

INNOVATION AND TECHNOLOGY FOR SOCIAL ENTERPRISES

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1. How Today's Generation of Social Enterprises Drive Social and Economic Value?

The social enterprise has emerged as a key actor in efforts to address the many complex issues facing the world today. Its focus on providing a benefit to society as a whole rather than just the owners of the enterprise makes it ideal for addressing the global concerns of the environment, healthcare, education, economic growth, and poverty alleviation. Traditionally, a social enterprise was structured as a not-for-profit organization, but increasingly, for-profit institutions have realized the value and importance of incorporating the concepts of the social enterprise into their own operations. As a result, today's generation of social enterprises embrace both not-for-profit and for-profit mindsets; they understand that social improvement and profits can be complementary. This chapter will highlight how today's social enterprises drive social and economic value.

Social entrepreneurship can be simply defined as running a business that drives social innovation rather than being focused only on obtaining financial goals. Business-minded entrepreneurs with a social agenda seize opportunities by creating innovative processes that can help solve major social issues. They relentlessly focus on producing practical results that can change the world for the better. John Elkington and Pamela Hartigan defined social entrepreneurship in their book *The Power of Unreasonable People* (Harvard Business Review, 2008) as, "Not doing the 'deal' but achieving the ideal."¹ Social entrepreneurship is born out of a passion to create social value; the desire for financial success is secondary.

Social enterprises also have become more innovative in choosing an organizational and legal structure that supports their mission. Allen Bromberger sees a rise of a hybrid model.² The new social enterprise models combine the best of the for-profit and not-for-profit models. A hybrid structure connects separate not-for-profit and for-profit organizations that are bound together through governance or legal agreements. The hybrid model helps social

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¹ John Elkington, Pamela Hartigan (2008): *The Power of Unreasonable People*. Harvard Business School Press.

² Bromberger, A. (2011): A New Type of Hybrid. In: *Stanford Social Innovation Review*, Spring 2011.

enterprises overcome obstacles that current law imposes on partnerships and collaborations between not-for-profits and for-profits. In brief, the new model allows them to do what they could not have done in a “traditional” structure. Bromberger considers the contract hybrid, “An important step in the evolution of legal structures for social ventures.”

In addition, the popularity and recognition of social enterprises among the business and investment community has risen. The business community has realized that today’s social enterprises are not charities; they have sustainable business models, are profitable and grow, yet deliver social value. As a result, traditional enterprises have started to look at social enterprises for ideas on how to improve the way they conduct business. As an example of how more visible the social enterprise has become, for the past three years, *Bloomberg Businessweek*³ has been running an annual roundup of America’s most promising social entrepreneurs. The editorial team selects profiles of the 25 most promising social enterprises and asked its readership to vote for the one *they* find most promising. Today’s generation of social enterprises, therefore, whether they are not-for-profit organizations or for-profit companies with a social mission, have realized that it is possible to achieve social purpose, financial success and financial sustainability.

The Elkington and Hartigan definition and the Bromberger view of social entrepreneurship have their roots in two works that appeared in the late 1990s. The first, *The Rise of the Social Entrepreneur*, was a pamphlet written in 1997 by Charles Leadbetter (then with Demos) in which he describes five cases of how socially minded entrepreneurs in the United Kingdom found a way to offer welfare services more cheaply than the government. In 1998, J. Gregory Dees – who some call the father of social entrepreneurship education – published *The Meaning of “Social Entrepreneurship”* while he was the entrepreneur in residence at the Kauffman Center for Entrepreneurial Leadership at Stanford University. The paper – which was revised in 2001 – essentially describes the differences between a typical entrepreneur and an entrepreneur motivated by addressing social needs and causes. Works on social entrepreneurship began to proliferate from 2000 on, ranging from ‘how to’ books to more scholarly oriented papers. What follows is a representation of the literature on the subject, arranged in chronological order.

In 2000, Peter C. Brinckerhoff’s *Social Entrepreneurship: The Art of Mission-Based Venture Development* (John Wiley & Sons, 2000) first defined social entrepreneurship and then demonstrated that forming such enterprises can be done in a manner consistent with the way in which a “normal” enterprise is formed; i.e., through business development, feasibility studies, business plans, etc. A 2002 paper by Sarah H. Alvord, L. David Brown and Christine Letts at Harvard University, entitled “*Social Entrepreneurship and Social Transformation: An Exploratory Study*” (Hauser Center for Not-for-Profit Organizations Working Paper No. 15), used seven cases of successful social entrepreneurship to suggest what factors are necessary in order for social entrepreneurship to lead to significant changes for especially poor and marginalized groups.

This focus on economic development was also addressed in “*Social Entrepreneurship: Towards an Entrepreneurial Culture for Social and Economic Development*” (2002) by Susan Davis of Ashoka, in which she discussed the social and economic policy changes needed to

³ Bloomberg BusinessWeek (2010), America’s Most Promising Entrepreneurs, http://images.businessweek.com/ss/10/06/0608_socialentrepreneurs/1.htm

encourage more socially focused business activity. The theme of what drives the idea of social entrepreneurship was explored in the paper *“Social Entrepreneurship: How Intentions to Create a Social Enterprise Get Formed”* (IESE Working Paper No. D/521, 2003) published by Johanna Mair and Ernesto Noboa from the IESE Business School at the University of Navarra in Spain. The potential of social entrepreneurship to bring about positive change was explored in David Bornstein’s *“How to Change the World: Social Entrepreneurs and the Power of New Ideas”* (Oxford University Press, 2004), which provided anecdotes on and stories about successful socially minded entrepreneurial activities throughout the world. Christian Seelos and Johanna Mair continued to explore how social entrepreneurship can alleviate poverty in *“Social Entrepreneurship: Creating New Business Models to Serve the Poor”* (*Business Horizons*, Vol. 48, Issue 3, p. 241-246, 2005).

Social Entrepreneurship, edited by Johanna Mair, Jeffrey Robinson and Kai Hockerts (Palgrave Macmillan, 2006), was one of the first compilations of work in the social entrepreneurship field, offering perspectives and a research agenda. As can be imagined, the disparate motivations for and uses of social entrepreneurship endeavors lend themselves to a broad interpretation of the term. This was explored in *“Social Entrepreneurship: A Critical Review of the Concept”* by Ana Maria Peredo and Murdith McLean (*Journal of World Business*, Vol. 41, No. 1, pp. 56 – 65, 2006), in which a flexible but broadly applicable conceptualization of the concept was derived.

In recent years, the literature has mostly addressed the use of social entrepreneurship to foster economic growth and social development. Johanna Mair, a leading writer on this topic, collaborated with Robinson and Hockerts to edit the book *“Values and Opportunities in Social Entrepreneurship”* (Palgrave Macmillan, 2009) as well as the paper *“Social Entrepreneurship: Taking Stock and Looking Ahead”* (IESE Business School, Working Paper no. WP-888, 2010). Together with Susan Davis, David Bornstein followed up his 2004 work with the book *“Social Entrepreneurship: What Everyone Needs to Know,”* (Oxford University Press, 2010). A current trend is to broaden the intent of social entrepreneurship across other forms of entrepreneurship such as “normal” business entrepreneurship and institutional entrepreneurship to better address poverty alleviation. This is behind *“Delineating the Domain of Development Entrepreneurship: A Market-Based Approach to Facilitating Inclusive Economic Growth”* by Jeffery S. McMullen (*Entrepreneurship Theory and Practice*, Vol. 35, No. 1, pp. 185 – 193, 2011).

2. Challenges faced by today’s Social Enterprise

Historically, social enterprises have relied on two primary sources of funding – donations and/or investment from the private sector, and public sector funding. The financial crisis has caused a dramatic decrease in funding from these sources. All social enterprises, regardless of where they are located, have been affected. Those in developing countries, where public sector funding is small to begin with, are much more adversely affected. They have to rely more on private sector largesse. Most social enterprises tend to focus on projects related to health, education, and employment. Most developing country governments only have a limited ability to address these areas. As a result, the decrease in social enterprise activity is tragic. Employment, particularly youth employment, is a key component of poverty alleviation; however, employment is perhaps the area most severely damaged by a

slowdown in social enterprise funding. As events in Tunisia and Egypt have shown, youth unemployment as well as the absence of other social services can lead to severe political consequences. One challenge for the social enterprise, therefore, is to secure more consistent and constant funding.

A second challenge for the social enterprise is to be true to its mission and to avoid “social washing.” Social washing can be defined as the use of misleading marketing messages that create the perception that a company’s policies, products or services are based on creating a social value where in reality they are not. More and more companies have moved from driving a green agenda to a more comprehensive sustainability agenda that encompasses all three ESG (environmental, social and governance) factors. Today, a company’s role in society has become an executive suite topic as it has both stakeholder and recruiting appeal. Stakeholders increasingly value an association with a socially minded company, and the social enterprise is gaining in popularity as an employer of choice among the Millennium generation. As a result, there is an advantage for “traditional” companies and social enterprises to amp up their strategies and messages around social values. While this is laudable, companies need to be careful not to “oversell” their social value proposition and stay honest in their assessment about what they intend to do and are doing. To be credible, companies need to avoid social washing and be sure to “walk the talk.”

A third challenge is determining a commonly accepted measure of a social enterprise’s social return. The usual measure applied to investment – return on investment, or ROI – addresses financial returns only. Companies frequently talk about “the triple bottom line,” but to date there is no standardized method for calculating the social return on investment. While a number of approaches have been suggested as to how to calculate social return, no overall benchmark has been devised that can be commonly followed and applied to social enterprises across all industries and regions.

3. Opportunities

The world we live in today is facing multiple problems, such as environmental sustainability, urban congestion, poverty alleviation, wealth disparity, access to clean water, public health, the protection of animal rights and endangered species, among others. While no immediate answers to these problems have emerged, a growing number of social entrepreneurs, in both developed and developing countries, are turning these challenges into opportunities. Just last year the online publication *Justmeans* predicted that 2010 would be a breakthrough year for the social enterprise based on mounting societal pressure to drive change and the rising adoption of low-cost collaboration and social media tools.⁴ The use of social media, particularly Twitter and Facebook, has opened up new opportunities for social enterprises and advocacy groups to engage with supporters of their cause and provide funding. This “always on, always connected” mentality has made the global village smaller and closer, and has helped create a new generation of technology-savvy social entrepreneurs who

⁴ Marcia Stepanek (2010): Top Trends for 2010: Social Enterprise. In: *Justmeans*, January 10, 2010, <http://www.justmeans.com/Top-Trends-for-2010-Social-Enterprise/6368.html>

recognize that social media allows them to simultaneously reach local, national and international audiences for collaboration and financial support.

Another opportunity is the pursuit of public-private partnerships (PPP). PPPs are a relatively new trend in social entrepreneurship. As the name implies, it refers to a business venture in which both operations and funding are a combination of public and private entities. Both parties derive benefits from the partnership. Public entities, especially those dedicated to health and education, benefit by being able to tap financial, technical, and human resources they might otherwise not have access to and/or could not afford. Private entities, on the other hand, benefit through the reduced operating and financial risk that a public partner provides. Thus, PPPs are an innovative way of combining the interests of both partners to support a specific cause: the public sector can provide a service and the private social enterprise can assist with that service to support a specific cause.

An example of this is the Narayana Hrudayalaya Heart Hospital (NHH) in Bangalore, India. Public funding of healthcare in India is limited, and as a result healthcare is neither available nor affordable for large parts of the population. NHH was founded by Dr. Devi Shetty, a world-renowned cardiac surgeon and founder of the not-for-profit Asia Heart Foundation, in 2001 with funding provided by his father-in-law, who owned a large construction company, Shankaranarayana Constructions. From the beginning, the idea was to achieve profitability while providing care for the poor. It does this by using a hybrid solution to healthcare costs, by concentrating on efficiency, and by working constantly to be as efficient and cost-effective as possible. Those who can afford it are charged the full cost of heart surgery (which, because NHH is so efficient, is lower than what it would be elsewhere), while those who cannot are charged at or below cost. The Indian Government provides a subsidy to help offset the expenses of the poor who receive care, which also helps cover the price differential. NHH's approach to cardiac care has made it popular and profitable, and it has plans to expand the size, nature and scope of its hospital and the care it provides.

4. Innovative Practices by the New Generation of Social Enterprises

Unleashing the Wealth of Nations <http://wealthofnations.media.mit.edu/>

Among the objectives of social enterprise are the twin goals of poverty alleviation and economic development. This is why social enterprise, and the encouragement of social entrepreneurship, is so important in developing countries. It has long been understood that one of the key drivers of employment, and, hence, poverty alleviation, has been small businesses. But small businesses, just like big businesses, require capital to get started. While access to capital since the financial crisis has been reduced globally, it is critically scarce in developing countries, and while externally funded social enterprises dedicated to supporting developing company entrepreneurs (such as Ashoka and Endeavor) can help, they can only assist a small fraction of aspiring developing country entrepreneurs. Even microfinancing, which according to the Microfinance Information Exchange had grown to a volume of \$44.2 billion in gross loans as of the end of 2008 transforming the lives of millions of families, is not sufficient to provide financing to all who need it.

In a developed country, someone interested in starting a business can use personal savings and assets and/or the personal savings and assets of family and friends to get started. Except in rare circumstances, someone in a developing country who is interested in starting a business will not have personal savings and will not have friends or family members with personal savings. This does not mean, however, that they do not have assets. A farmer has land, a tailor has a sewing machine, a tradesman has tools, and a market 'mammy' has goods and a place to sell them. All of them have skills. These are assets – the underlying wealth of nations. The issue is how to identify and value these assets. By assigning a value to these assets, they can be leveraged as a means to raise capital.

Unleashing the Wealth of Nations is an initiative created by Julius Akinyemi. Its goal is to help entrepreneurs in developing countries to turn their assets into financial means. This is done by electronically registering individuals and their assets and putting them on a globally accessible database, an "eRegistry." The value of the assets, of course, would be standardized with the location, economic sector and market in which they are located. The assets are placed on an "open information exchange match-up platform" (an information broker), that aims to match up those who want to leverage their assets and those who need the assets. The system will have the ability to prequalify borrowers to multiple micro lenders, unemployed job seekers to prospective employers, farmers to buyers, virtual doctors to patients, venture capital funds to entrepreneurs, etc.

The potential market for this eRegistry is huge. In his book *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else* (Basic Books: 2000) Hernando de Soto Polar, a Peruvian economist, estimates that the size of the passive assets in developing countries (those which could be placed in the eRegistry) was \$9.3 trillion in 2000. Also, about 66-88 percent of the population in all developing countries is economically active in the informal market and act outside formal financial services and economic markets. Placing a portion of this market in the formal sector can benefit all parties. Borrowers get access to more secure and, probably lower-cost, financial resources; financial institutions obtain new business; and governments can succeed in new job creation. In addition, governments can collect taxes from the new enterprises and, hopefully, use the services that support the borrowers. The following schematic (figure 1) provides a visual representation of how the *Unleashing of the Wealth of Nations* approach works.

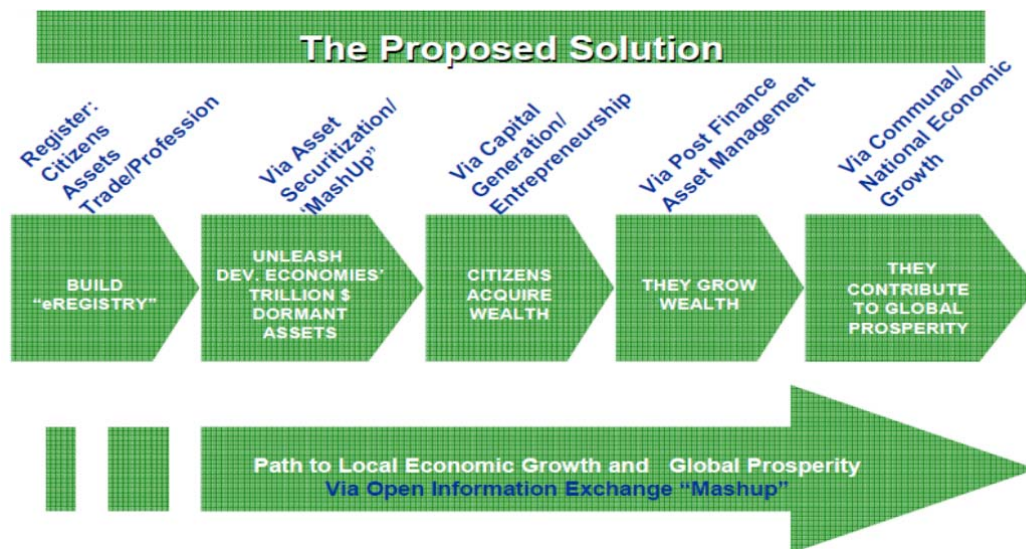


Figure 1. Unleashing of the Wealth of Nations: Path to Local Economic Growth and Global Prosperity

Ushahidi

Another innovative social enterprise is "Ushahidi."⁵ Ushahidi, the Swahili word for "testimony" or "witness," is a not-for-profit software company that develops free and open-source software for information collection, visualization, and interactive mapping. It was created by a passionate group of technology-savvy Kenyan individuals and human rights activists in the aftermath of the highly disputed 2007 Kenyan presidential elections. They set out to create a website to map reports of violence following the election. People submitted their reports using email or text messages, and they were then placed on a Google map. Thanks to support from donations and grants, since its launch, the site and accompanying software, which share the same name, have evolved to become one of the most commonly used tools for mapping events in various locations around the world.

Soon after the Kenyan presidential elections, Ushahidi was used to monitor violence in eastern Congo, track pharmacy shortages in East African countries and monitor elections in India and Mexico. The software was also used to assist relief workers after the 2010 earthquakes in Haiti and Chile, the Russian wildfires in 2010, and the 2011 earthquakes in New Zealand and Japan. In addition, this year it is contributing towards helping prodemocracy groups in the Middle East to communicate with each other. The company is at the forefront of social activism and public accountability. It is a model for what is becoming known as "activist mapping," combining social activism, citizen journalism, and geospatial information. Judged by the far-reaching use of the Ushahidi software since its creation, its impact on a wide range of social issues is profound.

⁵ www.ushahidi.com

TOMS Shoes

While traveling in Argentina in 2006, Blake Mycoskie realized that many people in developing countries often do not have the means to purchase shoes. Not having shoes can have negative consequences; for example, one of the leading causes of diseases in developing countries is soil-transmitted diseases, which can penetrate the skin through bare feet. In addition, shoes are often required as part of a school uniform, so not having them can deny a child access to an education.

Mycoskie returned to the U.S. and created TOMS Shoes. The company matches every pair of new shoes purchased with a pair of new shoes given to a child in need. It was an immediate success, and Mycoskie was able to return to Argentina later in 2006 with 10,000 pairs of shoes. As at September 2010, TOMS had given over 1 million pairs of new shoes to children in need all around the world.

TOMS sells shoes to the general public and also works with “giving partners” such as humanitarian and health NGOs and not-for-profits that are already established in their respective countries. These “giving partners” need to meet specific criteria in order to be in compliance with TOMS’s mission:

- The partners must be able to work with the same communities in multi-year commitments, regularly providing shoes to the same children as they grow.
- Shoes must aid “giving partners” with their existing goals in the areas of health and education, providing children opportunities they would not otherwise have.
- Donations of shoes cannot have negative socioeconomic effects on the communities in which shoes are given.
- The partners must be able to accept large shipments of shoes.
- The partners must only give shoes in conjunction with health and education efforts.

TOMS currently distributes shoes to children aged 18 and under in 23 countries around the world including Argentina, Armenia, Burundi, Cambodia, China, El Salvador, Ethiopia, Guatemala, Haiti, Honduras, Lesotho, Malawi, Mali, Mongolia, Nicaragua, Niger, Peru, Rwanda, South Africa, Swaziland, Uganda, the United States and Zambia.

The Adventure Project

Launched in 2010, the [Adventure Project](#) is a not-for-profit organization that strives to increase investment in positive social enterprises around the world. It focuses on a different humanitarian issue each quarter. Its first campaign, the [Coal Project](#), helped 1,730 families in Haiti receive charcoal-efficient stoves by selling stocking stuffers--\$20 boxes of coal--to raise the cash. For its current project, Keep It Clean, it has partnered with [WaterAid](#), an international NGO that provides clean water to developing countries. The Adventure Project aims to raise \$22,000 through donations and sales of Keep It Clean [soap](#) to help WaterAid

expand its handpump mechanic business in Northern India. Part of that campaign is to train locals with an interest in mechanics to fix handpumps effectively.⁶

FEED Projects

[FEED Projects](#) is a U.S.-based social enterprise with the mission of creating good products that help feed the world. The enterprise sells bags, bears, t-shirts and other accessories – all labeled with the FEED logo. The FEED bags are sold at high-end retail stores such as Lord & Taylor and online, such as on Amazon. A set donation to support humanitarian programs is calculated into the cost of each product. In addition to donating part of the sales revenues for each sold item, the company also donates part of its overall revenues to programs it supports. Programs include providing meals to children at schools in impoverished areas. Among the projects are meal programs for children in disaster-stricken regions such as Haiti and Japan. Creating all products FEED Projects uses environmentally friendly and artisan-made materials, along with fair-labor production.

FEED Projects is an example of an enterprise that uses a hybrid model and a private-public partnership model to fulfill its social mission. The Limited Liability Corporation (LLC) FEED Projects partnered with FEED Foundation in July 2008, a not-for-profit organization, to provide over 50 million school meals to children in the developing world through the United Nations World Food Program school feeding operations. The FEED Foundation co-founders Ellen Gustafson and Lauren Bush are both co-founders of FEED Projects. The FEED Foundation is dedicated to raising awareness and funds to ensure the provision of nutritious school meals to all children as a first step to improving the global food system. Realizing that even children in the U.S. don't always have enough meals, the U.S. program [FEED USA](#)⁷ was recently added. The FEED USA program also partnered with [DonorsChoose.org](#), an online charity that enables individuals to help students in need at the school level across the U.S. According to FEED Projects and the FEED Foundation, the partnership has provided over 50 million meals through WFP school feeding around the world since 2008.

Sodexo – Fighting child hunger in the United States with Feeding our Future

Sodexo defines itself as a global food service company with a mission of contributing to economic development in its 80 markets worldwide. Since 1997, the company has donated 2.5 million school lunches in over 20 U.S. cities through its Feeding our Future campaign. Sodexo estimates that approximately 17 million children, nearly one in four American kids, went hungry in 2010. In response, the company has committed \$20 million over three years to ensure children in the U.S. have access to healthy food. The program, administered by the Sodexo Foundation, funds summer meals and gives grants to young volunteers, schools and not-for-profits that are focused on reducing childhood hunger. The foundation partnered with [Share our Strength](#), a U.S. organization focused on ensuring American kids get the food they need, and [Youth Services America](#), which motivates youths to be volunteers and community leaders. Sodexo supports the Share our Strength's [No Kid](#)

⁶ Schwartz, Ariel: (2011): [The Adventure Project Brings Clean Water to Indian Villages. With Help From Female Water Mechanics](#). In: Fast Company, Ethnomics, February 25, 2011, <http://www.fastcompany.com/1731433/bringing-clean-water-to-indian-villages-with-help-from-female-water-mechanics?partner=rss>

⁷ <http://feedusa.thefeedfoundation.org/>

[Hungry™](#) campaign, which aims to eradicate child hunger by 2015. By March 2011, over 20,000 people had taken the No Kid Hungry Pledge: “I believe that no child in America should go hungry. By pledging today, I add my voice to the national movement of people committed to ending childhood hunger in America by 2015.” The \$20 million will also support the Sodexo [Feeding our Future](#) and the [STOP Hunger Scholarships](#).⁸

5. Recommendations

Based on an assessment of the current challenges and opportunities for social enterprises, the following four recommendations were made:

1. Build private-public partnerships and coalitions

Most social enterprises work with partners. As noted, this provides benefits for both partners and can be an effective way to reduce some of the risk associated with starting a social enterprise.

2. Create social enterprises in developed and developing countries

The social enterprise is needed in both the developed and developing world. The problems faced by developing countries with regard to improving healthcare, education, unemployment and poverty alleviation are ideally suited to the mission of the social enterprise. Increasingly, due to fiscal stresses at the national, state and local levels, developed countries are facing pressure to meet their own healthcare, education and unemployment needs – and, again, these can be met by the social enterprise.

3. Use social entrepreneurship as a key to poverty alleviation

One of the objectives of social entrepreneurship is job creation, which, as well as being a key component of economic growth, is an essential tool for poverty alleviation. Social entrepreneurship can thus address two important aspects of the UN Millennium goals: economic development and poverty alleviation.

4. Address youth unemployment through the social enterprise

The proportion of youth to total population has been increasing throughout the developing world, and it is this group, which is most adversely affected by unemployment. As a result, social enterprises need to focus on ways in which youth in developing countries can join the labor force. Because agriculture remains the largest economic sector for most developing countries, finding ways to create jobs in agriculture is essential. The following diagram (figure 2) is an agriculturally based model proposed by Julius Akinyemi, which will create job opportunities for youth at all stages of the agriculture process.

⁸ Rasmussen, Tove (2011), \$20 MM to Feed 17MM Hungry US Kids. In: Justmeans, February 7, 2011, <http://www.justmeans.com/-20-MM-Feed-17MM-Hungry-US-Kids/44003.html>

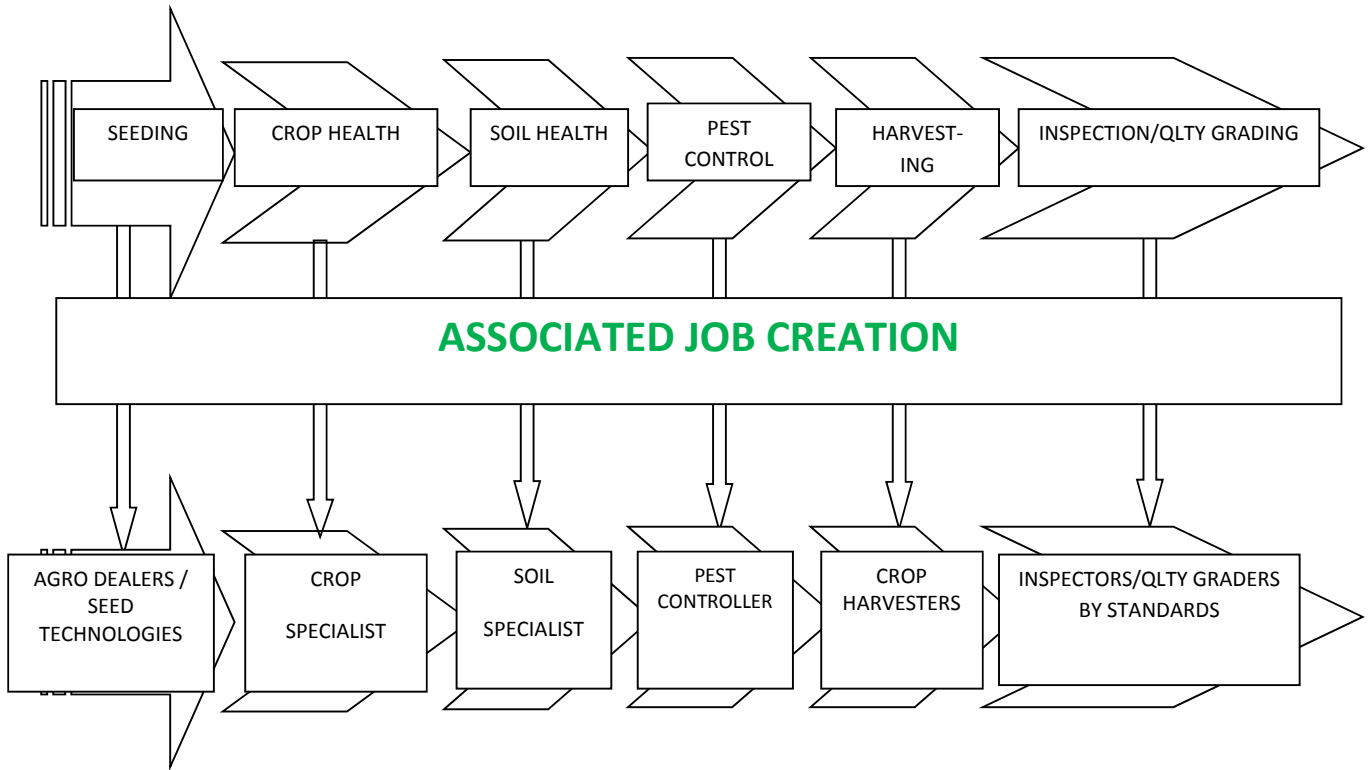


Figure 2: Agriculturally based Job Creation Model