Why Social Enterprises Still Matter in an Age of "Win-Win"

Mainstream companies often fail to serve critical societal needs when profits and impact do not align. The answer? Employ business just as a tool, without taking profit maximisation as a constraint.

At the intersection of business and impact, trade-offs are no longer a trending topic. Instead, buzzwords like "creating shared value" and "doing well by doing good" dominate the discourse. The recent statement from the **Business Roundtable** pledging simultaneous fidelity to stakeholder and shareholder value shows how far this movement has advanced.

It is a cause for celebration that **big, publicly owned companies** (and **well-funded start-ups**) are seeking to address the big societal challenges. But if a positive impact can always be achieved without financial compromises, the organisational form called "social enterprise" is starting to look rather old-fashioned and out of date. Are social enterprises still relevant? The answer is a resounding yes!

Business as a tool

Many people consider profit maximisation a defining characteristic of business. But business is just a tool. Nothing stops us from employing the tool in a way that prioritises important but neglected societal needs over making as much money as we can. Decoupling business from profit maximisation is exactly what makes the social enterprise model uniquely relevant.

Impact and profits can indeed often be in alignment. However, there are situations where a trade-off is unavoidable. Charity helps, but purely grant-based models can only go so far. This is where social enterprises come in. They push the frontier of market-based approaches in extreme contexts, taking on issues that mainstream companies would view as unprofitable or too risky.

Social enterprises put impact first, while still harnessing the power of market forces and relying on the price mechanism to efficiently and effectively serve the needs of their beneficiaries. The beneficiaries, in turn, feel treated with dignity and respect as exchange partners rather than as passive recipients of help. At the same time, having a revenue stream makes a social enterprise model (when possible) more financially sustainable than relying purely on grants.

Proximity Designs

Myanmar-based **Proximity Designs** demonstrates the power of the model. The social enterprise dates from 2004, long before Myanmar opened its doors to the world. Its co-founders Debbie Aung Din and Jim Taylor decided to settle in Aung Din's birth nation after years of nonprofit work in the United States, development work in Cambodia and policy work in Indonesia.

In December 2019, Aung Din and Taylor visited INSEAD's Asia campus as guest speakers at the **INSEAD Social Entrepreneurship Programme** (ISEP) and our first-ever "SDG Week" (organised by the Hoffmann Global Institute for Business and Society). Aung Din shared how they had set up Proximity Designs in response to the deprivation they observed in rural Myanmar. "There weren't any products and services to support smallholder farmers, and they did not have access to knowledge or finance either."

Applying the latest design thinking principles, Proximity came up with context-appropriate irrigation products to spare Burmese farmers the punishing labour of toting water one bucket at a time. It made sure that its products were affordable even for the poorest farmers, and its distribution network reached even remote areas that were not as profitable to serve. Rather than being wary of competition, Proximity welcomed it. A **Stanford case study** documents how, when low-priced mechanised treadle pumps from China started posing a competitive threat to Proximity's human-powered pumps, Aung Din and Taylor said they were "pleased" that some farmers might now enjoy even greater productivity.

For its part, Proximity has been responding to the evolving farmer needs and competitive landscape by introducing new kinds of products (such as drip irrigation). To further its impact, Proximity has also developed two lines of business beyond its irrigation products, while continuing to maintain its razor-sharp focus on the poor farmers of Myanmar rather than expanding further just for growing faster.

The first of Proximity's two new businesses is a microfinance lending unit targeting smallholder farmers. Unlike standardised microfinance models that have been profitable but found to have **limited evidence of impact**, Proximity's model puts impact first by adapting to the specific needs of the farmers. For example, Proximity's loan repayment schedules take into account the cash needs and availability of farmers based on their harvest cycle. Despite putting the farmers' needs first, this business unit is a self-sustaining and profitable entity that is now even attracting outside investors.

The second of Proximity's new businesses is farmer advisory services, which involves helping farmers adopt best practices in terms of seed selection and fertiliser use, for example. The revenue streams in this business are hard to build, but Proximity sees this work as critical from the point of view of the deep impact. It is also hoping to ultimately realise business benefits like synergies with its microfinance business. "When we are seen by the farmer as providing extremely critical knowledge of pest and disease, and how to handle all their risks, it protects the crop and also the loan," Aung Din said.

Contrasting Proximity's approach with that of for-profit companies targeting farmers, Taylor explained, "Their shareholders want to see returns on investment, so we can do cutting-edge things conventional companies can't… We can take on more risk, and so have been somewhat of a market maker."

Funding social enterprises

Social enterprises can rarely promise high rates of return to investors. So they often need to seek grants or concessionary funding to complement their revenue streams. But getting support from sophisticated funders requires providing not just **feel-good stories** but compelling evidence of **real impact** to justify the financial compromise.

Proximity's donors and investors are convinced that supporting poor farmers through Proximity's business model produces a multiplier effect on the incomes of farmers. "We can confidently say that we take a dollar of donated capital and generate $15 of increased income for farmers," Aung Din noted in reference to some of Proximity's cutting-edge projects for which they have quantified the impact.

Another example of making a quantitative case is **VisionSpring**, a social enterprise that relies on a US$5 subsidy per customer to provide access to eyeglasses at affordable prices for low-income populations. According to an independent **academic study** involving a randomised control trial in Assam (India), tea pickers saw their income increase by over 20 percent thanks to productivity gains attributable to eyeglasses. With worker incomes in the range of US$2 per day, this implies more than US$200 in incremental income over the two-year lifespan of a pair of glasses (even accounting for their cost). Extrapolating from this, VisionSpring estimates that a US$1 subsidy it receives might generate over US$40 in income for the poor.

Estimates like the above involves assumptions and caveats, so the exact numbers should be interpreted with caution. But just going through the process ensures more rigorous thinking about how a social enterprise really creates unique societal value. Convinced that VisionSpring is indeed realising significant impact per dollar of subsidy it gets, noted U.S.-based eyeglasses company **Warby Parker** has been working with it as its primary partner for its "Buy a Pair, Give a Pair" programme.

Another question worth asking is whether a social enterprise model truly improves upon existing charity models possibly meeting the same need. For example, before **providing a concessionary loan** to A to Z Textile Mills (Tanzania) for producing long-lasting insecticide-treated bed nets, the impact investor **Acumen** ensured that the cost effectiveness of achieving the prospective outcome (malaria prevention) through the loan significantly exceeded that attainable through a grant to UNICEF's existing malaria programmes.

To boldly go where companies fear to tread

By choosing impact rather than pursuit of profit as their primary value, social enterprises serve societal needs that the "invisible hand" of markets neglects. Doing so involves developing deep contextual familiarity through careful observation and listening, as well as co-creating innovative solutions in close collaboration with the communities that are being served. The "business case" for going through this rests not as much on the money to be made as on the impact that could be achieved.

As societal norms, expectations and regulations evolve, perhaps one day mainstream companies will start delivering on all societal priorities. Until that day, however, we do need social enterprises that help realise the full potential of business as a force for good.

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