



The Social Enterprise Working Group

**Conference Synthesis**

# Defining Social Enterprise

July 15 to 31, 2008

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Conference Synthesis:  
**Defining Social Enterprise**



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Table of Contents

<b>Introduction</b> .....	1
<b>Let's Start A Controversy</b> .....	2
<b>Benefits Of Social Enterprise For International Economic Development</b> .....	3
<b>Drawbacks Of Social Enterprise For International Economic Development</b> .....	4
<b>Effective Methods To Adapt From Similar Development Programs</b> .....	5
<b>Popularizing Social Enterprise Methods In International Development</b> .....	6
<b>Annex 1. 10 Interesting Facts About Social Enterprise</b> .....	7
<b>Annex 2. Discussion Summary 1 And 2</b> .....	8

## Introduction

Inspired by the success of microfinance as well as by a desire to find innovative solutions to problems of intractable poverty, there is a rising tide of new entrepreneurial strategies practiced in the social sector. This convergence of business methods and typical development strategies to effect social change has spawned a new hybrid field-part social and part business-*social entrepreneurship*, and with it a new type of institution, *the social enterprise*.

For this on-line conference and the positioning paper that prefaced the dialogue, Social Enterprise (SE) is defined as:

*A nonprofit organization or socially-oriented venture that advances its social mission through entrepreneurial market-based approaches to increase its effectiveness and financial sustainability with the ultimate goal of creating social benefit or change.*

From July 15 through July 31, 2008, the SEEP Network's Social Enterprise Working Group conducted an online conference with more than 120 subscribers and 27 active participants in the discussions. The conference membership included a diverse array of traditional non-profits and microfinance institutions (MFI), innovative new hybrids, and individual field practitioners from around the world.

### **Key Discussions:**

1. Benefits of Social Enterprise for international economic development
2. Drawbacks of Social Enterprise for international economic development
3. Effective methods that can be adapted from similar development programs
4. Popularization methods in international development

The discussion was led by three facilitators: Will Morgan (The SEEP Network, Social Enterprise Working Group Facilitator), Kim Alter (Virtue Ventures LLC Partner/co-Founder), and Graham Macmillan (VisionSpring, Senior Director). The entire conference postings can be found on the SEEP Network website at [http://communities.seepnetwork.org/se\\_conf](http://communities.seepnetwork.org/se_conf).

### **A partial list of challenges identified by conference participants:**

1. Lack of resources and focus to reach the very poor (poorest of the poor).
2. SE can fail particularly because of internal organizational and business model weaknesses, as well as external business environment threats.
3. SE may consider a more determined focus on achieving their social goals, particularly as there will be other pressures related to operating a business and earning adequate revenues.
4. Defining sustainability for SE will need to be on a case-by-case basis, or will need to be qualified for each different type of SE.
5. The very poor and poorest of the poor (i.e. those earning less than \$1/day) will present different challenges and difficulties for social enterprises, particularly those SEs that are attempting to generate employment among these populations. Social enterprise may not be the best tool to lift these populations out of poverty.

## Let's Start A Controversy

**“Social enterprises (SE) often do not enrich the poor but provide unsustainable solutions to marginal problems.”** With this controversial statement, Will Morgan, the conference facilitator launched the discussion to define what social enterprise *is* and *is not*.

The first respondent disagreed: “SE try to do things differently by applying rigorous business practices to social problems and seeking to be held accountable. The lack of success is because the markets are just very difficult and full of friction.” Unfortunately, it’s not immediately clear if he was referring to business success, sustainability, or enriching the poor. We think it is useful to highlight this ambiguity itself – there is (and was) a lot of disagreement about how we define ‘success’ for a Social Enterprise.

Another participant argued that concerned with risk, social entrepreneurs are reluctant to adopt creative, outside-the-box business models that may jeopardize the success of their enterprise or organization. A later comment addressed the complication that different stakeholders are playing multiple roles to meet the needs of various situations. Oftentimes conflicts of interest limit the potential synergies amongst organizations.

One participant argued that labeling SE charity is dangerous as it forces broad, complex challenges into narrow solutions. “Individual cases should be evaluated on critical factors for success like ground-truthing, leadership, resources, creativity, and experience around specific circumstances.”

The third participant quoted Dr. Gregory Dees, “If a SE makes profit, this does not absolve the social entrepreneur if that profit is not well spent. No amount of profit makes up for failure on the social impact side of the equation. **Any social entrepreneur who generates profits, but then fails to convert them into meaningful social impact in a cost effective way has wasted valuable resources** [bold added].”

Continue the discussion at [http://communities.seepnetwork.org/se\\_conf/node/1310](http://communities.seepnetwork.org/se_conf/node/1310).

## Benefits Of Social Enterprise For International Economic Development

Participants began the discussion addressing the benefits of SE for international development. Seven positive attributes for SE were listed: (1) Demanding public accountability to customers/community (borrowers) and donors/investors (partners), (2) Increasing efficiency and better quality work, (3) Mobilizing new resources from the private sector, (4) Achieving potential standards in not-for profit work, (5) Offering investors and consumers an opportunity to live out their moral purpose in their daily lives, (6) Reaching out to target groups and areas where private and public sectors refuse to explore because of profitability and sustainability risk, and (7) Providing solutions for a social problem or market failure.

While there was little disagreement about the advantages of SE, participants heatedly debated the effectiveness of the SE model. Below are excerpts of experiences, lessons, and opinions from the field:

- Currently MFIs do not support the very poor<sup>1</sup>; they are not eligible for loans since their businesses are too small.
  - In India, the biggest challenge is identifying the actual poor themselves.
  - MFIs should follow Mohammed Yunus' SE model where the poorest of the poor graduate from a wage earner to a microentrepreneur.
- Most wage earners (80%) are not enterprise minded and, despite huge demand for fair trade imports, some microentrepreneurs are not motivated to expand.
  - In Ethiopia, "low income perspective" or "aspiration failure" is prevalent (borrowers do not apply for additional loans or are content to take out small amounts).
- A series of educational interventions is necessary before transition to a SE model. This includes grouping entrepreneurs together by (1) upgrading skills, (2) linking up with finance, and (3) gathering market intelligence.
- A SE must evaluate its benefits against three objectives: (1) building business management capacity, (2) providing incentives to manage in a socially responsible way, and (3) expanding opportunities in communities (creating quality jobs, protecting the environment, and expanding the market).
- In order for social change to occur, SE should be driven by the needs and/or market demands of those at the bottom of the economic pyramid.
- Microfranchising is a new SE model being adapted in the world. VisionSpring enables wage earners to become entrepreneurs by bearing the financial risk of a start up through a consignment and deposit model.
- As with any enterprise, there must be a market or need that is underserved; however, a SE created in response to perceived or actual market failures.
- Vulnerable populations consisting of ethnic minorities, disabled, elderly, or refugees may never become entrepreneurs and instead need secure employment, in an enabling environment with a livable wage.

Continue the discussion at [http://communities.seepnetwork.org/se\\_conf/node/1268](http://communities.seepnetwork.org/se_conf/node/1268).

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<sup>1</sup> "Very poor" is defined as someone living on less than \$1 a day.

## Drawbacks Of Social Enterprise For International Economic Development

Participants noted that there are numerous difficulties with SE, both in relation to the market in which they operate and to the business dynamic in which SE operates themselves. Participants' addressed three specific examples of the some of the more common challenges that SE battle on a daily basis: (1) leakage, (2) market distortion, and (3) contrary business mentality.

**Leakage:** In the eco-tourism industry, foreign exchange earnings are retained by tourist-generating countries instead of tourist-receiving countries. Foreign tourism companies typically do not outsource to host country nationals because of quality control and cultural management concerns. Local governments are thus faced with the dilemma of whether to open the market to foreign co-operators or favor host nation companies.

**Market distortion:** Financial sustainability is difficult to measure because subsidies often hide the market's weaknesses (e.g., external factors such as little activity or monopolization by a third party group). A SE can have an unfair advantage local businesses, cause dependency in which failure leaves people no options and no ability to find alternatives, and monopolize the market and may lose sight of its original social purpose.

- In Latin America, the market does not reflect the costs of services for Micro-, Small- and Medium-sized Enterprises (MSMEs), and many MSMEs cannot afford the more widely-available commercial market loan rates.

**Contrary business mentality:** In contrast to Adam Smith's *Wealth of Nations* notion of "first mover advantage"<sup>2</sup>, successful SE function counterintuitive to regular business practices.

- VisionSpring works in markets with both weak activity and monopolization by larger businesses. It aims to seed the market for others to build on and eventually assume control; in exchange, VisionSpring is allowed to take public funds. VisionSpring measures success by the extent of new investment in the market by large corporations. When these larger corporations do enter the market, economies of scale are realized and the social benefits that accrue to the customer are significantly multiplied.

Continue the discussion at [http://communities.seepnetwork.org/se\\_conf/node/1267](http://communities.seepnetwork.org/se_conf/node/1267).

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<sup>2</sup> "First mover advantage" refers to the company that has the first mover advantage should enforce its energy, resources, and market power by dictating prices and supply as a way to maximize profits

## Effective Methods To Adapt From Similar Development Programs

Social Enterprise can often combine with or be used alongside other more conventional development approaches, such as value chain development and microfinance. SE creates significant enterprise and employment opportunities through microfranchises, distributed production, processor/marketer targeting marginalized producers.

Conference participants offered comments and observations on how to improve operational capacity when SE is combined with other development approaches.

Social Enterprise:

1. Franchise and subcontract/outsourcing in both manufacturing and service sectors.
2. Hire personnel from the private sector to improve the skills inside the organization, which contributes to target group and local/national economy. Some SE eventually grow enough to depend less on subsidies.

Value Chain Development (VCD):

1. Make VCD a requirement in local/national/regional economic development plans addressing issues such as socio-infrastructure support, policy issue, and impact of deregulation/liberalization. Involve the government as a critical stakeholder.
2. Initiate a collaborative mechanism that promotes strategic interventions to a specific industry/growth area. Involve local stakeholders in the planning, implementation, and monitoring of economic development.

Pro-poor business:

1. Support direct purchase of raw materials, semi-processed goods, or finished projects using cooperatives, associations, or community-based organizations as a conduit.
2. Subsidize Business Development Services (BDS) training if there is rapid currency appreciation as in Mexico.
3. Promote Corporate Social Responsibility (CSR) in the MSME sector.

Microfinance (MF):

1. Secure value chain financing for MF where the SE and the private sector are provided that financing.
2. Provide credit access to BDS providers.
3. Allow MSME access to MF credit using character asset measurement (i.e. recent track record and loan histories).

Continue the discussion at [http://communities.seepnetwork.org/se\\_conf/node/1254](http://communities.seepnetwork.org/se_conf/node/1254).

## Popularizing Social Enterprise Methods In International Development

Participants' comments and observations from the field included:

- Social enterprises must be scalable, replicable, and sustainable while serving people living in poverty. The most powerful component of SE is the social entrepreneur him/herself who is capable of helping whole societies change way things are done.
- The aim of international development is self-sufficiency and SE should focus on real indicators such as the impact of mortality rates, birth weights, literacy, nutrition, and other livelihood metrics. International development should celebrate those social entrepreneurs who develop strong small businesses in a dynamic market
- More attention should be paid to how social enterprises can offer a more sustainable, market-based intervention into helping reduce poverty and providing livelihood opportunities. Social enterprise can provide valuable lessons on how business acumen and discipline can be integrated into international development practices.
- As it is practiced, implemented, and measured now, SEs usually do not directly improve primary indicators of human development. Rather, SE helps "Development" more generally, and their success is usually measured by modest social outcomes and the degree of financial sustainability that they to achieve.
- In local tourism, the host country community must build infrastructure for drinkable water, electricity, disease control, medical services, skills training, HIV & AIDS awareness, and environmental sustainability. Remote villages in Zambia and Tanzania have significantly increased their income per capita from community tourism efforts. However, villagers may be forced to act out a more contrived aboriginal life in order to increase tourism consumption.

Continue the discussion at [http://communities.seepnetwork.org/se\\_conf/node/1253](http://communities.seepnetwork.org/se_conf/node/1253).

## Annex 1. 10 Interesting Facts About Social Enterprise

Kim Alter listed 10 interesting facts about the SE

1. SE has galvanized a sizable global movement.
2. Yunus' Nobel Laureate speech was about "social business not microfinance."
3. SE is attracting a lot of money from foundations and venture philanthropists. SE attracts a little money from development aid donors.
4. Strong synergies, overlaps, values ads, and component duplications exist between SE and MF, fair trade, BOP, ED, and VC's approach to ED.
5. The British government calls SE as an essential strategic tool for the social sector development and created a special unit in the Department of Trade Industry and a legal destination.
6. Obama campaign mentions SE as part of its platform.
7. Over 80 universities around the world teach SE. Many of these also dedicated enters to further the study of social entrepreneurship.
8. SE has broad applications across multiple sectors and can be used
9. SE has been regularly featured in mainstream press including the PBS series, "New Heroes, and magazine articles in The Economist.
10. SE methodology is based on social sector organizations achieving financial sustainability, high performance, strategic impact, and entrepreneurial culture.

Continue the discussion at [http://communities.seepnetwork.org/se\\_conf/node/1255](http://communities.seepnetwork.org/se_conf/node/1255).

## Annex 2. Discussion Summary 1 And 2

Midway through the conference, Will Morgan provided a summarized response to questions 1-3 and then brought the discussion back to the fundamental two questions: (1) Who does SE serve? and (2) What is the SE's role in International development?

Based on the responses he asked for a follow-up response on how SE seeds the market, prove markets, and show the way to larger commercial forces which can then take over and propagate the social and economic benefits of the market activity. Below are the participants' responses:

- SE should be involved in promoting business environments in the economic incentive regime both at the local and international development arena.
- SE brings benefits to the poor by enabling an organization to keep on supporting the poorest of the poor.
- SE makes decisions are often poor because they do not make commercial sense.
- SE that partners with a market driven business should not purchase from business in other nations.
- SE will stand in the force for change when advocacy needs are made.

Will Morgan provided a summarized response to the question: What constitutes a SE? He invited attendees to offer an opposing viewpoint where certain thresholds and stringent qualifications are necessary to be categorized as a SE. In this case, better quality SE might receive specific tax benefits. Unfortunately the online conference ended before participants could propose a hybrid spectrum or rebuttal.

Continue the discussion at [http://communities.seepnetwork.org/se\\_conf/node/1308](http://communities.seepnetwork.org/se_conf/node/1308).





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