



Who cares for society?

The economic crisis has put most governments on an austerity programme, cutting social benefits at a time when demand for such services is skyrocketing. Enlightened businesspeople can make a difference as social entrepreneurs.

Social enterprises provide effective low-cost ways of addressing some of the pressing problems of our societies. They can tap resources such as grants and voluntary work that aren't available to profit-oriented business. And they are a valuable source of innovation.

Amid today's gloomy economic environment, that sounds like just what the doctor ordered. Social enterprises operate in areas ranging from farming and finance to healthcare and education, and they both complement and act as a substitute for the work of government agencies and commercial firms.

"Social enterprises generate a process of innovation in society by addressing problems that are neglected by the other institutions in our society, mainly the governments and markets and to some extent the social charity sector," **Filipe Santos**, INSEAD's Associate Professor of Social Entrepreneurship told INSEAD Knowledge at the 2011 Berlin INSEAD-CSI Social Entrepreneurship Conference recently.

So why aren't governments and society generally doing more to foster them? And what do they need to be able to operate more effectively? Social entrepreneurs address these problems.

New ways of working

Multinationals and other large companies can find many hard-nosed business reasons for getting involved in social entrepreneurship. It's good for their image to devote resources for socially responsible activities. It can be a motivational tool for employees who want both to give something back to society and to demonstrate their entrepreneurial abilities.

What's more, says Santos, socially motivated business activities can provide valuable learning opportunities in relation to new ways of working, new forms of service and product delivery and potential new markets.

But social entrepreneurship shouldn't just be written off as a comfortable add-on to the activities of established profit-oriented companies. It's a strategy for value creation in its own right and a phenomenon that is increasingly becoming a focus of academic research.

Business schools, including INSEAD, and academic institutions such as the University of Heidelberg's Centre for Social Investment, co-sponsors of the conference, are looking to social entrepreneurship as a complement to the straightforward quest for

profits in training the business executives of tomorrow. An emerging body of analysis has implications not just for social enterprises but for society as a whole.

Hybrid structures

Social entrepreneurship “is a field that merits increasing attention,” says **Volker Then**, Executive Director of Heidelberg University’s Centre for Social Investment. “How society organizes the production of public goods is a process in rapid transition.”

In essence, he and Santos agree, social enterprises are hybrids combining elements of both profit-making businesses and non-profit organizations.

“Social enterprises have more to them than just a for-profit enterprise working for a social mission,” Then explains. In many cases, “they have a hybrid structure of the resources they use”, reflecting their dual mission to address social problems and at the same time generate revenue and potentially profits which can be used in support of their social aims.

Because of their hybrid nature, it isn’t always easy to evaluate the benefits that social enterprises bring. While the success of a for-profit company can be measured in terms of profits and dividends, success in the field of social entrepreneurship is more diffuse.

Calculating the benefits

Nonetheless, both Then and Santos agree, there are ways of calculating the value created by social enterprises based on the impact of their activities in such areas as environmental protection or social cohesion and equity. Many of the results that they achieve – for example, improved health conditions thanks to a social programme in favour of better sanitation -- either have a price that can be measured or an opportunity cost that can be judged.

Rather than profitability in monetary terms, social entrepreneurship is about the creation of value for society, says Santos. “What matters in social entrepreneurship is the profit for society, not the profit for the organization.”

This raises the question of whether regulatory frameworks and tax laws take proper account of how social enterprises work and what they need. “Regulatory frameworks tend to keep things apart and regulate separately (things) that actually social entrepreneurs blend,” says Then.

Blooming into a beautiful flower

In some countries, funding an activity that provides a public benefit is considered for tax purposes as a

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gift, rather than an investment, making such funding less attractive in fiscal terms. That has consequences that “may be in conflict with the concept of social entrepreneurship,” Then points out, “especially when it comes to the start-up phase of combining resources in the interest of a certain improvement in society.”

Pushing for more favorable tax conditions is one thing. However, the increased red tape that might well accompany them is quite another.

At present, Santos notes, social enterprises succeed in navigating their way through a maze of regulatory complexities while still being effective in what they do. Given their hybrid nature, increased regulation could make it harder for them to carry out their missions.

“No clear models are emerging yet, but there’s a sense that we need to keep a very flexible, open environment, to have all of these seeds of innovation,” asserts Santos. “The critical issue is how do you scale up and mainstream some of those seeds that bloom into a beautiful flower. How do you take that flower and make it into a forest that will change our lives?”

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