Introduction to Social Entrepreneurship

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History of Civil Society

1945  Relief and Rehabilitation
1960  Service Provision (Subsidized)
1980  Community Comprehensive Development
1990  Human Rights Based Approach (HRBA)
2000  Millennium Development Goals (MDGs)
2005  Corporate Social Responsibility programs
2010  Social Entrepreneurship
A World of Social Entrepreneurship

• Over the past two decades, the citizen sector has discovered what the business sector learned long ago: **There is nothing as powerful as a new idea in the hands of a first-class entrepreneur.**

• Social entrepreneurs drive social innovation and transformation in various fields including education, health, environment and enterprise development.

• They pursue poverty alleviation goals with entrepreneurial zeal, business methods and the courage to innovate and overcome traditional practices.

• A social entrepreneur, similar to a business entrepreneur, builds strong and sustainable organizations, which are either set up as not-for-profits or companies.
What is Social Entrepreneurship?

• Applying practical, innovative and sustainable approaches to benefit society in general, with an emphasis on those who are marginalized and poor.

• A term that captures a unique approach to economic and social problems, an approach that cuts across sectors and disciplines grounded in certain values and processes that are common to each social entrepreneur, independent of whether his/her area of focus has been education or whether the organizations they set up are non-profit or for-profit entities.

• It is this approach that sets the social entrepreneur apart from the rest of the crowd of well-meaning people and organizations who dedicate their lives to social improvement.
Change Agents

Social entrepreneurs play the role of change agents in the social sector by:

1. Adopting a mission to create and sustain social value (not just private value)
2. Recognizing and pursuing new opportunities to serve that mission.

3. Engaging in a process of continuous innovation, adaptation, and learning. Acting boldly without being limited by resources currently in hand.

4. Exhibiting commitment and accountability to the beneficiaries served and for the outcomes created.
SE ......In numbers
FIGURE 1.1
Entrepreneurial Activity Across the Globe

Will I succeed with my startup?

by Anna Vital & Vlad Shyshov

10% of all new products succeed.

Startup Entrepreneur Success Rate

THE FIRST-TIMER

18%

1st-time entrepreneur 1st startup

THE REPEAT PLAYER

20%

Failed 1st-time entrepreneur success with next startup

THE VETERAN

30%

VC-backed entrepreneur who IPO’d success with next startup

THE WISDOM

Most entrepreneurs, even veterans, will fail. But the more you try, the more likely you are to succeed. So keep doing your startup.

FundersandFounders.com

In a startup absolutely nothing happens unless you make it happen.

- Marc Andreessen
Co-Founder, Andreessen Horowitz

What is Intraepreneurship?

Intraepreneurship

Intraepreneurship (n) 1. Successful adaptation of entrepreneurial attitudes and strategies inside of a bureaucratic organization. 2. Implementation of start-up practices within a large organization, producing valued innovation.
Who is an Entrepreneur?

A social entrepreneur is someone who recognizes a social problem and uses entrepreneurial principles to organize, create, and manage a venture to make social change (a social venture).

Where as a business entrepreneur typically measures performance in profit and return.
What is a Social Enterprise?

• Social enterprises are **social mission driven organizations** which apply market-based strategies to achieve a social purpose.

• The movement includes both **non-profits that use business models** to pursue their mission and for-profits whose primary purposes are **social**.

• Their aim is to accomplish targets that are **social and/or environmental** as well as **financial**: is often referred to as the triple bottom line.

• Many commercial businesses would consider themselves to have social objectives, but social enterprises are distinctive because their **social or environmental purpose remains central to their operation**.

  • CSR  Vs  SEs
Types of Social Enterprises?

• Leveraged non-profit ventures
• Hybrid non-profit ventures
• Social business ventures
Leveraged non-profit ventures

- The entrepreneur sets up a non-profit organization to drive the adoption of an innovation that addresses a market or government failure.

- In doing so, the entrepreneur engages a cross section of society, including private and public organizations, to drive forward the innovation through a multiplier effect.

- Leveraged non-profit ventures continuously depend on outside philanthropic funding, but their longer term sustainability is often under question given that the partners might change / lose interest / be unable to keeping funding the venture.

Fundraising Oriented
Hybrid non-profit ventures

• The entrepreneur sets up a non-profit organization but the model includes some degree of **cost-recovery** through the sale of **goods and services** to a cross section of institutions, public and private, as well as to target population groups.

• To be able to sustain the transformation activities in full and address the needs of clients, who are often poor or marginalized from society, the entrepreneur must mobilize other **sources of funding** from the public and/or philanthropic sectors. Such funds can be in the form of grants or loans.

  Quality oriented
Social business ventures

• The entrepreneur sets up a for-profit entity or business to provide a social or ecological product or service.

• While profits are ideally generated, the main aim is not to maximize financial returns for shareholders but to grow the social venture and reach more people in need.

• Wealth accumulation is not a priority and profits are reinvested in the enterprise to fund expansion. The entrepreneur of a social business venture seeks investors who are interested in combining financial and social returns on their investments.

Marketing Oriented
Compare and Know where are you standing?
Compare and Know where are you standing?

- **Business**
  - Generates income
  - Success measured by financial stability and profitability
  - Purpose: generate profit

- **Social Enterprise**
  - Can generate profit, but may also rely on donations or sponsors.
  - Success is difficult to measure
  - Must be financially sustainable, but focus on creating a positive impact

- **Charity**
  - Relies on donations or sponsors
  - Success measured by social or environmental impact
  - Purpose: benefit society
# Social Capital Markets

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Illustration based on Achleitner & Spiess-Knafl (in press)
Institutions in Social Capital Markets

- **Value banks** have the same role as commercial banks in traditional capital markets. They take deposits from savers and give loans to individuals and companies. Since Value Banks focus on the social sector, they have a better understanding of the business models and the specific needs and requirements of social enterprises. In addition, the savers sometimes accept a lower interest rate, which can be passed on to the social enterprise.
Institutions in Social Capital Markets

- The traditional role of investment banks is the financial advisory of corporate clients and the matching of supply and demand. Social investment advisers take over the same role in the social sector. They support the social enterprise in setting up an appropriate financing structure and finding the right investors.
Institutions in Social Capital Markets

A stock exchange is an efficient public platform to match supply and demand. On stock exchanges, companies can issue shares or bonds which are then traded continuously. Companies have access to a large capital pool and investors can sell their shares or bonds without delay at any time. A social stock exchange can be an attractive financing option for social enterprises with a proven business model and significant financing needs. At the moment, four social stock exchanges with trading activities are being incorporated.
Institutions in Social Capital Markets

• High-net-worth individuals and foundations have started to rethink their funding strategies adopting venture capital techniques for their funding strategies.

• This new form of financing in the social sector is known as Venturing Philanthropy, High Engagement Philanthropy or Social Venture Capital.

• The term is used differently across the world, but can be defined as having the following characteristics (John, 2006):
  – High engagement
  – Tailored financing
  – Multi-year support
  – Non-financial support
  – Organizational capacity-building
  – Performance measurement

• Thus, social investors concentrate their funding, and support only a limited number of social enterprises.

• Venture Philanthropy funds also support the social enterprise on a non-financial basis with management consulting or pro bono services.
Institutions in Social Capital Markets

Investment funds act as intermediaries between demand and supply by bundling funds from investors that they subsequently invest in certain asset classes. This approach reduces the transaction costs and the risk through diversification effects. **Social investment funds** apply the same principle in the social sector. They collect funds from individuals or foundations that they invest in a given sector such as microfinance or the solar industry.
Institutions in Social Capital Markets

• Rating and research agencies publish ratings and research reports on publicly listed companies to support investors in their capital allocation decisions. In the social sector, funding consultancies play this role. They publish research reports on different sectors and advise funders on which organizations to support.

• Funding platforms are similar to social stock exchanges as they provide a platform to match demand and supply, but without active trading.
Entrepreneurship

• One characteristic of entrepreneurs stands out: Diversity!

• Anyone – regardless of age, race, gender, color, national origin, or any other characteristic – can become an entrepreneur (although not everyone should).
Benefits of Entrepreneurship

The opportunity to:

• Create your own destiny
• Make a difference
• Reach your full potential
• Achieve impressive profits
• Contribute to society and to be recognized for your efforts
• Do what you enjoy and to have fun at it
Drawbacks of Entrepreneurship

• Uncertainty of income
• Risk of losing your entire investment
• Long hours and hard work
• Lower quality of life until the business gets established
• High levels of stress
• Complete responsibility
• Discouragement
The Cultural Diversity of Entrepreneurship

(continued)

• Young entrepreneurs
• Women entrepreneurs
FIGURE 1.2
Entrepreneur’s Age at Business Formation

Source: Based on Global Entrepreneurship Monitor, 2007.
FIGURE 1.4 Why Women Start Private Enterprises

The Cultural Diversity of Entrepreneurship

(continued)

- Minority-owned enterprises
- Immigrant entrepreneurs
- Part-time entrepreneurs
- Home-based enterprises
- Family enterprises
- Corporate castoffs
- Corporate dropouts
- Social entrepreneurs
- Retiring Baby Boomers
Ten Deadly Mistakes of Entrepreneurship

1. Management mistakes
2. Lack of experience
3. Poor financial control
4. Weak marketing efforts
5. Failure to develop a strategic plan
6. Uncontrolled growth
7. Poor location
8. Improper inventory control
9. Incorrect pricing
10. Inability to make the “entrepreneurial transition”
Avoiding the Pitfalls of Small enterprise Failure

- Know your Field in depth
- Develop a solid business plan
- Manage financial resources
- Understand financial statements
- Learn to manage people effectively
- Set your enterprise apart from the competition
- Maintain a positive attitude
Video 1.1
Conclusion

Entrepreneurs:

• Are an important part of the free enterprise system
• Are a diverse and talented group of people
• Represent a cross-section of society as a whole
• Are able to enhance the profitability of their businesses through acquiring additional knowledge and experience