



# European Network of Design for Resilient Entrepreneurship

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<b>Tweet</b>	#Social #entrepreneurs combine best practices found in #business and social #service sectors
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## Social entrepreneurship

Social entrepreneurs combine best practices found in business and social service sectors to bring highly impactful and scalable solutions in tackling the world's greatest challenges such as poverty, inequality, health epidemics and climate change.

Interest in social entrepreneurship by practitioners, policy makers and academics has grown exponentially over the last decade (GEM 2015). On the practitioner side there are firms such as Ashoka Changemaker Schools and Echoing Green that provide seed funding and technical assistance to budding social entrepreneurs across the globe.

On the policy side several economies have designed and implemented policy programs aimed at stimulating social entrepreneurship such as the United Nations Social Impact Fund (UNSIF) and the Social Business Initiative in the EU launched in 2011 (European Commission). Furthermore, there are new legal structures for business forms emerging in the social enterprise sector including the B-Corp for social businesses in the U.S. and Australia and community interest companies in the UK. (GEM 2015). At Universities there are researchers and practitioners working collaboratively advance the field through scholarship and funding to support entrepreneurship on campuses around the world.

According to Alvord, Brown and Letts social entrepreneurship is characterized by three types of innovation : Transformational: by building local capacity this approach alters local norms, roles, and expectations to transform the cultural context for the better; Economic: by developing bespoke packages to solve problems this approach provides tools and resources to enhance productivity and transform economic circumstances and Political: by building local movements to challenge power this approach increases the voice of marginalized communities to increase their political influence. (Alvord, 2004)

There are few social entrepreneurs that can claim to have impact in all three areas. Nobel Prize winner Mohammed Yunus, founder of Grameen Bank is considered one such social sector innovator. Born in Bangladesh, Yunus immigrated to the US where he became a professor of economics. In the 1970's natural disaster, famine and government corruption sent the country in to turmoil. Yunus returned home to his village to contribute to the rebuilding efforts. He quickly realized how small infusions of cash went a long way in his village. He began investing his own money as micro loans to poor village farmers and merchants. Realizing that providing access to



capital was not enough and that health and social services were also key in stabilizing these communities. However local government and non-governmental organizations (NGOs), Yunus found, were unreliable despite many years and millions of dollars in foreign aid support.

Yunus began working to rebuild villages Bangladesh where thousands of poverty stricken families were displaced, facing health and social challenges and lacked the resources rebuild their homes and their communities. Yunus saw what he considered poor performing NGOs that were seemingly well-funded and well-staffed, yet had not made progress in a long standing crisis in the region.

Operating a small organization providing micro loans as well as other supportive services such as basic education and health services, Grameen during its first several years since its founding was considered extremely radical and disruptive. In fact, the organization, due to its unconventional methods, faced harsh criticism and personal threats with legislation put in place to render Grameen Bank's practices illegal. The backlash thrust Yunus into a series of political battles where he and his stakeholders took on not only local government, but also challenged the entire international development sector unwilling to disrupt the status quo. Eventually after years of successfully implementing micro-finance programs throughout Bangladesh today Grameen Bank is heralded as a model of successful social enterprise. Yunus has scaled and replicated the model in other developing regions across Asia, Africa and Latin America.

#### Social Enterprises Respond to Market Failures

Social enterprises respond to market failures. Grameen Bank, in pioneering the micro-finance sector, responded in failures of the finance industry to provide credit access to the poor. While on the other hand the social venture Uncharted Play is responding to market failures in the green energy and technology industries that have not adequately responded to the needs of women and children. In addition to the micro-finance programs, Yunus has helped launched other social enterprises providing free and low cost products and services as well as job and entrepreneurship opportunities to over one million people in 11 countries.

During a visit with her relatives in Nigeria, Jessica Mathews become aware of air quality challenges in Nigeria due to the burning of low cost unrefined crude oil. Concerned about future health and environmental consequences of fuel burning, Mathews founded Uncharted Play as a social enterprise to scale access to alternative energy and "smart technologies" for women and children in Nigeria and around the world.

Raising over \$7 million in venture capital investments shortly after launching her company, Matthews is shifting thinking around how marginalized groups consume energy and new approaches in educating and empowering them in tackling their energy needs.

In tapping the green energy and technology industries to work collaboration with international development and social sector practitioners, Mathews is challenging the market to consider a severely overlooked and underserved market for energy consumption.

Friends International serving youth in South East Asia, provides job training and small business opportunities to homeless and at-risk youth. The youth participants graduate with valuable skills in the hospitality industry and are placed in jobs within Friends International's network of small businesses in the hotel, dining and beauty industries.

Youth are also supported in co-developing and operating social businesses as a subsidiary of Friends International. This model generates economic opportunities for marginalized youth, while ensuring a steady stream of earned income revenue for the organization that can be reinvested for scaling their efforts and reaching more youth or deepening their services to each individual participant. Friends International is also emerging as an important stakeholder in the industry investing in the local workforce.

### Earned Income Strategies: Controlling Organizational Destiny

The most innovative and high impact social enterprises are usually started much like other enterprises, with the founders own funds and loans and donations from family and close colleagues. Restrictions on grants and how funds can be used limits the potential for creativity and innovation through trial and error.

Philanthropic and government grants often come with restrictions on use, and pre-determined best practices in social service. The prescriptions for service that often accompany these funds often do not align with the out-of-the-box methods of a social entrepreneur seeking to disrupt or even dismantle failing social service institutions.

Grameen Bank developed their world-renowned micro-finance program for the poor in response to what they saw as a corrupt NGO sector with inflated budgets and minimal impact on the poor Bangladeshi communities they were funded to serve. However, creativity and challenges to the status quo is not enough to ensure an organization's success long-term. NGOs and social enterprises such as Grameen Bank use a mix of foundation, government and earned income schemes to remain fiscally solvent not for profit. Yunus and his partners founded Grameen Foundation also provides grants, social impact loans and investments to other social ventures.

There are a number of factors that determine the ratio of grant funding to earned income revenue including the region and access to wealth, governmental policies on social sector funding and the profit margins for a particular product or service. Grameen Bank was founded with a mix of corporate and individual donations secured by its founder, Nobel Laureate Muhammad Yunus. Yunus leveraged his reputation as a businessman and professor teaching in the United States. He circumvented the local government and NGO sector that did not address the root causes of poverty in the region. Yunus set out to provide loans averaging a few US dollars in "micro" start-up capital in the hands of the poor for whom a small infusion of cash might provide a means to purchase cattle, or supplies for a small business in their village.

Grameen generates revenues through fees are generated through contracts with USAID and other foreign aid organizations supporting Grameen's work with women's health and education. Grameen charges USAID and other international development institutions a fee for service- for each client serviced. While in its early years Grameen model was not eligible for foreign aid, years of success in uplifting millions out of abject poverty has pushed Grameen into the spotlight and has positioned the organization to negotiate loans, contracts and grants that align with its mission. In addition to foreign ad small portion of fees are earned through the micro loans provided to community based business cooperatives. Cooperative banking and business models are a hallmark of many successful social enterprises with an earned income strategy.

### Challenges and Risks

Reduced dependence on external funding enables the entity to reinvest the revenue at their own discretion without restrictions, guidelines and labor and resource-intensive reporting required by

the majority philanthropic donors with rules and procedures designed to prevent corruption or waste or to ensure fairness often limit flexibility and responsiveness. International and national funders often lack a nuanced appreciation for ground-level details. Modifications in a community based program funded by a national foundation or government agency may require a long approval process. (Bornstein 2010).

The risk with hybrid models nonprofit models with earned income strategy, is “mission drift” or which occurs when the mission constantly shifts in response to the market shifts that might impact the profit making venture. Social enterprises succeed when they measure themselves by their social impact, not its business acumen.

While discretionary income is every social entrepreneur’s fantasy, earned income strategies can also be risky if they depend on customer loyalty and are subject to market forces. For instance, a shift in the green energy technology industry in West Africa and other markets served by Uncharted Play could threaten an important value chain for Uncharted Play, its stakeholders and constituency. Likewise, a decline in tourism in places like Malaysia and Cambodia could have serious implications for Friends International’s business model.

### Differentiating Social Entrepreneurship from Traditional Organizational Models

Two useful resources in differentiating social entrepreneurship from other organizational models with which they overlap are Gregory Dees spectrum of organizations and Jed Emerson’s blended-value model that both describe and illustrate how sits on a continuum of traditional organizations that are either charitable or business oriented. At either extreme of the spectrum there are the “pure play” entities concerned either with maximizing social impact/return or financial value and performance. In the middle of the spectrum are the entities with more than strictly financial or social return referred as blended impact or blended value generation.

While the social ventures are not purely charitable organizations, they never deviate from the mission of the organization as a result of economic constraints or minimal profit. Any pivot or iteration in the model advances the social mission, regardless of the economic outlook. In this way the social entrepreneurs are often described as relentless and unreasonable in pursuing their vision for social change.

It is possible to make a classification of the enterprises based on how social they are. There are Traditional Non-Profit, Social Enterprises (Non-profit/For Profit) and Socially Responsible Corporate. Different kinds of enterprises have different characteristics, and all of them are different from traditional corporate:

#### Traditional Non Profit:

- Non-financial mission (social and/or environmental)
- Donations and Grants
- Beneficiaries Pay Nothing

#### Social enterprise (Non-profit/For profit)

- Social mission with minimum expectation of financial return
- Below market rate capital or mix of donations and market rate capital
- Subsidized rates or mix of full payers and those who pay nothing

### Socially responsible Corporate

- Profit driven with social and/or environmental objectives
- Market-rate capital (Including Social Return Investments)
- Market-rate prices

### Traditional Corporate

- Profit-driven (economic value)
- Market-rate capital
- Market-rate prices

### Conclusion

Successfully launching and operating a social enterprise requires an organizational model that leverages entrepreneurial talent with strong business acumen. Social entrepreneurs create hybrid value chains that offer sustained, flexible terms in accessing capital and resources to support activities that the social entrepreneur believes will result in social change and economic empowerment for historically marginalized groups.

Leaders of social ventures are systems thinkers and foster whole solutions. They specialize in bringing people, and resources together that would not coalesce naturally. (Bornstein and Davis, 2010).

Earned income is just one of several ways that social enterprises diversify their funding stream to ensure the organization's long term fiscal health and sustainability (Nicholls, 2006). Government and foundation grants, forgivable loans, endowments and private donations from individuals can be other sources of revenue.

In launching a social enterprise, much emphasis is placed on the scalability and replicability of a successful social service model. To expand the pool of like-minded social innovators successful social entrepreneurs often invest in and support the work of other social venture startups. Grameen Bank, for instance, provides investments to 5,000 other social enterprises around the world. Both Uncharted Play and Friends International have sparked the emergence of social entrepreneurs in their sector either through direct investment, contract opportunities or training.

Social entrepreneurs are concerned with holistic and bottom up solutions that promote leadership and self-sufficiency. Unlike traditional businesses that prioritize profit generation, Social entrepreneurs focus on a "double bottom line" or blended value generation that yields both social and economic returns for the communities they serve.

For further details:

[Co-operative Bank](#)

[Grameen Bank](#)

[National Center for Charitable Statistics 2016](#)

Omiydar Network Video: Investing for Social and Financial Returns 2016

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