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The Force for Good Spectrum: Using Business as a Tool

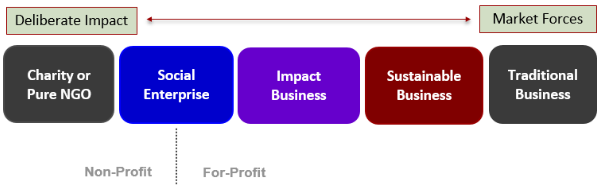
It is time to move beyond the debate between "win-win" and "trade-offs". The right avenue for achieving social impact depends on the setting.

Listen to "Getting real about social impact: How business can make a difference" on Spreaker.

The new generation of business leaders is more keen than ever to employ its skills not just for making money but also for making progress on critical issues like climate change and inequality. But the never-ending debates on whether to rely on the market mechanism or on deliberate efforts to create societal value can get very confusing. It is time to recognise the value of both approaches as different vehicles for impact, each with its own strengths and limitations.

My recent episode of the **INSEAD Knowledge podcast** revolves around the various ways business and social impact goals can co-exist within an organisation. Professionals who want to do their part for the world (most of us) should first understand the different options that exist, so that they can decide where they can **do the most good**. In the range between "pure" business and philanthropic paradigms, I find it useful to think of three organisational approaches (with admittedly blurry boundaries) reflecting a hybrid intention:

- **Sustainable business –** Thinking long term, reducing negative externalities to mitigate business risks, and using sustainability efforts as a way of finding new growth opportunities and reducing costs. A leading example is Unilever, which has pursued ambitious social and environmental goals alongside growth targets as a part of its **Sustainable Living Plan**.
- **Impact business –** Starting with a specific societal mission as the non-negotiable element in seeking a positive impact, yet still managing to find a way to profitably integrate impact into strategy. Given their more aggressive stance, impact businesses – like Patagonia is an activist in the environmental space – tend to be smaller in size and privately owned.
- **Social enterprise –** Recognising that sometimes business is still a useful tool for addressing a societal issue even if significant financial compromises are involved. As I explain in a **previous INSEAD Knowledge post**, this can involve operating in difficult contexts or serving excluded customers, like how Proximity Designs serves smallholder farmers in Myanmar.



As a professor in INSEAD's Degree Programmes and a co-director of **INSEAD Social Entrepreneurship Programme** **(ISEP)**, I find participants eager to build thriving "impact businesses" that can deliver profits while being a force for good. I remind them that, while this is great whenever practical and appropriate, we should remember that both approaches have their place. In the hype about "win-win", it's very common to confuse the two following statements:

- "We can find opportunities where profits and impact align" (TRUE)
- "We can align profits and impact for every issue that matters" (FALSE).

Decoupling scale of impact from scale of the organisation

In a typical business entrepreneur's journey, the end goal is generally a blockbuster exit after the venture has demonstrated commercial success. But, for impact-seeking organisations, the definition of success is less clear. A common misconception equates the scale of the organisation with the extent of its impact. However, this raises two vexing issues.

The first is that a single-minded quest to scale up an organisation's work can sometimes come at the cost of *depth* of impact, an issue I have described in detail (using microfinance as an example) in a **previous INSEAD Knowledge article**. The second, which I will expand on here, is that the scale of an organisation is not the same as the scale of its impact: done right, a venture can have an impact that significantly exceeds its own scale.

An example comes from the Singapore-based non-profit **AWWA**, whose mission is "to empower the disadvantaged to maximise their potential to lead independent and dignified lives". One recent AWWA project is an inclusive preschool called the "**Kindle Garden**". AWWA's leadership realised that the opportunity to attend school alongside differently abled kids could be a persuasive pedagogical selling point. As **the school's principal** put it, "Mainstream children benefit more here. As they learn to look out for one another, they become more compassionate."

Given its strong reputation and the broader push towards inclusion in Singapore, the Kindle Garden could have been scaled up through a long-term reliance on grants. However, the organisation opted to stay small. It confined the use of grant money to its initial years, for the sole purpose of piloting and proving that an inclusive preschool approach works for all children. Once that was established, Kindle Garden became financially more self-sustaining by raising its fees (despite external criticism) through a tiered pricing structure, wherein only families with limited financial means could receive a reduced tuition rate.

The Kindle Garden is a social enterprise of modest scale, with fewer than 100 students. But its intended impact extends far beyond its size. By demonstrating the financial viability of its inclusive preschool model, it hopes to encourage other private as well as government-run preschools to adopt a more inclusive approach. Rather than devoting time and energy just to found a few dozen preschools of its own, the AWWA leadership believes it can achieve a much bigger impact through moving the thousands of existing preschools towards being more inclusive.

Impact ventures as R&D labs for social innovation

Social impact leaders can punch far above their weight by switching their entrepreneurial focus. Instead of concentrating on expanding the reach of their own project or organisation, they can shift gears toward developing new types of models for delivering impact – even if on a small scale – that could serve as role models or templates for others to adopt. Innovate well and make your experience widely available then scale of impact will naturally follow without the need to grow your organisation.

An impact business might start off more as a social enterprise, using its freedom from short-term financial constraints (such as the need for quarterly shareholder reporting) to patiently determine a robust business model for making money. Once it is successful, it can go on to become a profitable business – maybe establishing a franchise, going public or being acquired by a larger company.

But, given the tough issues and contexts they deal with, some social enterprises might need subsidies even in the long run. For them, establishing evidence of impact is particularly important: The investors supporting them are essentially buying impact and looking at the price of that impact. Once the cost effectiveness of a model is established, exploring adoption by other organisations, including the government, becomes a natural direction for scaling up impact.

In the podcast, I discuss how large established organisations can also use this way of thinking to maximise the "social returns on investment" their social impact initiatives achieve. Often there's a tendency to almost waste Corporate Social Responsibility (CSR) funds without thinking much about exactly what impact is being achieved. What if you transformed your CSR team to think like an R&D department for social innovation? This would involve asking: "Can you help come up with business models which put social impact at the centre, and then facilitate bringing these models to a point where they make sense even for a mainstream business?" Wouldn't that be a more effective use of the money than just ad hoc CSR projects that achieve limited impact?

__Jasjit Singh__ is a Professor of Strategy and the Paul Dubrule Chaired Professor of Sustainable Development at INSEAD. He also co-directs the __INSEAD Social Entrepreneurship Programme (ISEP)__.

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