altruistic or commercial have a lower success rate than “ambiguous” projects, which more or less intentionally mix philanthropic and market logics.

What should we make of philanthropy's hybrid nature? Should we condemn the cynicism or celebrate the ingenuity? Whatever the answer to that question may be, the evolution being played out on crowdfunding platforms is as exciting as it is complex.



KEY TAKEAWAYS

- By 2025, the total sum of funds raised by hopeful entrepreneurs via crowdfunding platforms will likely surpass \$300 billion (CFX Alternative Investing Crowdfunding Statistics).
- Crowdfunding is popular because: unlike many traditional financing options, reward-based crowdfunding lets entrepreneurs raise money to develop their projects without generating debt or relinquishing some control to a shareholder.
- Reward-based crowdfunding helps founders validate their business ideas by getting feedback on prototypes and pricing directly from their future consumers or patrons.
- According to French sociologist Marcel Mauss, "the idea that inspires all economic acts [...] is neither a purely free and gratuitous provision nor a purely interested, utilitarian notion of production and exchange, but a sort of hybrid."
- Examples of hybrid approaches today: for-profit corporations multiplying their philanthropic and socially responsible activities in order to create shared value; philanthropy is increasingly influenced by values and methods drawn from venture capital; donors and foundations develop systematic processes to solve social problems, by evaluating the social impact of their donations – sometimes quantifying a "social return on investment"; hybrid organizations like social enterprises skillfully combine commercial and social welfare logics.
- Crowdfunding is also a hybrid phenomenon: it allows entrepreneurs and founders of a wide array of projects to directly raise relatively small contributions from a large number of individuals.
- Reward-based crowdfunding platforms like Kickstarter, Indiegogo, and Ulule, accept both nonprofit and for-profit projects, leaving ambiguity around the nature of projects and the underlying intention of their founders.
- The vocabulary used on crowdfunding platforms reflects this ambiguity: users neither "buy" products nor "give" money; they "back" projects and receive "rewards".
- Analysis shows that "hybrid" crowdfunding projects (neither purely commercial nor purely altruistic), are the most successful: the more contributions exceeding the value of the proposed reward (the "return on investment"), the more likely that project is to achieve and even exceed its fundraising goals.
- Entrepreneurship involves social ties and interaction. Crowdfunding helps entrepreneurs extend their inner circle and blend different kinds of relationships: personal acquaintances, social network connections, and commercial interactions.

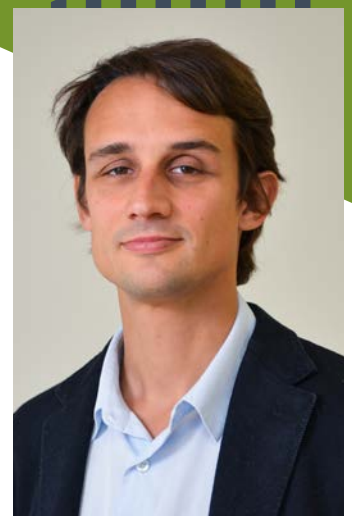
- Crowdfunding fosters specific kinds of relationships relying on reciprocity: each campaign is also based on an internal process of giving and receiving, where backers give a pledge (the gift) to founders and receive a reward (the counter-gift).
 - Three forms of contributions in the crowdfunding space are: Transactions: pledges equalling the amount of the reward, which in fact constitutes a pre-order of a product or service. Reciprocal giving: pledges exceeding the amount of the reward, where the backer voluntarily sends a 'gift' beyond the value of the reward. Non-reciprocal giving: backers who "just want to help the project" by giving without anything in return (they refused any reward).
 - Reciprocal giving is a way for members of a society to develop and maintain relationships, as giving obliges the recipient to engage in a reciprocal, cyclical relationship, i.e., giving, receiving, and giving back.
 - Research shows that the remarkable success of the reward-based crowdfunding platforms is based on strong reciprocal relations between contributors and project promoters, within one or more communities.
 - Contributors give, but they also receive something in return, even if that something is uncertain and not equivalent in value.
 - The "return on investment" is often personalized, unique, and may even involve a face-to-face meeting with the entrepreneur.
 - Even in a "virtual" universe, which goes beyond the first circle of family and friends, the link between people seems at least as important as the money or the objects in their hands.
 - Projects that are more clearly altruistic or commercial have a lower success rate than "ambiguous" projects, which more or less intentionally mix philanthropic and market logics.
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FOOD FOR THOUGHT

- To what extent do you think it ethical to want something in return for giving something?
- Have you ever experienced this – or inversely how would you feel if you didn't receive anything in return?
- Almost everyone has a dream at some time or another of starting up their own business. What would you personally love to have as your business? And to what extent do you think using crowdfunding platforms would be useful in that venture?



**ARTHUR
GAUTIER**



**KEVIN
ANDRÉ**



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