Is Social Enterprise Sustainable?

Social Enterprise first evolved in the developing world. Now the business models and social metrics may be going mainstream.

When Filipe Santos began teaching Social Enterprise at INSEAD in 2004 very few of his students had any interest in developing businesses which had a social impact. Now more than 30 percent of his students want to make a social difference. “The time is ripe for a new social impact model,” says Santos. “We see a lot of problems in developed and developing countries that are not being addressed by markets. It’s not just poverty, it’s about things breaking down around long-term unemployment, exclusion from society, healthcare. Problems that society and governments are not able to invest in. For me, social enterprise is the process of developing sustainable solutions for some of these neglected areas.”

The early social entrepreneurs were often people who had been educated in Europe or the U.S., gained experience in mainstream companies in the developed world, and then brought their expertise back to their home countries in the developing world. Nobel Peace Prize winner, Muhammad Yunus, was one of the pioneers when he introduced the notion of microfinance to Bangladesh in the 1970s with the foundation of the Grameen bank.

The early social enterprise models were still essentially philanthropic models where charities and not-for-profits were constantly trying to generate income from donations and grants. Sir Ronald Cohen, whose involvement in social enterprise features elsewhere in this edition of INSEAD Knowledge, makes the point that many charities or philanthropic social enterprises rely on short-term funding and grants. Yet he believes that the new generation of social enterprise organisations are becoming self-sustaining for the long-term rather than having to go cap in hand to donors every few years.

Impact Investment Challenge

INSEAD students are also now embracing the social model and setting up social enterprises. Two teams from INSEAD are amongst 12 finalists in the International Impact Investing Challenge. http://impactinvestingchallenge. One team has developed Zambia Maize Bonds to provide “a more sustainable, market financing solution that empowers small-scale farmers and reduces overall government subsidies”. At present the subsidy programme costs the Zambian government $350 million per annum and is becoming unsustainable. The government has to buy maize at above market rates and the farmers are starved of working capital, so they are forced to borrow from money lenders at usurious rates of interest.
Under the proposed ‘social enterprise’ solution, the farmers get paid in advance, so they are incentivised to invest in more productive higher margin crops. In turn, the government commits to paying a competitive yield that is linked to improvements in KPIs - successful conversion of maize land to higher margin crops and improvements in farmers yield.

Another group of students from INSEAD are pioneering a new hybrid impact bond that will provide student loans to help young people in the developing world go to university. The bond addresses the different investment criteria of institutional investors and impact investors. The institutional investors receive a secure low-risk return, a familiar looking product with IR risk to manage, and in return provide substantial liquidity. Impact investors leverage their social impact by getting three or four times the number of poor students into college, take on substantially more risk, but still get compensated in a structure that can withstand defaults of 10 percent to 20 percent.

As more bright business school graduates embrace social enterprise and consumers continue to demand ‘ethical products’, we can expect to see more and more companies in the future being run on ‘social’ principles as well as more charities and not for profits being run on more commercial lines which give them, and the people they help, a long-term sustainable future.

Social Tipping Point

Professor Filipe Santos believes that we are at a tipping point for the emergence of long-term sustainable social enterprises as well as the adoption of social enterprise principles by mainstream companies who have previously only measured success in terms of profit rather than social impact. “Global companies, with subsidiaries in many countries are probably not hurting as much from austerity. Fortune 500 companies’ cash reserves are probably higher than they have ever been, so increasingly they are engaging in social impact activity.”

He also believes more traditionally profit-focused companies, such as Lagrange and Novartis, are now beginning to achieve significant social impact change. “Will that change the nature of the company? In most cases probably not – at least for the moment. But I’ve also heard people say once you get into a social impact mindset, it actually changes the way they think about constant profit and efficiency and optimisation. That leads to a lot of innovation, which is good for the company and good for society.”

Ethical By Design

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After twenty years in business, Sofia Minney, from the environmental and fashion label People Tree, is finally getting the scale to be able to partner with chains like John Lewis and ASOS who want to trade as ethical retailers. They have recently raised two significant tranches of debt from customers in Japan and the U.K. to sustain their long-term growth.

People Tree is a good example of a hybrid business model that combines the best bits of social enterprise and commercial companies. Its founder and CEO, Sofia Minney describes herself as an ethical consumer who turned her convictions into an ethical business almost by accident rather than design. “We set out as a bunch of professionals who wanted to do media and business differently and ended up with a brand that has a lot of integrity; from the farmers producing the organic Fairtrade cotton; through the manufacture and onto the way that we choose to sell and talk to our consumers and the products we deliver.”

Their marketing and pricing strategy aims the fabrics and clothing lines firmly in the mid-market sector along with global brands like Reiss and Boden. The integrity of the supply chain and their multi channel approach to distribution (they have 800 distributors, 3,000 stockists and own their own stores in Japan) allow them to compete with these much bigger competitors. They turn over around £8 million per annum and have notched up 20 percent annual growth in recent years – despite the economic downturn.

Treating their organic cotton farmers fairly comes at a price. Since they pay them ahead of delivery, the company also acts as a de facto ethical bank. Sofia’s husband James now uses his experience in the City to run the company’s finances.

Social enterprise is a growing phenomenon, according to Santos. “What you’re seeing now is a growing awareness of the role that companies can and should play in society and some of the needs that societies have in both developing and developed countries and there are many people in these companies who would like to have more meaning in their careers. You are seeing a lot of these innovations in these companies being driven by champions whose ideas resonate with people who volunteer for their initiative. Sometimes it’s a corporate policy that comes from the top and sometimes it’s a ground up movement.”

Doing Good Business

Despite the fact that the U.K., (certainly under the present coalition government) is probably a major cheerleader for profit-driven Anglo-Saxon market capitalism, the U.K. is actually producing more social enterprises than the rest of Europe – taking
the lead in adapting this emerging market model of
doing good by doing good business and bringing it
to the developed world.

UK-based MyBnk is an example of a more pure play,
less commercial social enterprise. Founder Lily
Lapenna spent her early career in international
development in Zimbabwe and Bangladesh.
Impressed by the work that organisations like
Grameen Bank were doing to provide capital for
small social entrepreneurs, she saw those models
could work in poorer parts of Britain. “Coming back
to the U.K., I realised that there was a huge gap in
education. We were taught about sex but not about
money.” She set up ‘MyBnk’ which helps educate
young people and provide finance for small scale
businesses in socially deprived areas of the U.K.
“The idea was to use financial services as a practical
learning tool, encouraging young people to take the
responsibility of helping themselves and the wider
community.”

Her organisation gets a large amount of its funding
from local education authorities who pay for the
educational packages. In some cases pupils can
apply for interest free micro loans to set up small
businesses which invariably deliver a financial
return. The success of their educational
programmes is mainly measured in terms of the
’social impact’. “We can prove that young people
who take part in these programmes will end up
being more employable, more likely to save and be
able to manage debt more effectively. All that can
be translated along the line into a benefit for
government.”

Community Conscious Fishing

The livelihoods of small local fishermen throughout
Europe are under threat from dwindling fish stocks
and ‘super trawler’ fleets which drive catch prices
down. A new social enterprise, Catchbox – a model
of community supported agriculture - has just been
launched in the South of England and puts
environmentally conscious consumers (who are
prepared to pay more for an ecologically sound
product) in direct contact with local fishermen.

It’s the brain child of marine biologist, Jack Clarke.
“You’re not going to save the world by using
Catchbox but you’ll know your money is going to
local fishermen rather than a global supermarket
chain. You’ll know exactly where your food has
come from and that it’s been responsibly,
sustainably fished. We’ve seen communities club
together to save post offices and pubs. Now it’s time
to work together to save our fishing industry.”

Scaling Up

INSEAD’s Christine Driscoll believes that some
social enterprises have successfully scaled up –
Wikipedia for example. But she admits that many
believe getting to the next level is difficult. “When
they get to the point where they’ve proven the
model and the solution is working, they find that
they need to partner with government or the private
sector to be able to successfully scale up.” That
partnership process between big traditional
business and small social enterprises would seem to
be mutually beneficial. The social enterprises get
access to finance and logistical expertise whilst the
big business starts to develop a more ‘social’
mindset.

Before Driscoll became Associate Director of the
INSEAD Social Entrepreneurship Initiative, she
worked at the socially conscious ethical clothing
brand, Edun Live. She believes that not all
companies embrace social enterprise for altruistic
reasons, but nevertheless by becoming more
’social’ they almost inadvertently become more
profitable. “Wal-Mart, for whatever reason, decided
to clean up its supply chain and their environmental
footprint and as a result became a lot more
profitable and greener by, for example, slashing
energy costs.”

Driscoll also believes that multinational companies
“do well by doing good” and reap the unintended
consequence of opening up new markets and
creating new partnerships. “So Danone are working
with dairy farmers in Senegal to improve their
operations and are partnering with Grameen Bank
to produce vitamin enriched yoghurt in Bangladesh.
Ashoka have 70 partnerships on file using hybrid
business models where private sector companies
are partnering with non-profts and social
entrepreneurs; and Unilever are opening up whole
new markets in India and Bangladesh by delivering
affordable single use sachet sized shampoos rather
than US$6 bottles.”

Filipe Santos is an Associate Professor of
Entrepreneurship at INSEAD. He directs the INSEAD
Social Entrepreneurship Programme, part of
INSEAD’s portfolio of executive education
programmes. He is also a Director of the INSEAD
Social Entrepreneurship Initiative and a faculty lead
at the INSEAD Social Innovation Centre

Filipe will also be taking part in the upcoming
INSEAD Entrepreneurship Forum on "Impact
Investing: Creating an Industry from Innovations,"
on the INSEAD Europe Campus in Fontainebleau,
France on May 23rd, 2013.