



# SOCIAL

# ENTREPRENEURSHIP



**USAID**  
FROM THE AMERICAN PEOPLE



**Save the Children**

A Manual on Founding and Building  
Enterprises that Change the World





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**SOCIAL ENTREPRENEURSHIP:  
A Manual on Founding and Building  
Enterprises that Change the World**

Yerevan, 2016

The Manual has been developed within the framework of USAID-funded “Livelihood Improvement through Fostered Employment (LIFE) for People with Disabilities” Program implemented by Save the Children. The views expressed in this Manual are those of the authors and do not necessarily reflect the views of the USAID and US government.

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## Introduction

This manual has been prepared by the Armenia Country Office of Save the Children, as part of the Livelihood Improvement through Fostered Employment for People with Disabilities (LIFE) Program.

### What is the LIFE Program?

Since 2012, with funding support from US Agency for International Development, *Save the Children* International has been implementing the LIFE Program (2012-2016) in Armenia, which aims at promoting equal employment opportunities and access to employment as a basic human right for people with disabilities.

### How do social enterprises feature in the LIFE Program?

Save the Children considered social entrepreneurship to be a promising direction for providing employment opportunities for people with disabilities. Through one component of the LIFE Program, Save the Children and its partner organizations created 19 social enterprises in Armenia, mainly in the Yerevan and Ararat, Aragatsotn, Gegharkunik, Shirak, Syunik and Vayots Dzor regions from 2013 to 2015. As a result of this initiative, around 200 people with disabilities developed their working capacities, retrained and were provided with job opportunities.

The following formats were used for the establishment of social enterprises within the LIFE Program in Armenia.

a) Establishment/expansion of *social enterprises* **through cooperation between a business structure and local NGOs** (11 enterprises). For this format, the LIFE Program made a 65% investment and the 35% of the invested amount was contributed by partner organizations.

b) Establishment/expansion of *social enterprises* through cooperation only with **a business structure** (3 enterprises). For this format, the LIFE Program made a 50% investment and the remaining 50% of the invested amount was contributed by a partner business structure.

c) Establishment of *social enterprises* **through cooperation with local self-government bodies**, which resulted in creation of community-based social enterprises (3 enterprises). For this format, the LIFE Program made a 50% investment and the 50% of the invested amount was provided by self-government bodies and other donor organizations.

d) Establishment of *social enterprises* **through cooperation with TVETs** (1 enterprise). For this format, the LIFE Program made a 65% investment and the 35% of the invested amount was provided by

the partner TVET.

All of the four cooperation formats have placed a high priority on employment of people with disabilities and as a precondition all social enterprises have engaged at least 8-10 PWDs or at least 50% of all the employees.

### **What is the relationship between this manual and the LIFE Program?**

This manual was written and published as one of the concluding activities of the LIFE Program. Besides featuring a collection of theory and practical examples from around the world, the manual focuses on best practices and lessons learned from Armenian social enterprises. Most of these organizations were created by individuals who had initially very little experience in the specific business thinking that goes into social entrepreneurship. Their knowledge and experience grew during their engagement with the LIFE Program. Therefore, the learning that comes from their journey is a useful resource to others around the world who wishes to tackle a social problem, but have no experience in entrepreneurship.

The journey to creating a successful social enterprise is a difficult one, as Save the Children's experience in Armenia has shown through the LIFE Program. However, the social enterprises created within this initiative continue to produce new rewards. They do not just provide jobs to people with disabilities (as specifically targeted by the LIFE Program) but continue to change the mindset of the entrepreneurs, beneficiaries and general population, thus moving closer and closer to the achievement of the social mission of equal opportunities for all.

## Acknowledgements

This Manual is one of the products of the USAID-funded LIFE program. The program itself has recorded significant success in promoting innovative employment models with a particular focus on people with disabilities. The outcomes produced within the scope of this program would never have occurred without the continuous support and endorsement of focal stakeholders and partners, experts and volunteers, to whom we address these words of gratitude.

We extend our sincere thanks to USAID Armenia for their support, ongoing guidance and for enabling the establishment of the enterprises.

The role of the RoA Ministry of Labor and Social Issues and the State Employment Agency cannot be overestimated in terms of their openness to new approaches to creating innovative employment models, their commitment to promoting state programs with the ultimate vision of making the program outcomes sustainable and continuous.

We extend special appreciation to LIFE Program Partners and the teams who supported the development of the manual.

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We would like to thank all the social entrepreneurs, people with disabilities, businessmen and state officials who spared time to share their experiences with us. Their practical considerations have been reflected here.

Our special appreciation also goes out to Artak Melkonyan of the UNDP office in Armenia and Sir Timothy Straight of the Homeland Development Initiative Foundation (HDIF) for sharing their expertise by reviewing and improving the content of this Manual.

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## Foreword

If you are concerned with a social or environmental issue and want to tackle it using business-minded thinking and innovation, this manual is for you!

Social entrepreneurship is an exciting approach to sustainable development and has produced a number of success stories around the world. No matter what your cause is—from poverty reduction to environmental protection, supported disadvantaged groups to protecting cultural heritage - there is an innovative and entrepreneurial solution out there.

What will this manual do? It will help you understand what a social entrepreneurship is and how it differs from traditional non-profit activism or corporate social responsibility. It will present the process of defining a mission statement, the available business models, management considerations, marketing and communication steps, as well as social impact measurement approaches.

What will this manual not do? The purpose of this manual is to emphasize the areas in which social enterprise differs from its commercial counterpart. It will not go into the details of business development, financial supervision, project management and other areas that are important to business, because these are fundamentally the same for commercial and social enterprises.

You are about to start an exciting journey that holds the promise of causing positive change and improving lives. Most of the people who have successfully gone down this path before you are not entrepreneurial geniuses or business thinkers. They are people who feel passionately about a cause and believe that you don't need a grant or donation from the government or a charity to solve your community's problems.

Focus on your cause and turn the next page to see how social entrepreneurship will help you, in Mahatma Gandhi's words, "be the change you want to see."

## Chapter 1 – What is Social Entrepreneurship?

### This chapter will tell you –

- What the term social enterprise means
- Why innovation is important in social enterprise
- How social enterprises differ from traditional non-government organizations
- How social entrepreneurship differs from corporate social responsibility

### What is a Social Enterprise?

For many centuries, the solution of social problems was considered to be the function of the government exclusively, whether centrally or at a local level. Over time, non-government organizations developed to deal with issues that the state was unable (or unwilling) to handle. More recently, the private sector began to contribute to the solution of social, environmental and other issues through corporate social responsibility and philanthropy. And the most recent development in this trend is the evolution of the **social enterprise**.

There are various definitions for the term. The European Union says that a social enterprise is “an operator in the social economy whose main objective is to have a social impact rather than make a profit for their owners or shareholders.”<sup>1</sup> The Harvard Innovation Lab describes a social enterprise as a “pattern-breaking social change regardless of the resources currently controlled.”<sup>2</sup>

One of the oldest (and wordiest!) definitions dates back to 1998, when J. Gregory Dees said that social entrepreneurs are change agents who -

- adopt a mission to create and sustain social value (not just private value),
- recognize and pursue new opportunities to serve that mission,
- engage in a process of continuous innovation, adaptation, and learning,
- act boldly without being limited by resources currently at hand,
- exhibit a heightened sense of accountability to the constituencies served and for the outcomes created.<sup>3</sup>

Very soon, we will see examples of the “pattern breaking” and innovative thinking that goes into many social enterprises.

<sup>1</sup> [http://ec.europa.eu/growth/sectors/social-economy/enterprises\\_en](http://ec.europa.eu/growth/sectors/social-economy/enterprises_en)

<sup>2</sup> <https://www.youtube.com/watch?v=YUP1pH9pjzQ>

<sup>3</sup> <https://entrepreneurship.duke.edu/news-item/the-meaning-of-social-entrepreneurship/>

In the meantime, here is a simpler version of the term to get you started.

*A social enterprise is an organization **created in order to solve a social problem while making revenue and even profit**, often in an **innovative** way, in order to **scale up this solution** and make it **sustainable**.*

Note that the definition above (and the rest of this manual) uses the phrase “social problem” to also include problems that are socio-economic (e.g. poverty), environmental (e.g. pollution) and even political (e.g. local and international conflicts) in nature.

The term “social business” is also often used to describe a social enterprise, although it is usually only relevant if the given organization is registered as a business. Depending on local laws, the social enterprise may

be registered as a non-government organization or even not be registered in its early stages. For example, the Greening and Gardening Service of Abovyan City in Armenia is a social enterprise in its philosophy and operational model, but it does not exist as an independent entity. It is a subdivision of Abovyan City Hall (compare this to Netsuk, which is similar in nature, but has registered separately - see page 25).

## GREENING AND GARDENING SERVICE OF ABOVYAN CITY

The greening team expanded its scope of services and hired people with disabilities in 2015 as part of the cooperation with the LIFE Program.

*Location:* Abovyan, Kotayk marz, Armenia

*Field of activities:* Greening and gardening works in Abovyan city.

*Number of employees:* 20 employees, of whom 10 have disabilities

States vary in the approaches they use regarding a “special status” for social enterprises.

*In the United Kingdom*, for example, a new type of company form called a community interest company (CIC) was established in 2005. Any company with CIC status has the following main features –

- The assets held by the company are “locked” to be used only for community benefit
- There are limitations on the dividend and interest payments to shareholders;
- profits can be made, but they are primarily used for community benefit<sup>4</sup>.

It should be noted, however, that a social enterprise is *not* obligated to choose CIC status in the UK – it simply exists as a specific option for such companies.

<sup>4</sup> <http://www.cicassociation.org.uk/about/what-is-a-cic>

*In the United States*, Benefit Corporations are for-profit companies that are certified as having rigorous standards of social and environmental performance, accountability and transparency. This is possibly more focused on corporate social responsibility, and not all B Corps would meet the UK requirements of CICs, for example<sup>5</sup>.

While the existence of these “special statuses” have been shown to encourage social entrepreneurship in developed economies like the UK and US, many developing countries have demonstrated vibrant examples of social enterprise without any specific legislation or privileges provided.

In this chapter, we will illustrate this concept using the example of *The Big Issue*, a street magazine founded by John Bird and Gordon Roddick in the UK in 1991. Bird and Roddick saw an increasing number of homeless people in London who did not have a sustainable income. This was the SOCIAL PROBLEM they identified and wished to solve. They set up a magazine with a unique distribution model – it would be sold by homeless people. This was an INNOVATIVE and PATTERN-BREAKING solution, because homeless people had previously not been considered capable of such work. The model was quite simple. The vendor, a homeless person, buys the magazine from *The Big Issue*, sell it at double the price (in 2016, the amounts involved were £1.25 and £2.50 respectively) and is free to spend the difference any way they like. This illustrates the enterprise’s REVENUE SEEKING model. Vendors are also given support on housing, health, and other topics. The magazine was initially published monthly, but it went weekly in June 1993. Its circulation was around 100,000 copies in 2016. These are examples of how it has SCALED and its 25 years of existence display its SUSTAINABILITY. It was not created as a short-term approach but as a long-term solution. In 2016, they claimed to work with 2000 individuals across the UK, helping them help themselves.<sup>6</sup>

**Albert Einstein once said, “We cannot solve our problems with the same thinking we used when we created them.”**

**Innovation** is therefore an important component in social entrepreneurship and appears in more than one of the definitions we discussed at the beginning of this chapter. Because the problems that social enterprises address have usually been around for a long time, they require a “pattern-breaking” approach to solve them. The innovation may be a technological breakthrough, a change in thinking or the overcoming of stereotypes and social norms.

<sup>5</sup> <http://www.socialenterprise.org.uk/news/corps-faq>

<sup>6</sup> <http://www.bigissue.com/about-us>

Here is an example. Children born underweight have to be kept warm during the first day of their lives, or they are at a high risk of mortality. Most clinics use heating lamps to keep them warm, but in developing countries where electricity is unavailable, this is not an option. A social enterprise called Embrace has developed a warmer that is small, portable, reusable, inexpensive and does not require electricity<sup>7</sup>. The innovation that is central to this product is that it is made of phase-change material that can stay warm at the ideal temperature for newborns for up to 4 hours after being submerged in boiling water for just a few minutes.

### Isn't every business a social enterprise?

Essentially, every business is about creating value and almost all businesses contribute to the economic growth of a country. Economic growth is usually associated with social development (there is room for argument here, though) and the business often directly influences people's wellbeing through the creation of jobs. Does that make every business a social enterprise? The brief answer is *no*, and here is why.

- *Every company improves lives by creating jobs, for example.* This argument is true. But the question is whether this is part of the *purpose* or *mission* of the given company's creation. Returning to the example above, *The Big Issue* was established *specifically* to create this job opportunity, because homeless people are traditionally less successful in the job market compared to other jobseekers. So a commercial newspaper is creating jobs as a side effect – its primary purpose is to produce and sell its newspaper, which it could theoretically do using robots in some kind of futuristic, or completely online in today's world.

#### LENTEX LLC

Founded in 2003, started cooperation with the LIFE Program in 2014

*Location:* Gyumri, Shirak marz, Armenia

*Field of activities:* Textile manufacturing

*Number of employees:* 400 people, of whom 14 have disabilities

- *Every company solves problems.* This is true as well. A commercial company that manufactures clothes is also essentially solving a problem, because if no such companies existed, we would have nothing to wear. But **social enterprises solve the problems of vulnerable groups**, or those who have been left out of mainstream solutions. For example, people with disabilities theoretically have just as much of a right to work as able-bodied individuals. And there is no reason why a person confined to a wheelchair cannot work as a programmer at a computer or a bank teller or perform any other work that does not

<sup>7</sup> <http://embraceglobal.org/embrace-warmer/>

require being able to walk. But in many societies, the job opportunities that are created by commercial businesses are unavailable to them for various reasons, ranging from the existence of stereotypes, to accessibility issues and the lack of education and training opportunities for this group. A social business is one that targets such vulnerable groups and offers specific solutions to their problems.

Lentex<sup>8</sup>, a LIFE Program beneficiary based in Gyumri, Armenia, employs more than 400 people, including 14 people with disabilities. The company had not initially been created with the purpose of providing job opportunities to this vulnerable group specifically, and they currently form a small percentage of its total workforce. But after more than 10 years in operation, Lentex has decided to actively recruit people with disabilities and is, perhaps, on the journey of transforming into a social enterprise within a few years.

### How is a social enterprise different from a traditional non-government organization?

The thing common to both entities is that they are created to solve a social problem. Here are the main differences -

- In most cases, non-government organizations seek external funding (whether it is through membership fees, donations, sponsorship, targeted grants etc.) to support their operations and projects.

Social enterprises generate their own funding.

- Most NGOs report on the social impact that they have

produced. For a social entrepreneurship, the social impact is also its primary focus, but it needs to keep an eye on its financial bottom line as well, in order to stay sustainable. Most social enterprises thus report a “double bottom line” (financial and social results) or a “triple bottom line” (financial, social and environmental). This is an area of concern particularly for social enterprises that have been established by NGOs, where a business mindset might be slower to develop. For example, Unison Studio, set up by an experienced NGO to provide employment to people with disabilities in a photo and video production and digitalization company, is having trouble securing enough income to keep its operations afloat. Even though the company is located in a busy part of Yerevan, Armenia, it has not yet taken serious action on marketing and selling its services to the public, its focus has been more on its social targets.

#### UNISON STUDIO

*Founded in 2014 within the LIFE Program in cooperation with Unison NGO.*

*Location: Yerevan*

*Field of activities: Photo and video digitalization*

*Number of employees: 10 people with disabilities*

- Most social enterprises compete with regular businesses. In the case of NGOs, some “competition” could occur when they submit separate applications for the same grants, or when they run public fundraising campaigns on similar issues at the same time. But this is not the same as the day-to-day competition faced by businesses in the same sector.



### Lessons Learned by LIFE Beneficiaries

“Use your experience in NGO activities but avoid using the same strategy of management and promotion when running the everyday activities of the social enterprise.”

*Heavenly Manna*

Let’s take a look once again at *The Big Issue* and compare it to Shelter, a charity that also seeks to tackle the issue of homelessness in England and Scotland. Shelter was founded in 1966 and used photographs and storytelling effectively to fundraise publicly, after which local Shelter groups formed in one hundred different communities. The organization provides homeless people with advice and legal services, while also advocating for government programs and legislation to improve the lives of their beneficiaries. More than 80% of their funding is through individual contributions and grants.

#### ARMENIAN ASSOCIATION OF THE BLIND: ASHTARAK BRANCH

In 2014 within the LIFE program the NGO was equipped with modern equipment and materials

*Location:* Ashtarak, Aragatsotn marz, Armenia

*Field of activities:* Production of electric devices, plugs.

*Number of employees:* 10 people with disabilities

Both these organizations work on the same social problem and provide valuable services to a vulnerable group – the homeless. But *The Big Issue* uses a regular business approach and does not rely on external donations. It provides a product that the public is willing to pay for while tackling the social problem (in the given case) *through the delivery* of that product. At the same time, *The Big Issue* competes with other magazines that are produced for commercial purposes every week. A social enterprise, therefore, is often a riskier approach to problem solving, because it faces the same market risks as a commercial business, but it also has the potential for greater self-sufficiency and independence than a traditional NGO.

The Ashtarak Branch of the Armenian Association of the Blind provides a good example of the risks faced by social enterprises. In Soviet times, the government set up such associations for people with various disabilities all over the Union and gave them everything they needed to be active economic players. The Armenian Association of the Blind, for example, had a small manufacturing unit that produced electric

plugs and other devices - the Soviet government provided them with a building, budget, and - perhaps most importantly - set up a mechanism for the Association to sell every item it produced. This was essentially a kind of state-established social enterprise, with the difference that it did not operate in a free market. Now, in independent Armenia with a capitalist economy, the Armenian Association of the Blind has been left without its main buyer, and is floundering because it does not have the skills and mindset to market itself, improve the quality of its product, sell at a competitive price and make a profit.

### How is social entrepreneurship different from corporate social responsibility (CSR)?

CSR is another increasingly popular topic in the business world and, like social entrepreneurship; it too features the involvement of businesses in social issues. But social enterprises are created specifically to solve social problems, which even companies with the soundest CSR policies cannot claim. The main differences between social entrepreneurship and CSR are the following:

- A company's CSR policy focuses on issues related to its core business. This means that a company first decides its specific area of business and its business model, and then looks at the issues within itself or society that are related to its choices.

For example, a businessman decides to go into the café/restaurant business and starts setting up his business, while considering social issues like food waste that directly related to its operations. In addition, the restaurant entrepreneur may want to make her establishment accessible to people with disabilities and may even hire and train some of them as part of her larger team. These are all good examples of a sound CSR policy, where the company is actively engaging in issues that are related to its sector and its community. Compare this to the Blackout Restaurant at the Nalaga'at Center in Jaffa (Israel). It is a restaurant where the servers are visually impaired individuals, and visitors dining there partly experience what it is like to be blind, since they are served in complete darkness<sup>9</sup>. It is a social business created with the specific purpose of raising awareness about visual impairment, as well as providing jobs to people with this disability.

- The primary purpose of a company, no matter how good their CSR policy, is to make a profit. Without being profitable, businesses cannot be sustainable. Therefore, a regular company will tolerate a lack of progress in its CSR agenda and deliverables for a brief period if it is managing to stay profitable. But in case of a social enterprise, the social impact that it delivers is its primary purpose of existence. A real social enterprise might do the opposite and tolerate operating at a loss for a short period, if it is managing to deliver the social impact for which it was created.

<sup>9</sup> <http://nalagaat.org.il/en/blackout/>



Let's look again at the example of *The Big Issue* and the print media sector. A CSR policy for a commercial magazine could look at things like paper recycling, editions with large font types for visually impaired people and other issues that are *directly* related to its area of business or the community which it serves. The media can also look at highlighting specific issues and raising awareness about social problems. But its business model has not been created to provide solutions to those problems in the same way as *The Big Issue*. *The Big Issue* was created *specifically* to provide homeless people with a decent income. The selection of the business sector and model came after the decision to found a business to solve this problem.

The spectrum of organizations in table 1 illustrates where social enterprises stand, compared to charities or NGOs and commercial businesses.

**Table 1. Spectrum of Organizations<sup>10</sup>**

MISSION-DRIVEN					COMMERCIALLY DRIVEN	
<b>TRADITIONAL NON-PROFIT OR CHARITY</b>	<b>NON-PROFIT WITH INCOME GENERATING ACTIVITY</b>	<b>SOCIAL ENTERPRISE</b>	<b>SOCIALLY RESPONSIBLE (I.E. CSR-MINDED) BUSINESS</b>	<b>PURELY COMMERCIAL BUSINESS</b>		
<ul style="list-style-type: none"> <li>• Reliant on grants or donations</li> <li>• Measures social impact only</li> </ul>	<ul style="list-style-type: none"> <li>• Funded partially by sales of mission-related items, e.g. t-shirts</li> <li>• Specific legislation needed, not always possible</li> <li>• Measures social impact only, sales are only a funding tool</li> </ul>	<ul style="list-style-type: none"> <li>• Created to solve a social issue; solution is part of business model</li> <li>• Measures double or triple bottom line, but social impact is paramount</li> </ul>	<ul style="list-style-type: none"> <li>• Created for financial gain, but must achieve this in an ethical and responsible manner.</li> <li>• Contributes to solutions of social issues.</li> <li>• Measures double or triple bottom line, but profit is often paramount</li> </ul>	<ul style="list-style-type: none"> <li>• Created for financial gain</li> <li>• Seeks to work within the law, but rarely goes beyond legal requirement</li> <li>• Measures mainly profits, other reports (e.g. environmental) as dictated by law</li> </ul>		

Hopefully, by now you have a clearer idea of how social enterprise as a specific concept is a different way of tackling social problems, compared to other approaches. In the upcoming chapters, you will learn more about how to set up and grow a social enterprise, as well as measure the impact of your social enterprise.

<sup>10</sup> Adapted from Kim Alter's "Social Enterprise Typology" (2007)

### By the way...

- *The Big Issue* is a great example of social entrepreneurship, but the concept is not 100% original. The founders were inspired by a similar model used *Street News*, founded in New York in 1989. The idea was innovative in the UK, however, and **very often social entrepreneurs try ideas that are innovative in their own particular context, while they may have existed elsewhere before.** *Street News* hit a circulation of 3000 copies at its peak, so *The Big Issue* surpassed its success.
- *The Big Issue* has also had its fair share of problems. It sold 300,000 copies in 2001, but its circulation had dropped to around 100,000 by 2016, possibly due to the increased use of electronic media for news. **Thus, this social enterprise is subject to the same risks as any other businesses in its sector.**

### Additional Resources for Chapter 1

*Concepts like social entrepreneurship and corporate social responsibility are still evolving. Our global society faces some issues today that are at an unprecedented scale and expected to grow worse, e.g. climate change, water shortages, new diseases etc. In conditions like these, it is natural that there will be more and more companies that lie in the “gray areas” between socially responsible businesses and social enterprises, or between NGOs and social enterprises. The following resources provide some interesting food for thought on this situation and how it might change in the coming years or decades –*

- Michael Porter’s is one of the biggest names in business strategy theory. His TED Talk “[The Case for Letting Business Solve Social Problems](#)” is a great way to spend 17 minutes and learn more about how a business model can address a social issue, and how this is important in order to scale.
- [Every Business Is \(Or Should Be\) a Social Business](#) – In this piece in the *Harvard Business Review*, Deborah Mills-Schofield considers the changing nature of businesses over the past years, on the backdrop of the rise of social enterprise. Note how she sometimes uses the term “social business” in a very different way - to also describe the socially interactive nature of businesses, because “all companies have people as customers, employees, and suppliers.”
- Many companies (including social enterprises) are created when the founder has a personal need or observes one in his or her surroundings, and has an insight about how to solve it innovatively. [Read this article](#) that tells the story behind d.light, a solar lighting company.

## Chapter 2 – The Mission of the Social Enterprise

### This chapter will tell you –

- Defining and understanding the problem that needs to be solved
- Involving stakeholders in defining and understanding the problem
- How to decide whether a social enterprise is the best way to tackle the social problem
- Defining the mission of your social enterprise
- Why a mission statement is important
- How to prepare and write a mission statement

### What is the problem you are trying to solve?

The first step in the creation of a social enterprise must be the definition of *why* it exists. Traditional businesses can exist simply because there is a particular personal or commercial need for a product or service. Sometimes this need does not even exist beforehand – most of us did not know we needed smartphones before the first ones were available on the market. But a social enterprise is created *based on a social need*, which usually means that **a problem has been identified**.

After the initial identification of the problem, it helps to frame it in the form of **goals** and **barriers**.<sup>11</sup> For example, suppose you find that the rich-poor gap is very wide in your country and that the rural population has a very high level of poverty. In many former Soviet countries, for example, towns and villages used to host large factories that kept the people employed and provided a decent standard of living. After the collapse of the Soviet Union, those factories shut down and the populations of those villages and small towns were left with no jobs and virtually no chances of finding new employment.

The “goal” component of this problem would be something along the lines of “increasing the average income of the rural population in country ABC by X%.” What are the barriers to that goal? In the case of the former Soviet villages, there may be a lack of skills by the villagers relevant to today’s job market, a lack of knowledge related to other economic opportunities like agriculture, a lack of starting capital, and more.

Once you have a relative clear idea of the main **goal** and the largest **barriers** related to it, you will need to do a little more research to structure the problem and prioritize the relationship of the barriers to the problem and each other. Doing desk research and looking at the numbers will help you clarify some points such as –

- Is this really a problem? How big a problem is it in numbers (e.g. how many people does it adversely impact)?

- The viability of your social enterprise might well depend on the sheer numbers behind the problem. Having a very small number of beneficiaries will limit the business models (see Chapter 3) you can apply and may also impact how and when you scale your organization.

- Which institutions/organizations/individuals are currently involved? Are there are government or charity programs seeking to address the issue?

- The absence of any programs targeting the issue does not mean that it does not exist. But, in many cases, you will be able to find potential new partners and stakeholders (see below) by researching what *has* been done by other agencies.

- How long has the problem existed? What has been done in this time to address it?

- If a problem has existed for a very long time, you need to examine whether anything has changed in the eco-system that offers an innovative solution today that did not exist earlier. Another possibility is that people's attitudes have changed (or are now more receptive to change) and this offers a new way for your social enterprise to tackle the issue.

Based on your answers to these and other questions, this is usually a good time to start involving **stakeholders** in the development of your social enterprise.

## Who are stakeholders and what is their role in problem identification?

The people and/or groups or institutions affected by, or affecting, the work of your social enterprise are called its **stakeholders**.<sup>12</sup>

Your key stakeholders may be different depending on how you plan to run your social enterprise. But, in most cases, they will consist of the categories listed below. For each category, we have presented two sample questions you can use to check your goal and barrier components –

- *Staff and volunteers* – Does everyone believe this is a real problem? Does everyone agree that the barriers are exhaustive, or are there other factors that have not been considered?

- *Beneficiaries* – What is holding you back from solving your problem? What other issues need to be addressed before this solution can be implemented?

- *Local community* – Are the identified beneficiaries really in need of support? What is the best way they can be supported to help themselves?

- *Local and central government* - Are the identified beneficiaries really in need of support? What has been done by the authorities in the past to solve their problems and why has it, or has it not, worked?
- *Traditional charities, other donors* - Are the identified beneficiaries really in need of support? What is the best way of helping them?
- *Customers* – Would you buy/use a product/service that has a direct or indirect positive impact on the identified beneficiaries?

Why or not why not?

The Spitak Greenhouse, founded during the LIFE Program, is a good example of a social enterprise that worked well with a number of stakeholders. The mayor of the city of

## SPITAK GREENHOUSE

Founded in 2014 within the LIFE Program with the support of Spitak municipality and Spitak Farmers NGO.

*Location:* Spitak, Lori marz, Armenia

*Field of activities:* Organic production of vegetables (cucumber, in particular).

*Number of employees:* 20 employees, of whom 17 have disabilities

Spitak held numerous discussions on the idea with Save the Children and as a result of joined efforts by Save the Children and Municipality of Spitak city numerous discussions were held with several international donors and other stakeholders. As a result, the parties managed to secure funding from several sources such as UNICEF, UNDP GEF, Kamrjak social benevolent NGO, Spitak farmer NGO and Armenian Missionary Association of America which resulted in set up of a robust social enterprise establishment.

While discussing the problem and its components with your stakeholder groups, you should aim to find answers to questions asking “for whom,” “why,” “what,” and “how” your social enterprise should operate. These will form the “building blocks” of your organization’s mission statement, as outlined later in this chapter.

For example, stakeholder discussions regarding poverty in former Soviet towns and villages might clarify that most villages have the environmental resources for agriculture, but the population might be lacking in knowledge and technical skills. For the towns, on the other hand, agriculture might not be an option, and the development of the service provision sector might be the only viable option, once again required new knowledge and skills. Depending on which of these two problems your organization decides to tackle, its mission and model will differ.

### Are you sure that a social enterprise is the best option?

Once you have clearly identified the problem, it is worth considering once again whether the social enterprise model is the best way to tackle it. In certain situations, it might make more sense to work as a charity or even as an informal group, rather than to create a social enterprise. Here are a few questions you

can ask yourself and your team to help clarify the situation –

- ***Is there already a principal donor or grant source that is available, sustainable and sufficient to run and expand our operations?***

Running a social enterprise would often require a number of indirect activities like marketing, product development, sales and so on that are needed to support your revenue-generating activities.

If, for example, you have access to an endowment fund or other grant that can supply you with enough financing to run your operations today, expand in the near future and continue doing so in the long term, your best option might be to work as a charity. Not having to spend resources like time and money on fundraising means that you and your team can fully focus on your social mission, without the “entrepreneurial” side of things.

- ***Is there a business model that addresses the social problem while having the potential for sustainable income generation?***

We will look at business models in detail in Chapter 3, but it is possible that the issue you want to address does not have a viable business solution.

For example, when working with very poor populations, it might be very difficult to make realistic income forecasts for products or services provided to them, and alternate sources of revenues may not be available. Let us consider a scenario of this kind. A social activist wants to address the issue of child malnutrition in a very poor community and creates a company that develops a “nutrition mix” providing schoolchildren with their basic daily ration of nutrients. The cost of producing the mix (plus a small profit to cover other company expenses) may still lead to a price that is too high for local families to pay, and the school or Education Ministry budget may not have enough funds to buy the product. In this case, it might be simpler for the social activist to found a charity and seek funds from traditional donors like local and international development agencies. This is slightly different from the case described in the first point of this section – there was no available donor, but investing some time and other resources in finding a donor might then lead to a financial solution as a traditional charity.

- ***Does local legislation allow you to create a social enterprise with the model you have chosen?***

Most countries do not have specific legal organization types set aside for social enterprises and the

term “social enterprise” is not legally defined in many cases. This is not an obstacle for you to create your social enterprise. Some countries allow non-profits or non-government organizations to generate revenue and reinvest it internally, and a social enterprise can also be a limited liability company (LLC) or another company type. However, there may be issues of whether the cause and the model you have chosen are compatible with local legislation.

For example, if you want to provide support to refugees in your country and want to create a social enterprise that employs them, you may face legal difficulties because of the limits on employment imposed on non-citizens by law in some countries. In this case, you might have to change the business model of your social enterprise or change your approach and work as a charity or informal group.

- ***Is there an institution that is ready to “buy” the social benefit you will produce?***

The social benefit, in this case, is not necessarily the product that your social enterprise will put on the market. Using the same example as in the previous point, you can employ refugees to produce, say, soap in your social enterprise. As a business, you should naturally consider whether there is a market for your product, i.e. soap. But as a social enterprise, you should also consider whether there is an institution (perhaps the government, or an international relief institution) that is willing to pay you for the social benefit you produce, i.e. improvement in the lives of the refugees. For an example on how “buying” social benefit works, see the Pay for Success Social Impact Bond on page 38.

Before we started discussing what a mission statement is, we said that your discussions with stakeholders should provide you with the “building blocks” for your organization’s mission statement. In the next section, we will look at how to develop this, using the example of the Root Capital mission statement mentioned above.

## **What is the mission of your social enterprise?**

When you have an idea of the social issue that you want to help solve and how your social enterprise will do it, it is helpful to put together a mission statement in writing.

A mission statement is a formal summary of the aims and values of a company, organization, or individual.

This is a sentence or two that tells everyone—customers, investors, employees and others—the social impact that your company wishes to achieve, and (possibly) how it will do this. Let’s take a look at some

examples.

- Echidna Tours is an Australian social enterprise that provides guided tours in the country's wildlife-rich regions. It aims to protect and promote Australian wildlife and defines its mission as simply –

“To ensure the free-living future of Australian wildlife.”<sup>13</sup>

- Root Capital invests in agriculture as a means to combat poverty. It defines its mission as follows –

–  
 “Our mission is to grow rural prosperity by investing in small and growing agricultural businesses that build sustainable livelihoods in Africa and Latin America.”<sup>14</sup>

- d.light is a social enterprise that was founded to deliver affordable solar-powered solutions for more than two billion people in the developing world without access to reliable energy. Their mission statement even briefly describes the technical basis of the solution they provide –

“d.light is dedicated to providing distributed solar energy solutions for households and small businesses that transform the way people all over the world use and pay for energy.”<sup>15</sup>

### Why is a formal written mission statement important?

Once your social enterprise starts gaining customers and growing, there will be a number of occasions where you will need to make business decisions that focus on numbers. Should you expand, hire more people, who should you hire, how much should you pay them, how should you attract more customers, should you advertise, etc. – these are all questions that a commercial business usually answers doing a basic cost-benefit analysis, i.e. how much money will be spent and what is our expected return? But, as a social enterprise, the decisions you make **must be driven by your organization's mission**.

If, for example, you help improve the lives of people with disabilities by making them a significant part of your staff, your hiring and training processes might be slower than that of a commercial business. But you should not sacrifice these processes for the sake of rapid expansion, because you would be diverting away from the reason why you created your organization in the first place.

Your mission statement is thus a vital tool for you to understand whether your organization is having the necessary impact. A few years down the line, you might achieve sustainability and have a thriving business, but fail to achieve significant social impact.

Thanks to a well thought through and formally documented mission statement, you as well as all

13 <http://www.echidnawalkabout.com.au/social-enterprise-mission-statement>

14 <https://www.rootcapital.org/about-us>

15 <http://www.dlight.com/about-us/>



your stakeholders can make sure that your enterprise is headed in the right direction, improving lives and making the world a little better, while remaining sustainable and profitable.

### How should you prepare and write a mission statement?

In order to prepare your mission statement, you need to define and confirm the “for whom,” “why,” “what,” and “how” of your social enterprise.<sup>16</sup> Corresponding to each of those questions, the mission statement essentially consists of the following components –

#### 1. The Beneficiary Statement – For who is this social enterprise?

This is the definition of the target population affected by the social problem that you are addressing. In the case of Root Capital, the beneficiaries consist specifically of the rural population in Africa and Latin America.

#### 2. The Problem Statement – Why is there an issue that needs to be addressed?

This describes the reason for the existence of your social enterprise. In some societies, for example, people in rural areas might not have any issues for social to address enterprises because they live in relative prosperity or the state covers all their needs. The specific issue that Root Capital is addressing in their beneficiary population is poverty, because there is a lack of economic opportunities in rural Africa and Latin America.

#### 3. The Statement of Purpose – What does your social enterprise aim to accomplish?

This is a description of the solution to address the problem that you identified in the given beneficiary group. Root Capital states that they aim to “grow rural prosperity.”

#### 4. The Business Statement – How will your social enterprise achieve its aims?

This part of the mission statement states the specific activity that your enterprise will be implementing in order to address the problem that you identified in the given beneficiary group. Root Capital states that they will “invest in small and growing agricultural businesses that build sustainable livelihoods.” This is closely related to the operational or business model of your enterprise, which is discussed in detail in Chapter 3.

After combining the various components and polishing the text, one can see the clear and comprehensive Root Capital mission statement –

*“Our mission is to grow rural prosperity by investing in small and growing agricultural businesses that build sustainable livelihoods in Africa and Latin America.”*

At this point, you are probably clear on the social issue you want to solve and have some thoughts on how you want to achieve this as a social enterprise. In the next chapter, we will look at some possible business models you can use to make this a reality.

## Additional Resources for Chapter 2

- [This article from Harvard Business Review](#) offers an alternative approach to defining the problem correctly (in this case, in a purely business context, but the steps described are fully applicable to social enterprises as well). Note the importance of justifying the need and contextualizing the problem.
- Some organizations that work with social enterprises prefer briefer mission statements, like the one developed by Echidna Tours. Read this article by the Stanford Social Innovation Review about [mission statements that are no longer than eight words](#).
- A social enterprise in Aberdeen, Scotland, called The Send It, worked for 45 years, providing training and jobs for people recovering from mental health problems. The enterprise provided mailing and distribution services to the Aberdeen municipal administration, so when the City Council decided to cut funds in 2014, their social enterprise model was no longer viable. There were also no perspectives to find other clients, because the market for mailing and distribution through traditional post has shrunk considerably in the past few decades with the advent of new technologies. Watch [this news report](#) about the closure of the charity as an example of how choosing the social enterprise model is always associated with the pressure to secure new revenues and compete like a business.

## Chapter 3 – Types of Social Enterprises

### This chapter will tell you –

- How social enterprises can originate within NGOs, the state sector, or as independent companies
- How social enterprises vary by structure
- What mission-centric, mission-related and mission-unrelated social enterprises are
- Several possible business models for running your social enterprise

### Is there a parent organization?

As we've seen, social enterprises are created with a social mission, in order to solve a problem.

#### NETSUK

*Founded in 2014 within the LIFE Program with the support of Vanadzor municipality.*

*Location: Vanadzor, Lori marz, Armenia*

*Field of activities: Greening and sanitation services in Vanadzor city.*

*Number of employees: 20 employees, of whom 17 have disabilities*

While many social enterprises are founded by active individuals who see an entrepreneurial opportunity as a solution to the problem, this is not always the case. The following types of social enterprise can be distinguished, depending on how they are founded.

- *State-funded social enterprises* – when a public body decides to use a social entrepreneurship approach to tackle an existing problem, it can choose to set up an independent or semi-independent structure and allow it to run as a social enterprise. For example, the city authorities in Vanadzor, Armenia, set up Netsuk, which was registered as a separate entity, in order to provide jobs to people with disabilities.

Through Netsuk, this vulnerable group—which would have a very difficult time finding jobs elsewhere—provides the street-cleaning and tree-pruning and planting services in the city.

#### GUM LLC

*Founded in 2014 within the LIFE Program in cooperation with Partnership & Teaching NGO.*

*Location: Goris, Syunik marz, Armenia*

*Field of activities: Production of leather accessories.*

*Number of employees: 15 employees, of whom 10 have disabilities*

- *NGO-funded social enterprises* – in many countries, non-government or non-profit organizations are not allowed to make any revenue (membership fees are usually the only exception). In such cases, NGOs may choose to found private companies in order to support or achieve their main mission. For

example, Oxfam—one of the largest charities in the world—has set up more than 700 shops in the United Kingdom, selling various items from clothing to books in order to generate revenue for their charitable

## ECHOTECHNO

Founded in 2014 within the LIFE Program in cooperation with MF NGO and Dantescomp LLC.

Location: Yerevan, Armenia

Field of activities: Renewable energy. Production of solar energy water heaters and heating systems, as well as PVC doors and windows.

Number of employees: 13 employees, of whom 10 have disabilities

and social development activities. This was a common approach among the beneficiaries of the LIFE Program in Armenia. An NGO called GUM in the city of Goris set up a limited liability company that took on the name of the program – GUM LLC. The business began to produce leather goods and

employed people with disabilities.

- *Social enterprises founded as independent companies* – this is the pure “private sector” model of social enterprise when it is seen as a business with no direct ties to a state body or non-profit organization. Most of the examples we have seen so far in this manual, like *The Big Issue* or Root Capital, are independent for-profit companies. Among LIFE beneficiaries, EchoTechno is an example of a social enterprise that was founded as a purely private sector entity. The company aims at increasing demand for ecologically clean solar, renewable and alternative energy systems in the country. It supports acceleration and facilitation of deployment of energy efficiency in Armenia.

An additional category to consider is social enterprises that are founded in a particular location through the scaling or concept dissemination of the enterprise in another city. For example, Impact Hub Yerevan was founded in Armenia in 2016, continuing the dissemination of the Impact Hub concept that had globally already established around 60 such independent but connected units. For more on this, see “scaling out” on page 51.

## Where is the social enterprise structured within the parent organization?

Based on the classification above, a social enterprise can have the following structural location –

- *Within the parent organization* – In this case, the social enterprise does not exist separately from the parent organization and often does not have a separate name, branding etc. Oxfam’s shops are a good example of this structure – they are not a separate entity, they are a part of Oxfam’s portfolio of activities and programs.

Note that this is not necessarily about the legal situation and registration of the enterprise. The

parent organization might choose to (or be obliged to, depending on local legislation) register the revenue-seeking enterprise as a separate entity. But, programmatically and structurally, it can be completely within the parent organization, with the social enterprise being given the status of a program with its own director, team etc. The social enterprise, in this case, does not have a separate strategy or action

## YEREVAN STATE COLLEGE OF INFORMATICS

The college-based Laser Printing service was founded in 2014 within the LIFE Program

Location: Yerevan, Armenia

Field of activities: Laser printing on ceramics, organic glass, wood, textile, etc.

Number of employees: 12 people with disabilities

plan, but all of this is developed as part of the parent organization's strategy and vision. It is often also physically within the same space as the parent organization.

For example, the Yerevan State College of Informatics in Armenia has established a laser printing service that functioned as a social enterprise providing jobs to people with disabilities. However, this *de facto* social enterprise is not registered as a separate entity and has the status of a design and printing laboratory within the College. It does not have a separate budget and, because it is within a state-funded College, is limited in how it operates, earns revenue, spends it and so on. But this arrangement currently allows the College to face less risks and fewer legal obligations while operating a service that has a positive social impact on the community. As the enterprise grows, the College may face the choice of registering it separately in order to increase revenue streams and diversify its customer base.

- *Semi-independent of the parent organization* – Here, the social enterprise is seen as a separate entity, with its own team. But the parent organization often works with it closely, either making decisions by being a part of its Board, or through other means, like serving as its main client. Netsuk, mentioned earlier in this chapter, works this way. The city authorities of Vanadzor can influence the decisions of the social enterprise and are involved in appointing or changing the director. Vanadzor's City Hall is also the main client for the social enterprise.

- *Fully independent social enterprises or those without parent organizations* – In this situation, the company is completely free to pursue its own strategy and action plan, either because it has been given that independence by the parent organization, or because it never had one.

## The relationship between the social enterprise's mission and its business activities

Following the previous chapter, it might seem confusing to state here that a social enterprise may choose business activities that are not directly related to its mission. But there is no contradiction. In all events, *a social enterprise has been created to solve a social problem*. The business activities may exist simply to create revenue for that social mission, while the activities themselves may not be directly related to it. The examples below will help clarify the different kinds of social enterprises, based on the relationship between their mission and their activities –

- *Mission-centric social enterprises* – In this case, all the activities of the social enterprise are part of the mission. The social enterprise and the specific model chosen are central to the realization of the mission. This is the approach used by Root Capital. Cooperatives are also a good example of this and you can see a detailed description of how this works later in this chapter (see page 32).

- *Mission-related social enterprises* – Through this approach, the social enterprise creates synergies that advance the mission in a number of ways, but everyday activities may not all fully contribute to solving the social problem. A good example of this is Zart Print, a printing company in Yerevan, Armenia that primarily employs people with disabilities. The social mission of the organization is to improve the lives of people with disabilities and the stable jobs that it provides to its several employees—who were specifically targeted, selected and trained—is certainly one way in which it contributes to this mission. The company also provides printing services in braille and large font, thus providing accessibility to people with visual impairment. But the majority of their business activities consist of everyday printing solutions – competing with other companies that print books, cards, brochures, posters and more for individuals and organizations in the country.

Thus, while the mission is at the heart of what the social enterprise does, *not every activity* of the enterprise directly contributes to the accomplishment of that mission.

- *Mission-unrelated social enterprises* – In this case, the social enterprise may be pursuing everyday activities that do not contribute to the mission except, for example, by providing revenues that are used in the parent organization's mission-related programs. Oxfam's shops are a good example of this approach. The items sold in the shops are usually not directly related to any of Oxfam's programs, and while the shops may also be a good way for Oxfam to communicate their programs to the general public, their main purpose is simply to generate revenues for the charity's core programs.

## Business Models for a Social Enterprise

This section will look at various models that social enterprises use to advance their mission while also bringing in revenue. The presentation of business models that follows is not exhaustive, but it covers the main approaches used by a variety of social enterprises today. In the descriptions below, the phrase “target population” has been used to mean the population that has the social problem targeted by the given social enterprise.

- *The Entrepreneur Support Model* –

**Brief description** – The social enterprise addresses its social mission by selling business support and development services to its target population, who then sell their products and services in the open market.

**What is the role of the target population?** They act as the **customers** of the social enterprise. The enterprise provides the target population with opportunities that are usually not available to it in the regular economy. The social enterprise does not usually directly enter the market in this model.

**Example** – Grameen Bank<sup>17</sup> is possibly one of the best known social enterprises in the world, established to combat poverty in Bangladesh, and it operates using this model. It works with the poorest farmers in Bangladesh and provides them with affordable loans without requiring collateral. Using the loans, the farmers can grow their businesses, and they sell their produce in the general market. The customers of the Grameen Bank are the same as its target population – poor Bangladeshis.

### ZART PRINT

Founded in 2012, started collaborating with the LIFE Program in 2013

Location: Yerevan, Armenia

Field of activity: digital and offset printing

Number of employees: 6 employees, of whom 5 have disabilities

- *The Market Intermediary Model* –

**Brief description** – The social enterprise addresses its social mission by acting as an intermediary to help its target population access the open market. The social enterprise adds value to products or services provided by the target population and helps them reach buyers that would otherwise have not been available to them. This often includes activities like product development, packaging, marketing etc.

**What is the role of the target population?** They act as the **suppliers** of the social enterprise, which sells the products or services provided by the target population. Note, however, that the target population is not directly employed by the social enterprise in this case.

**Example** – Homeland Development Initiative Foundation (HDIF)<sup>18</sup> is a social enterprise based in

<sup>17</sup> <http://www.grameen-info.org/>

<sup>18</sup> <http://www.hdif.org/>

Armenia that works with poor women and people with disabilities in the towns and villages of the country where unemployment levels are high. HDIF works with a number of artisans and family businesses (all registered separately and not structurally a part of HDIF) and helps them develop ideas for items to produce, e.g. crocheted dolls, knitted pillowcases, wood puzzles etc. The social enterprise helps the artisans with packaging and supervises the quality of the items produced. They then sell the items through offline and online distribution mechanisms, present them at international fairs etc., providing the artisans living in small Armenians towns with a potentially global market where their items can be bought. HDIF also arranges export and international delivery of the items, and makes its income through a percentage of the revenue the sales generate.

- *The Employment Model*

**Brief description** – The social enterprise advances its mission by employing representatives of the target population.

**What is the role of the target population?** They are the **employees** of the social enterprise. This sets it clearly apart from the market intermediary model described above.

**Example** – Heavenly Manna is a social enterprise in Armenia that consists of a bakery employing women with disabilities. The women bake popular Armenian and Western pastries and earn a decent living. Before this social enterprise was founded, they did not have much perspective for stable employment because of their disability and the lack of a strong educational background. Note how in the case of Heavenly Manna, the

## HEAVENLY MANANA

Founded in 2014 within the LIFE Program

Location: Sevan, Gegharkunik marz, Armenia

Field of activities: Production of confectionary

Number of employees: 12 people with disabilities

employment model is used with a mission-unrelated approach, while Zart Print uses the same employment model with a mission-related approach.

- *The Fee for Service Model*

**Brief description** – The social enterprise advances its mission by selling its social services directly to the target population. The services it provides are usually not available to the target population, either because they do not exist in the given market, or they are too costly.

**What is the role of the target population?** They are the **customers** of the social enterprise. However, in contrast to the entrepreneur support model, the services they receive from the social enterprise are for their own personal use, and not for the creation of a new product or service for sale.



**Example** – Bookshare.org<sup>19</sup> is an accessible online library for people who cannot use regular print books. With the availability of a number of formats and corresponding computer software, people with visual impairment, for example, can use Bookshare.org’s services to access hundreds of thousands of books that would otherwise not be available to them. The social enterprise charges a one-time registration fee, followed by a subscription fee. It requires that its customers provide certified proof of their disability and only registers those of them that meet its target population criteria.

Note that this is also called the “Bottom of the Pyramid” model when it specifically makes social services financially affordable to the economically most vulnerable population.

- *The Cooperative Model*

**Brief description** – The social enterprise is owned and managed by members who are representatives of the target population. Each member has a clearly defined stake in the company and has specific roles related to its activities.

**What is the role of the target population?** They are the **owners and members** of the social enterprise. They elect an administrative or managing body and each member has specific duties related to his or her role in the cooperative. This is different from the employment model because here each “employee” also owns a share of the business.

**Example** – Team Werks Co-op<sup>20</sup> is a social enterprise in Canada owned and operated by people who use the state mental health and addiction rehabilitation services. It is an umbrella company that runs a number of businesses – a café, paper shredding service, recycling service and more. In all cases, the employees consist of people who face various mental health challenges.

Cooperatives have also been a successful approach for empowering women. In rural Armenia, women are traditionally not considered to have an important social and economic role. At the same time, many of the men in the country’s villages and small towns work as seasonal laborers in Russia, because of a lack of economic opportunity at home. Women-led agriculture cooperatives in villages like Gomk, Vayots Dzor region, Armenia have proved to be a big success. The women in this small village (with a population of just 250 people) are provided greenhouses through grants from the government and international organizations and set up cooperatives that work to grow, harvest and sell a range of fruits and vegetables. Besides empowering them economically, the cooperatives also give them a bigger social role and help them learn planning and management skills that would otherwise not have been considered “suitable” for them. The OxyGen Foundation, the organization registered in Armenia by Oxfam to run its local operations, is now a member of the Network

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<sup>19</sup> <http://www.bookshare.org/>  
<sup>20</sup> <http://teamwerks.ca/>

of Social Enterprises and Employers, established through the LIFE Program in September 2015. The number of members of the Network reaches 40 organizations and enterprises.

## OXYGEN FOUNDATION

Founded in 2015 and joined the Network of Social Enterprises and Employers established by Save the Children.

Location: Yerevan, Armenia

Field of activities: 20 green house facilities, cooperatives of women living in rural areas.

Number of employees: more than 200 women and young people.

- The Market Linkage Model

**Brief description** – The social enterprise addresses its social mission by helping its target population access the open market directly. In contrast to the market intermediary model, the social enterprise does not sell the

target population's products or services, it simply provides a way for them to do so directly to the customers, and it makes its revenue by charging fees or commissions for this service.

**What is the role of the target population?** They act as **partners** for the social enterprise by providing their products or services to customers through the platform created by the social enterprise. The target population is not directly employed by the social enterprise in this case.

**Example** – Glovico.org<sup>21</sup> was founded in 2010, when it described itself as a “Fairtrade language school.” It was a website where people could learn French, Spanish and a number of other languages through one-on-one classes delivered online. The teachers were exclusively people living and working in low-income countries. For example, the French teachers were based in Senegal and Cote d'Ivoire, where the colonial legacy of French schools means that many locals are native French speakers. Glovico.org provided them with the means to use their existing skills and deliver a service to a global market of language learners. Due to technical reasons and personal considerations by the founder, Glovico.org ceased operations after a few years, but the website can still be used to contact the teachers directly and make arrangements for classes with them.

- The Service Subsidization Model

There are two alternative options in this model.

### Option 1

**Brief description** – Most often seen when there is a parent organization behind the social enterprise, this option is used when a product or service is sold simply to generate revenue for the organization's social mission.

**What is the role of the target population?** The target population may have **no direct role** in the

<sup>21</sup> <http://www.glovico.org/>

activities of the social enterprise.

**Example** – Oxfam’s network of shops has been set up to generate revenue for the organization’s social development programs. The items sold in the shops are often not directly related to the organization’s development activities and its beneficiaries may not be involved directly in any way.

Another example is the use of organization assets (e.g. land, office space) to bring in revenues (through leasing, for example) that the organization uses to advance its social mission.

#### *Option 2*

**Brief description** – The social enterprise provides more or less the same services to everyone, but a part of the population pays (or pays more) to cover the costs for the target population, which would otherwise be unable to afford them.

**What is the role of the target population?** They are **subsidized or non-paying customers** of the social enterprise; the cost of delivering services to them is covered by non-subsidized or paying customers.

**Example** – The Aravind Eye Hospital<sup>22</sup> was founded in India to tackle the problem of avoidable blindness. It provides the same services to everyone—eye surgery and other ophthalmological medical services—but pricing depends on the patient’s income, such that revenues from richer individuals is used to cover the costs of those who cannot afford to pay.

These are the main models used by social enterprises to create viable businesses that will bring them closer to achieving their social missions. There may also be certain combinations of the above models, depending on the specific characteristics of the social problem, target population or market.

Based on the social mission that you considered in the last chapter, you should now be able to choose a potentially viable business model and discuss it with your stakeholders. In the next chapter, we will look at how to manage the internal aspects of your social enterprise.



#### **Lessons Learned by LIFE Beneficiaries**

“Remember that the requirements of the real market are quite different from the requirements of donors or governmental authorities to NGOs..“

*Heavenly Manna*

### Additional Resources for Chapter 3

- Kim Alter's 2007 publication, [Social Enterprise Typology](#), was a major resource for the preparation of this chapter. The book has more details on combined models and is also rich in case studies from around the world.

- Cooperative movements have successfully helped vulnerable populations around the world to improve their social standing and their standard of living. In those countries where women are traditionally considered less important players in society, women-led cooperatives are a very promising approach to changing the status quo. [This page from International Cooperative Alliance website](#) has links to a number of initiatives in this area.

- [Kiva](#) is an organization based in San Francisco, USA, which allows anyone in the world to lend money to an entrepreneur in a poverty-stricken part of the world. Kiva works with microcredit organizations in many countries to disburse loans to farmers, shopkeepers, and other small businesses. It is perhaps a good example of a combined model, because it provides support to entrepreneurs (like Grameen Bank) but also gives them access to the broader base of lenders (similar to how Glovico.org provides access to a global market of learners).

## Chapter 4 – Managing your Social Enterprise

### This chapter will tell you –

- How to base your social enterprise on ethics and responsible management
- How to deal with risk and failure
- How to lead a social enterprise and manage your resources

### Ethics and responsibility in a social enterprise

As we have seen a number of times in this manual, the reason for the existence of a social enterprise is to contribute to the solution of a problem in society. It is essential that the social enterprise ensures that it seeks solutions to this problem in an ethical manner, and does not contribute to the creation of new social problems in this process.

First, let us take a quick look at ethics and responsibility when it comes to solving your own target problem. The Coventry Refugee and Migrant Center<sup>23</sup> is a charity in Warwickshire, UK that helps refugees and migrants who are trying to settle into the town of Coventry. When they faced the challenge of decreasing public funds to support their activities, the center established several social enterprises that use the skills of these immigrants to generate income. For example, LingoLinks is a translation and interpretation company founded by the charity that can deliver services in over 50 languages. Let us now focus on an ethical issue faced by the founders of this social enterprise. The employees and translators at LingoLinks are refugees and immigrants – an economically vulnerable population that a profit-maximizing company would be happy to exploit, within the bounds of the law. This would mean paying the legally-defined minimum wage to each employee, knowing that it would be very difficult for them to get a higher paying job for at least the first few years after their arrival in the UK. But because LingoLinks is a social enterprise created for the purpose of supporting refugee and migrant newcomers, it decided to pay its employees a living wage, calculated to ensure a decent standard of living in the UK.<sup>24</sup> As organizations created to solve a social problem, social enterprises should set themselves the highest of ethical standards.

Second, social enterprises should not neglect other issues in society while pursuing solutions to their target problem. For example, HDIF (mentioned in Chapter 3) is contributing to the reduction of poverty in Armenian small towns and villages by helping people to make and sell hand-made items. However, it is mindful of the growing environmental problem of plastic bags and pollution in the country, and takes steps actively in

<sup>23</sup> <http://covrefugee.org/>

<sup>24</sup> <http://www.thirdsector.co.uk/bhopinder-basi-set-three-social-enterprises-find-funding/management/article/1299753>

order not to contribute to this issue. HDIF collects plastic bags from individuals and organizations located near its office and reuse what would otherwise have been discarded as waste. While each social enterprise focuses on a specific social problem, it should also minimize any negative impact it has on other issues.

It is important to mention here that irresponsible behavior by a social enterprise is not always intentional. Sometimes, a company can damage a social cause without realizing it. Perhaps a good example of this is TOMS.<sup>25</sup> It started as a shoe company in 2006 with a “one for one” business model – every time a customer bought one of their shoes, the company would donate a pair to a child in a vulnerable community. The shoes were based on a traditional Argentinian design and manufactured in Argentina, Ethiopia and China. By 2016, the company had donated more than 60 million pairs of shoes to children in need. However, their donations in many countries had a direct negative effect on the local economies. In many of the countries where children received free shoes, the local shoe producers and vendors saw decreased sales.<sup>26</sup> While the company’s aim was to provide free footwear as a public health measure, protecting children from illness (like exposure to hookworm in many African countries, or to the cold during the winter in former Soviet states), it had a negative impact on another segment of society in these countries, local entrepreneurs. In recent years, TOMS has acknowledge the issue and expanded on their social activities, maintaining the “one

for one” shoe sale approach but also investing in eye care and other health issues.

Thus, ethical considerations in general are very important for social enterprises – whether they relate directly to the target mission or to other social problems existing in the community.

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25 <http://www.toms.com/>

26 <http://www.whudev.org/some-bad-news-about-toms-shoes/>



The World Fair Trade Organization<sup>27</sup> has outlined ten principles that are mandatory for fair trade organizations to follow in their operations. Irrespective of whether your social enterprise is a fair trade organization, these principles make for good guidelines to ensure ethical practice –

1) Opportunities for disadvantaged producers – many social enterprises work with economically vulnerable groups and should “seek to enable them to move from income insecurity and poverty to economic self-sufficiency and ownership,” even if it means that they later become entrepreneurs that are independent of your organization.

2) Transparency and Accountability – a social enterprise should be “transparent in its management and commercial relations. It is accountable to all its stakeholders and respects the sensitivity and confidentiality of commercial information supplied. The organization finds appropriate, participatory ways to involve employees, members and producers in its decision-making processes.”

3) Fair Trading Practices – a social enterprise should consider “the social, economic and environmental well-being of marginalized small producers and not maximize profit at their expense.”

4) Payment of a Fair Price – the organization defines this as the “provision of socially acceptable remuneration (in the local context) considered by producers themselves to be fair and which takes into account the principle of equal pay for equal work by women and men.”

5) Ensuring no Child Labor and Forced Labor – social enterprises should be aware of international conventions on children’s rights, as well as local legislation on labor.

6) Commitment to Non Discrimination, Gender Equity and Women’s Economic Empowerment, and Freedom of Association – social enterprises should not practice discrimination in any form when hiring, training, promoting or terminating employees. Social enterprises should also recognize “women’s full employment rights and is committed to ensuring that women receive their full statutory

employment benefits” and respect “the right of all employees to form and join trade unions of their choice and to bargain collectively.”

7) Ensuring Good Working Conditions – social enterprises should provide “a safe and healthy working environment for employees and / or members.”

8) Providing Capacity Building – social enterprises should “develop the skills and capabilities of its own employees or members.”

9) Promoting Fair Trade – social enterprises should provide “its customers with information about itself, the products it markets, and the producer organizations or members that make or harvest the products. Honest advertising and marketing techniques are always used.”

10) Respect for the Environment – among other environmentally sound practices, social enterprises should “maximize the use of raw materials from sustainably managed sources in their ranges, buying locally when possible and use production technologies that seek to reduce energy consumption and where possible use renewable energy technologies that minimize greenhouse gas emissions.”

## Dealing with Risk and Failure

As with any other initiative, there is a risk of failure when you start a new social enterprise. Your organization is “successful” when it achieves the social impact that it targets, but it also needs to deal with all the risks that a regular business may face – financial viability, operational efficacy, competition, market changes etc.

*A risk is any event that has a reasonable probability of occurring and, if it did occur, would have an impact on the ability of the social enterprise to accomplish its mission.*

The practice of **risk management** involves taking steps proactively to prevent the risk-related events from occurring, or to control the impact that they have on the enterprise if they do occur.

Risk management consists of the following four main steps –

1. **Identify the risk**
2. **Assess the risk**
3. **Manage the risk**
4. **Review and report the risk**



## 1 - Identify the risk

Risk for social enterprises can be considered in one of the following five categories. For each category, we are proposing a couple of questions that will help you identify the risk –

### Income

- Is the revenue flow secure? Do we have enough customers to keep our operations running in the short to medium term? Do we have a plan to increase our customer based?
- What is the current market situation? Is there a risk that our product or service will no longer be needed, or will be inferior to what is available, in the short to medium term? In the long term?

### People

- Are all the members of our team sufficiently motivated? Is there a risk that anyone—especially key members—might leave the enterprise in the short to medium term?
- What are the working conditions like at our enterprise? Is there a risk of injury or other damage to the health and wellbeing of our team?

### Property

- Is our physical property reasonably safe from theft, fire, natural disasters or other occurrences?
- Is our intellectual property unique and, if so, is it safe from being stolen and replicated?
- What is the status of our brand and reputation among our customers and beneficiaries?

### Liability

- Is there a risk that the product or services we are providing could cause harm or damage to our customers or the general public?

### Compliance

- Are we at risk of breaking laws through our operations, e.g. damage to the environment, unfair labor practices etc.?
- Do we know all the laws and regulations that apply to our products/services, beneficiary group, mission etc.

## 2 – Assess the risk

There are a number of ways to prioritize the identified risk. One of them is the preparation of a “probability vs impact” table, as illustrated below, and calculating the total score for each risk –

Risk Probability → Risk Impact ↓	Low probability (1 point)	Medium probability (2 points)	High probability (3 points)
Low impact (1 point)	Risk score = 1	Risk score = 2	Risk score = 3
Medium impact (2 points)	Risk score = 2	Risk score = 4	Risk score = 6
High impact (3 points)	Risk score = 3	Risk score = 6	Risk score = 9
<i>Risk score = impact points x probability points</i>			
Priority	Low priority	Medium priority	High Priority

## 3 – Manage the risk

The five main approaches to managing the risks outlined above are –

- *Accepting the risk* – in some cases, you will not take any action. This may be, for example, because the risk is very low priority, or the available options for action provide benefits that are disproportionately costly.
- *Treat the risk* – this involves taking specific action that will reduce the probability of the risk occurring or its impact if it does occur.
- *Transfer the risk* – this is a strategy which places the consequences of the risk on another party, e.g. by taking insurance, you manage the risk of property damage.
- *Avoid the risk* – if there is a direct cause-effect relationship between a certain factor and the given risk, then that risk can be avoided if the cause is not triggered. For example, the risks associated with a new product can be avoided by deciding not to launch that product at the given time.

## 4 – Review and report the risk

The risks identified and assessed should be noted in the company’s “knowledge bank” (ideally, in writing, but they should at least be discussed by the team) in order to note lessons learned and better prepare for similar situations in the future.

In case risks are not managed in due time, they may result in the **failure** of certain operations in your social enterprise, or of the organization altogether. The Stanford Social Innovation Review estimates that

half of *all* new businesses fail, and the numbers for social enterprises are not expected to be much different.<sup>28</sup> An example that they provide is Liberty & Justice, a Liberia-based apparel manufacturer that was set up to help children in the West African state. The company faced a number of risks, including working in a difficult economy, but when Ebola struck the country in 2014, it had to close its factory and suspend operations. It had underestimated the impact that Ebola would have on its operations and was caught unprepared. The outbreak was later contained and the enterprise is back on its feet, seeking success after dealing with an early failure.<sup>29</sup>

### ***Managing the resources of your social enterprise***

There are many books on running organizations and businesses, working with staff members, budgeting and spending effectively, and so on. Running any organization and managing its financial and human resources is a very complicated process. In this section, we will provide a brief overview of the specific aspects of this process as they would relate to a social enterprise.

Throughout the daily operations of your organization, you have to remember that it was created with a mission (see chapter 2) in mind, and **you must use your resources to bring your organization closer to achieving that mission** on a day-to-day basis. We can therefore examine the daily operations and management of resources by answering the following questions –

- *What measurable targets can be defined as part of the mission?*

Because your mission is probably an ambitious attempt at solving a large problem, it may be difficult to measure on a day-to-day basis. It should therefore be broken down into **social impact targets** that would reflect the operations of your organization, which can be measured on a daily, monthly, quarterly and/or annual basis. For example, if your social enterprise combats poverty by teaching new skills to a jobless and vulnerable group, your social impact targets would include, among others: number of beneficiaries trained, number of beneficiaries who have successfully found jobs after your training program, average salary of beneficiaries after completing your program, average time needed for program beneficiary to find first paying job, etc.

- *How are your enterprise's finances linked to your targets?*

As a social enterprise, your financial resources may come from various sources such as grants, loans, revenue etc. The management of your financial resources consists of understanding how much money needs to be spent to achieve the social impact targets that you have set, for example, in your first year. In contrast to a regular business, the calculations include a combination of your **social impact targets as well as the cost of remaining financially viable** as a social enterprise. In the example mentioned above, this would entail a calculation of the cost of training one group of beneficiaries and understanding where that revenue will

<sup>28</sup> [http://ssir.org/articles/entry/learning\\_from\\_failure](http://ssir.org/articles/entry/learning_from_failure)

<sup>29</sup> <http://www.thedailybeast.com/articles/2015/06/04/the-toms-of-school-uniforms.html>

come from – the beneficiaries themselves, a donor, the government as the purchaser of social impact etc. The calculation will also consider whether the revenue received from one group is sufficient to continue support operations (administrative costs, overhead, marketing, etc.) during the given period and find new customers, donors, benefactors etc. if needed. Financial planning for a social enterprise should be very different from a grant-supported project – the social enterprise needs to be self-sustaining over time, so its financial resources should not be treated as a fixed budget with a specific start date and end date.

- *How is your enterprise's staff linked to your targets?*

Each staff member should have a clear understanding of the social enterprise's overall mission and how his or her specific role fits into the achievement of that mission. Even the social enterprises with the noblest missions in the world should not take their staff's motivation for granted. One of the best ways to keep your staff engaged is to make it clear to them how their work is taking the organization closer to achieving its mission.

### ***Building and leading your team***

According to the Schwab Foundation for Social Entrepreneurship, building the right team for your social enterprise consists of the following steps:<sup>30</sup>

- Recruitment – When hiring someone new, social entrepreneurs should consider the following –
  - Social mission fit – anybody who joins the team should be passionate about the mission that your social enterprise has set itself and, ideally, they should be able to demonstrate this passion in some way.
  - Cultural fit – a new hire should adhere to the ethical considerations outlined earlier in this chapter and should fit in with the rest of your team culturally.
  - Founder fit – simply put, anybody who joins the team should have the right skills, attitude and personality to be able to work with the founder.
- Development – This includes the training and promotion of those who are already in your team.

But a good staff development program does not have to consist of a large number of formal training opportunities. Most experts recommend a 70-20-10 approach when distributing resources and time for the development your team members -

- 70 % of resources/budget/time - *Experience* – make sure your team member has everyday tasks that are interesting and offer some challenge to his or her abilities.
- 20 % of resources/budget/time - *Exposure* – make sure your team member has the

chance to interact with other members of the team to exchange ideas and experiences. Also arrange for coaching and mentoring of your team with people from your social enterprise or other relevant organizations.

- 10% of resources/budget/time - *Education* – make sure your team members get formal education and training in the areas relevant to their work and to their vision of their current and future personal roles in your social enterprise.
- *Retention* – This consists of keeping your team members with you for as long as possible by keeping them engaged in your enterprise’s mission and motivated to continue working for it. Providing development opportunities and fair, continuous feedback to staff members is the best way to retain them in your organization. Your team members may leave your organization for any of the following reasons, or their combination –
  - “Push” factors – problems and issues at your organization that cause them to think about changing their jobs. These could include issues with their direct supervisor, lack of development opportunities, lack of compensation, lack of work-life balance etc. You can directly influence the “push” factors that are present within your organization and prevent them from playing a big role.
  - “Pull” factors – attractive features that exist in other organizations, which cause your team members to consider working for another employer. These could include the availability of more senior positions, better compensation, an attractive work culture, etc. You cannot directly influence the “pull” factors in other organizations, except to keep informed of them and try to stay competitive as an employer.
  - *Personal factors* – causes that are linked to the specific circumstances of a team member and his/her family, e.g. moving away. While you cannot influence these factors directly, you should be able to be informed of them in advance and find possible solutions, e.g. working long distance.

This chapter took a look at the “internal” issues and functions of your social enterprise. In the next chapter, we will look at the “external” side of things, focusing on marketing and communications.



### Lessons Learned by LIFE Beneficiaries

“Be proactive and flexible and be prepared to change your strategy depending on regional and macroeconomic changes. “

*Analysis of LIFE beneficiary results*

## Additional Resources for Chapter 4

- TOMS is not a social enterprise based on the definition used in this manual, since it was not created expressly to solve the issue of footwear for poor children. However, it has been described as a social enterprise by the University of New Mexico, and it is undoubtedly a good example of a successful business that is having a positive impact on society. The company has now established a fund to help social enterprises – read more about that initiative [here](#).

- [This video from Tina Dacin and the Queens Smith School of Business](#) focuses on social enterprises and their ‘dark side’ as the speaker talks about how social enterprises can lose their way.

- You can read more about the World Fair Trade Organization principles [here](#). Think about how they apply to your social enterprise.

- The Schwab Foundation for Social Entrepreneurship has produced an excellent guide to social enterprise leadership that was referenced earlier in this chapter. You can read the full guide [here](#).

## Chapter 5 – Measuring Social Impact

### This chapter will tell you –

- Why it is important to measure your social impact
- How to measure the social impact achieved by your enterprise

### Why measure social impact?

Most commercial companies decide whether or not they are successful through their financial reports. Business news analysts talk about a company growing by X % or reporting losses or changes in share prices. For social enterprises, the financial side of things is important and, in most cases, is not much different from a regular business. You have revenues and costs, increasing the former and managing the latter determines whether you will have a net profit or a loss.

But the success of a social enterprise is undoubtedly linked to its **social impact**, more than its financial results. The income generated is a means to achieving an end, a resource that must be wisely used in order to achieve a social mission.

Let us look at the example of the Pay for Success Social Impact Bond, an innovative initiative that was launched in 2012. It was a novel concept that had evolved from a common investment practice. Traditionally, investors provide money to a company and—depending on how that company performs—they either make a profit on their investment, or lose some or all of their money. With this concept of a social impact bond, private financiers were to provide money that would be used for a social mission, and depending on how that social initiative performed, they would make a profit or a loss. More specifically, in 2012, Goldman Sachs Bank's Urban Investment Group announced that it would invest \$7.2 million in the state of New York to achieve the mission of reduced recidivism (after serving time in prison, being imprisoned again for a different crime). If the state of New York achieved a reduction in recidivism (and consequently, in crime) of 10%, this would mean considerable savings in their budget on other expenses (police, security etc.). The state would then use part of these savings to repay Goldman Sachs and provide a profit (a 10% reduction would have secured more than \$1 million in profit for the bank). The investment would be used to fund therapeutic and psychological support services to 3000 individuals aged 16-18 years and incarcerated in the prison on Rikers Island. But how would the state of New York and Goldman Sachs know whether the program was a success?

This is a straight forward case of the need to measure social impact. The state of New York must know

exactly how many of the 3000 inmates involved in the program ended up in jail once again after a specific time period following their release. Clear targets and indicators were enough to measure the impact of the program over the following years and, in 2015, independent studies showed that the program had failed – no significant reduction in recidivism was seen. This does not mean that the concept of a social impact bond is not sound. But it does demonstrate the importance of being able to clearly define *how much* social impact an innovation or enterprise has caused.

A common business mantra says that you cannot manage what you cannot measure. So how would you measure the social impact caused by your enterprise?

## How to measure social impact

Measuring your social impact can be described through the following steps –

### 1. *Start with your mission statement.*

We discussed the mission statement and its importance in Chapter 2. This is essentially cornerstone of how you will measure your social enterprise's performance.

### 2. *Translate your mission statement into outputs and outcomes.*

Your **outputs** are the immediate results of your work, e.g. number of items produced, number of customers served.

**Outcomes**, on the other hand, are the “smaller targets” within your larger social mission, e.g. number of people with disabilities employed (if your mission is to improve the lives of people with disabilities), number of trees planted (if your social enterprise focuses on replenishing natural resources) etc.

Set yourself manageable but ambitious targets for both your outputs and your outcomes for each reporting period e.g. a quarter or a year.

### 3. *Link your activities to your outputs and outcomes.*

Have clearly written definitions of what your social enterprise will do (and how much of it you will do) to deliver the outputs and outcomes you defined in the previous step.




### 4. *Define your impact chain and its relevant indicators.*

Write out and clearly describe HOW your activities link with your outputs, then with your outcomes, to produce the impact that you are aiming for in your mission statement. Define indicators, i.e. parameters that can be measured, at each stage.



For example, the next page illustrates part of the impact chain and indicators for Heavenly Manna, mentioned in Chapter 3.

### A Partial Visualization of the Impact Chain for Heavenly Manna

<p><b>MISSION</b> – to improve the lives of people with disabilities in Armenia by employing them in a baked goods business that offers them stability, independence and dignity.</p>

<p><b>OUTCOMES</b> –</p> <ul style="list-style-type: none"> <li>• people with disabilities have employment → <i>indicator</i>: number of people employed at Heavenly Manna</li> <li>• people with disabilities have financial opportunities → <i>indicators</i>: average salary of Heavenly Manna employee, average salary in the job market of that part of Armenia</li> <li>• people with disabilities live lives of dignity → <i>indicators</i>: survey on life satisfaction for Heavenly Manna employees compared to other employed and unemployed members of the community</li> </ul>

<p><b>OUTPUTS</b> –</p> <ul style="list-style-type: none"> <li>• baked goods have been produced → <i>indicator</i>: number of baked items produced per quarter</li> <li>• baked goods have been sold → <i>indicator</i>: number of baked items sold per quarter</li> <li>• sales have been encouraged → <i>indicator</i>: number of sales points</li> </ul>

<p><b>ACTIVITIES</b> –</p> <ul style="list-style-type: none"> <li>• the bakery is functioning → <i>indicator</i>: number of days worked per week, number of hours worked per day</li> <li>• the employees are baking → <i>indicator</i>: number of days worked per employee, number of sick leave and vacation days</li> <li>• new employees are being trained → <i>indicator</i>: number of people with disabilities being trained as new employees</li> </ul>

This is not an exhaustive representation, but it shows how the different links in the chain are related to each other – the activities contribute to the outputs, which in turn produce the outcomes, which form part of the overall mission. Having clear indicators at each level helps you measure quantitatively and compare your performance over time. For example, how much growth has there been in the number of hours per week that the bakery has worked over the past year? This is a way of monitoring your processes. How much growth has there been in the number of baked items produced per week? This is how you would monitor your output. How has the average salary of your employee grown over the past year, how does it compare to the average salary

growth in the job market? This is a clear indicator of your outcomes, i.e. this tells you how much closer you are getting to your mission.

When you examine all your outcome indicators together and see how they change with the work of your social enterprise, this will give you a clear understanding of your **social impact**.

However, when you are examining those results, make sure of the following –

- *Your indicators must be objective and as exhaustive as possible.* Share the indicators you have defined (and the targets you have set yourself) with your stakeholders (see Chapter 2) as often as possible. Make sure that you have an open mind to the suggestions that they make.
- *Your measurements must also be objective and your results must be validated.* Stakeholders have an important role to play here too. If you are using surveys and other quantitative data, make sure you have a good sample size and are consistent in how you measure.
- *Establish a cause and effect relationship.* This is possibly the most difficult part of measuring and reporting social impact. Suppose you objectively measure that the lives of people with disabilities has improved in Armenia over the past year – how can you be sure that this was (at least in part) due to Heavenly Manna, and not simply the result of other events that occurred in that time period? The best way to establish a cause and effect relationship is to compare your results with groups that were not part of your direct beneficiaries. For example, in the Rikers Island initiative mentioned at the beginning of this chapter, the recidivism rates of the 16-18 year olds (who were provided the psychological support services) were compared to those of 19-year old inmates (who were not included in the program). In the case of Heavenly Manna, one should compare the change in lifestyle of the people with disabilities employed by the social enterprise to a) people with disabilities who are not employed at Heavenly Manna, and b) people without disabilities who live in the same community.



### Lessons Learned by LIFE Beneficiaries

“Keep social impact track records. These measurable results of your social problem solving can become a “social asset” if, for example, you decide to apply to special funds specially designed to finance social entrepreneurs.”

Analysis of LIFE beneficiary results

Once your organization has started running its activities and producing outputs that have tangibly led to outcomes and contributed to your mission, it is time to consider how to communicate to your audiences.

### **Additional Resources for Chapter 5**

- Most of the material in this chapter was taken from an excellent write-up by the Social Investment Business Group. Read [How to Measure and Report Social Impact: A Guide for Investees here](#).
- The Rikers Island initiative was widely covered by social innovation watchdogs and the concept of social impact bonds continues to hold a lot of promise. [Read this article in the Huffington Post](#) about this case to see how this new approach provides hope for tight public budgets.

## Chapter 6 – Marketing and External Communications

### This chapter will tell you –

- Who your social enterprise is competing against
- How the 7 Ps of marketing work in social enterprises
- How to use storytelling as a communication tool
- How to use social media for your social enterprise

### Who is your competition?

Before we look at how to market and promote your social enterprise, it is important to gain a clear understanding of the organizations that are competitors for your social enterprise. The comprehensive map of the market and the competition depends specifically on your mission, type of enterprise, geographic location and so on – developing such a map is an exercise you will have to conduct with your stakeholders and team at some point. However, in order to have a good general understanding of your competition, you need to ask yourself the following two questions –

- Which organizations **share roughly the same social mission or serve the same target group** as my social enterprise?

The key thing to understand when answering this question is that this also includes traditional charities and non-profit enterprises. Let us consider this using the example of *The Big Issue* and *Shelter*, two organizations that we examined in Chapter 1. A socially-minded individual who wants to contribute to solving the problem of homelessness has the choice of either buying the product offered by *The Big Issue*, or making a contribution to *Shelter*. The important thing this kind of socially aware customer gets in return is **the social impact**, and the product/service offered by the social enterprise may not be a key factor in that individual's decision making. For these kinds of customers (let's call them Type 1 customers), the competition faced by your social enterprise includes all the traditional charities and non-profits that are seeking to solve roughly the same problem as you, even if the solution they offer differs from yours.

- Which organizations **provide the same product or service** as your social enterprise?

The key thing to understand when answering this question is that this also includes commercial businesses that have no social impact whatsoever. For example, the bakery mentioned in Chapter 3, Heavenly Manna, functions as a social enterprise by employing people with disabilities. However, it faces competition from

every bakery that serves the same geographic area where it operates. While socially-minded customers may value Heavenly Manna's products higher than those of a commercial bakery, the reality is that most people in the market are simply looking for quality baked goods. For this part of your customer base, the **product/service** being offered—including its quality, price, convenience etc.—constitute the key factors in decision making. For these kinds of customers (let's call them Type 2 customers), the competition faced by your social enterprise includes all the commercial or non-commercial entities that produce the same product or service as your social enterprise.

While there are no market data to suggest specific numbers, keep in mind that, in most countries, Type 2 customers greatly outnumber Type 1 customers.

You have to produce a marketing plan that will a) communicate your mission to Type 1 customers about why you are a social enterprise, while b) telling both Type 1 and Type 2 customers what your product/service is and why it is better than the one they can get from other providers. At the same time, as a social enterprise, it should be part of your marketing plan to *raise awareness* about your cause and convert Type 2 customers into Type 1 customers on a regular basis. Additionally, it should include work with existing Type 1 customers, making them gain a higher level of knowledge and engagement in relation to the cause and your mission.

How can you achieve all this? The answer lies in taking the traditional business marketing approach, and “tweaking” it to best serve your social enterprise. Let us examine how.

### ***The 7 Ps of Marketing***

In the 1960s, E. Jerome McCarthy initially proposed a model that included four factors each beginning with the letter P<sup>31</sup>, which was updated with variants of three more such factors in the 1980s.<sup>32</sup> The approach you will use in the marketing of your social enterprise consists of looking at each of these factors and answering the questions relevant to your organization –

**1. PRODUCT** – What is the product or service your enterprise is offering? What is the level of its quality? Does it solve a problem that the customer currently has?

*For Type 2 customers*, this “problem” is NOT related to the social problem that is at the heart of your mission. For example, Zart Print, mentioned in Chapter 3, is a company that employs people with disabilities and provides design and printing solutions for its customers – its product is relevant to anyone who has the “problem” of needing to print books, calendars, business cards etc.

*For Type 1 customers*, this “problem” is largely a reflection of your social mission, or it may be a

combination of the social mission and the non-social problem mentioned above. For example, suppose a socially responsible business needs business cards printed for its employees and selects Zart Print to provide these services. It does so because a) it needs business cards and Zart Print can meet this need, and b) it has a CSR policy that encourages the procurement of services through social enterprises when possible. However, (b) comes into consideration **ONLY** once the social enterprise can provide (a) up to a quality standard that is the same as its commercial competitors.

## **2. PRICE** – What is the value of the product or service to the customer?

*For Type 2 customers*, this value is a direct measurement of what the product/service is worth to the customer directly, what price the competition demands for a similar quality product/service etc.

*For Type 1 customers*, this value also includes the social mission of the organization. A number of studies have been conducted in recent years trying to determine whether customers are willing to pay more for “socially minded” products than those without a social angle. An analysis of these studies in 2014 suggests that the average consumer is willing to pay 16% more if there is a positive social impact.<sup>33</sup> Of course, this figure varies from product to product and country to country. But the idea is that certain customers—the ones we are conventionally calling Type 1 in this manual—will value the products/services of your social enterprise with a consideration for your social mission (even if only by 16%), not just the cost price of the item.

## **3. PLACE** – Is the product or service available when and where the customer wants it?

*For Type 2 customers*, this kind of convenience is a key factor, and they will not go out of their way to use the products or services of a social enterprise simply for the sake of its mission. For such customers, it is important to consider the number of sales points that you have, or whether your products or services are available online, or can be delivered.

*Type 1 customers*, on the other hand, may be motivated enough by the social mission to bear slight inconveniences (such as going to a sales point that is out of their way) to buy your products and services.

## **4. PROMOTION** – How is your product/service being advertised and communicated?

*For Type 2 customers*, you should consider being in all the places where they look for commercial messages about the product or service you are providing. If there a tourism fair and you have founded a social enterprise that provides B&B services, you should consider competing for visibility with all the other hospitality companies

that will be participating there. The message you communicate should focus on product features that would interest them, with a quick mention of the social mission behind your enterprise.

*For Type 1 customers*, your message should focus more on your social mission, and on how your customer can help solve your target problem by buying your products and services. Storytelling and social media are important tools that you can use for promotion, and there are brief sections dedicated to each of these later in the chapter. Type 1 customers are also a good marketing channel themselves, through word-of-mouth promotion. If your customer shares the mission you have set yourself, in most cases he or she will be happy to spread the word about your social enterprise. Be proactive and ask them to do this for you!

**5. PEOPLE** – Who in your social enterprise is responsible for sales, customer service, communication etc.? Do they have the necessary skills?

*All types of customers* look for a positive customer experience. It is important to ensure that after someone comes to your social enterprise to buy something, they are satisfied with how the whole transaction occurred. Your staff members are a key part in that transaction – while Type 1 customers may be slightly more forgiving than Type 2 customers when it comes to errors, slowness or other negative occurrences, there is a certain level of professionalism that you must demand from your team.

**6. PROCESS** – What other steps go into the customer experience at your social enterprise?

Another key component of the customer experience, besides the people, consists of the processes that a customer goes through. Even with the most pleasant “service with a smile,” having to fill a 10-page form in order to subscribe to a magazine, for example, will result in a negative customer experience. Other issues related to process may be user experience design on your website, or technical considerations such as server capacity and speed.

Once again, *all types of customers* look for a positive customer experience. Do not rely on the extra patience that some Type 1 customers may have – their desire to support your cause may soon be directed to another organization if the processes you have designed makes it too complicated or unpleasant for them to do so.

**7. PACKAGING** – What does your product look like on the outside? What messages does it convey to your customers?

Remember that part of your marketing objectives as a social enterprise is to convert Type 2 customers

into Type 1 customers. Your packaging should include relevant information about your social mission and how each customer is contributing to its achievement.

At the same time, you should be careful about the misconceptions and stereotypes that may be associated with your social cause. Heavenly Manna, for example, discovered that their community was not too keen on buying goods baked by people with disabilities, because they were assumed to be “dirty” or “bad quality.” While Heavenly Manna should *not* conceal its social mission from any of its customers, its packaging should also provide enough space to promote the taste and quality of the baked goods it produces.

To sum up, for *Type 2 customers*, packaging should provide due consideration for the product features that matter to them.

For *Type 1 customers*, the packaging should also try to engage them more deeply with the cause by providing them with additional information, success stories of beneficiaries etc.



#### **Lessons Learned by LIFE Beneficiaries**

“You need to match or exceed the quality, price, and convenience offered by your competition before the social side comes into play as your advantage.”

*Zart Print*

#### ***Storytelling as a marketing tool***

When it comes to communicating your social enterprise, you need to relay messages about your mission as well as the specific product or service you are offering – as we have seen so far, these are sometimes very different things.

Storytelling is a powerful way of engaging with people and turning them into customers or supporters of your social enterprise.

Whenever relevant, you should use a storytelling approach to communicate your mission, appeals, success stories, products and services to your audiences. Note that storytelling is a method, not a channel. You can use storytelling on traditional media like television and radio, or in newspapers. You can also create digital stories and use them on social media or your website. Storytelling can be used during a photo exhibition or even a presentation.



The School for Social Entrepreneurs in Australia proposes the following tips for creating a good story<sup>34</sup> –

- *Make a powerful start.* No matter how your story will be delivered to your audience, say or show something within the first 10 seconds that will grab their attention.

- *Choose the right focus.* The most powerful stories are usually about individuals, not organizations. Choose one or more people to “star” in your story and talk about how their lives have improved thanks to your social enterprise. The members of your target group would definitely be a part of this, but the story could also be about a customer who connected with your mission through your income-generating activities.

- *Research your audience.* The pace, duration, flow and emotion of your story may be different if you are targeting different audience groups. Choosing the right channel also depends on your audience.

- *Be authentic!* Storytelling is largely about emotion, and it is hardly possible to generate emotions among your audience without being genuine. The story has to be real and the setting has to be as natural as possible (which is not always easy if it involves talking into a video camera or setting up a pose for the right photograph).

When you have a good story to tell about your enterprise, its products and the social impact it is causing, you now need to figure out how to tell it. There are multiple ways to reach your audience and make an impression. There are many tools – from pamphlets, reports and other printed items to digital options like a good website, your choice will largely depend on the audience that you are targeting for your message. In many developing countries today, conventional media like television and radio are still dominant in the percentage of the population that they reach.

However, conventional media usually infers the presence of a mediator (the journalist preparing the TV report, the radio commentator asking the questions in an interview) and the possibility to limit what is being communicated (the camera only recording certain scenes, the editor cutting out some parts of the interview), while social media is usually not limited in this way. Social media outlets help you reach large audiences directly at a relatively low cost. They also have the potential to be very interactive, allowing you to have real dialogues with your beneficiaries, customers, and other stakeholders, even if they are located far away.

The next section will briefly mention how social media can be used for extra authenticity and interaction.

## Social Media as a communication channel

Social media is the collective of online communications channels dedicated to community-based input, interaction, content-sharing and collaboration.<sup>35</sup>

This section will provide some basic tips for using social media to communicate your mission and social enterprise activities in order to build a loyal and dedicated audience.

Facebook, Twitter, Instagram and YouTube are the biggest social media outlets for general audiences, while LinkedIn focuses more on professional users. Depending on the country in which you are operating or seeking to engage your audience, you should also consider local social media like VKontakte and Odnoklassniki in the former Soviet Union, and QZone in China.

When using social media, keep the following tips in mind –

- *Online vs. offline.* In many developing countries, there is still a significant part of the population that is offline, or not on any major social networks. Social media may end up not being your main communication channel if this is your primary audience. But even in such cases, it is worth using social media to document the work that you do and the success stories that you have, because you will also be working with social impact investors and other partners sooner or later.

- *Your organization vs. your cause.* When documenting the work that you do, be careful not to make this the sole focus of your social media communication. Your message must also constantly remind your audience of your mission, and how your customers and partners are making the world a better place through your social enterprise.

- *People vs. problems.* Your communication should strike a delicate balance between a) the people at your organization vs. the problem you are trying to solve, and b) the people you are serving vs. the problem you are trying to solve. In the first case, it is great to showcase your staff members and even to appear prominently as the founder of the organization. But this should not distract your audience from the problem – why the organization was set up in the first place. In the second case, it is good to constantly remind your audience of the problem, but you must also put a lot of focus on the people that this problem is affecting. You should use social media for human stories, as mentioned in the previous section, e.g. Less statements like “30% of the youth in our country is unemployed” and more “David has been looking for work for 3 years, trying to support his young wife and their two children...”

- *Paid vs organic growth.* Social media like Facebook and Twitter offer paid advertisement options that help you become more visible to a larger audience. If you pay to advertise on these media, you may

see quick increases in your online audience (people who “like” your Facebook page, for example). But this often does not translate to real engagement. You want people to really read the text that you post, look at the photos and watch the videos. You want them to understand your mission, to post comments, ask questions and generate discussion. Paid advertising does not always bring that audience to you. It might be more worthwhile to aim for organic growth, spreading the news of your social network presence through online and offline friends, and partner organizations.

With the right marketing approach, you should start seeing the first signs of growth in your social enterprise. In the next chapter, we will take a look at scaling and how to approach this challenging stage in your organization’s evolution.

### **Additional Resources for Chapter 6**

- Look at the stories uploaded to YouTube about some social enterprises like [Brothers for All](#) in South Africa and [Earth Heir](#) in Malaysia.
- [This article by StartUp Grind](#) talks about how social enterprises use storytelling to build movements, and also modifies the Ps listed above to focus them on visual storytelling.

## Chapter 7 – Scaling

### This chapter will tell you –

- *What scaling is and why it is often important*
- *The external barriers to scaling*
- *The three main ways in which social enterprises scale*

### What is scaling?

Once your social enterprise has started regular operations, used a sound marketing strategy to increase its revenue, and begun to demonstrate tangible social impact, the next challenge success will probably bring is scaling. Note that before you take action towards scaling, you should have demonstrated success in 1) the business model you are using (see Chapter 3) and the market response to the product/service you are providing and, (perhaps more importantly) 2) the social impact (see Chapter 5) that your enterprise is producing.

**Scaling** is the period in a social enterprise's evolution when it tries to systematically accelerate its impact.

Note that for commercial enterprises, scaling usually means an increase in the number of customers it serves and the money it makes. For social enterprises, however, this is all about growing the **social impact** generated by the organization. Do all social enterprises need to scale? Unless the problem being solved is very localized, the answer is yes. Even with localized problems (focusing on a single town, for example, like the Coventry Refugee and Migrant Center mentioned in Chapter 4), it is possible to use the same model to solve similar problems in other locations. So you can choose to remain a very local social enterprise and not go beyond your geographical limits, but you are then not fulfilling the potential for social impact that your model and your experience would allow.

### External barriers to scaling

Scaling is a major challenge for most social enterprises and even commercial startups. Even if there are no internal issues and the organization is running well, there are often many certain external barriers that make it difficult for a social enterprise to grow quickly. Here are some of the main external barriers you may

face when you try to scale –

- *Value chain constraints.* The value chain of your social enterprises includes the capacities of your suppliers, labor market etc. Let us imagine a social enterprise that supports 30 poor women in a community by developing and selling the handmade items produced by these women. A surprise order of 10,000 knitted hats to be delivered in 2 months might possibly be beyond the capacity of this social enterprise because there are simply not enough hours for the 30 women to work and fill the order. This “supplier capacity” barrier also works for recruitment in general. Expanding the capacity of your suppliers and labor market is an important part of scaling.

- *Infrastructure constraints.* These include issues related to road and transport networks, telecommunications, etc. It is often beyond the ability of your social enterprise to influence these factors directly, but it might be possible to find ways around them. Project Last Mile is an example of how solutions can be found with innovative thinking. Several countries in Africa faced serious problems with the distribution of medication and vaccines because of poor roads and transportation options. Project Last Mile is a collaborative effort with Coca Cola, which manages to deliver its products in refrigerated trucks to small shops throughout the continent. Project Last Mile uses Coca Cola’s supply chain to deliver medicine and vaccines in refrigerated containers to communities all over the continent.

- *Community perceptions.* The existence of a social problem suggests that there are probably stereotypical attitudes or mechanisms in the community that allow that problem to exist.

For example, Bristol Together is a social enterprise that hires former convicts and gives them construction jobs, aiming thus

to reduce the number of repeat convictions.<sup>36</sup> A challenge faced by this social enterprise would be to overcome the stereotypes that exist in the community related to trusting jobs to people with a criminal past. However, this is a core part of its mission and should be a central factor in any communication it carries out.

## LENTEX LLC

The cooperation between Save the Children, the Union of Information Technology Enterprises, “Instigate mobile” LLC and “Instigate training center” started in 2014.

*Location:* Yerevan, Armenia

*Field of activities:* Web development

*Number of employees:* 21 people, of them 10 have disabilities

- *Government policies.* As discussed in Chapter 1, some governments provide special status and privileges to social enterprises that spurs their growth. We mentioned that this is not a necessary condition for social enterprise success. But there are also cases when government policy can act as a barrier to some social enterprises. For example, in 2015 SolarAid reported that government subsidies of kerosene were harming the development of solar lighting enterprises throughout Africa. While the subsidies were a great help for those living under the poverty line to light their houses with kerosene lamps, they hindered the growth of solar lighting companies that were trying to provide a safer, more sustainable solution to this same target population.<sup>37</sup>

- As a positive example, one of the beneficiaries of the LIFE Program, EchoTechno (see page 26), may stand to benefit from legislative changes that were announced in May 2016 in Armenia. Like many countries, Armenia did not earlier have any legal basis or defined procedures for residents who produced their own energy through solar panels. A change in the law on energy is now expected to allow individuals and legal entities to install solar panels for their own needs, to produce electricity and to sell the excess to electricity networks. This should open the market to social enterprises like EchoTechno, who may choose to expand into solar energy cell production based on their current expertise with solar water heaters.

To sum up, the solutions to some of the barriers can be found by the social enterprises themselves in some cases, while in other situations the solution lies in partnerships with other organizations, the private sector, or the government. For example, There may be state-run socio-economic development projects that seek to boost investment or economic activity in a particular part of the country. A social enterprise operating in the capital could benefit from this program and scale up to include that region as well.

Overcoming these barriers allows social enterprises to scale and increase the impact that they have.

## How do social enterprises scale?

The models through which a social enterprise can scale are often divided into the following three approaches –

- *Scaling up* – This is essentially a replication or expansion of the social enterprise over a wider geographical area. For example, Oxfam had a network of around 250 charity shops in the 1970s, a number which had grown to more than 700 by 2016.<sup>38</sup> Another option for scaling up is the use of modern technologies. A social enterprise that teaches programming skills to vulnerable populations, for example,

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38

<http://www.solar-aid.org/kerosene-subsidies-a-hidden-cost/>  
Black, M. (Ed.). (1992). *A cause for our times: Oxfam-the first fifty years.* Oxfam.

can decide to prepare online courses in order to reach a broader audience. This is an approach that has been used by a LIFE Program beneficiary, Instigate Training Center, to expand its training activities for vulnerable groups. The Center set up a website<sup>39</sup> and is transferring its training material online, so that they can scale up their impact on people with disabilities and other vulnerable groups, without needing to physically host more beneficiaries.

- *Scaling out* – This involves a dissemination of the social impact without a mandatory physical expansion of the social enterprise. It can be achieved by working with partners in other communities, or even through

franchising. For example, De Kringwinkel in Belgium is a network of shops that sell used goods and thus reduce the amount of domestic waste that ends up in landfills. In 1994, the “De Kringwinkel” brand was established by a number of organizations working together and, through a franchise mechanism, 95% of shops selling second-hand items in the Flanders region of Belgium use the De Kringwinkel brand today.<sup>40</sup> The dissemination of the Impact Hub concept is also an example of this. Another such example is the development of TEDx events, franchised after the success of TED.

- *Scaling deep* – This occurs when the social enterprise adds new value and finds other ways to further its social mission, without necessarily expanding geographically or reaching more people. Zart Print, mentioned in Chapter 3, for example, began as a social enterprise in Armenia that provides design and printing services, employing people with disabilities. But one of their key areas of expansion is the provision of braille printing services, and the development of large-font printing – a solution that was virtually non-existent in the Armenian market when they first launched. In this way, they are coming closer to achieving their mission of improving lives for people with disabilities without necessarily expanding geographically or replicating their model through franchising. They are growing by developing new products and incorporating new entrepreneurial models, and are thus scaling deep.

Even when you are still very early in the life of your social enterprise, it is worthwhile to think about its future and have an initial plan on how to scale. This might be an important factor that helps determine how you choose your business model (e.g. in most cases, it is more different to scale up using the employment model than with the market intermediary model). Enjoy the early successes that your social enterprise will achieve,

<sup>39</sup> <http://ggg.i-gorc.am> (website in Armenian)

<sup>40</sup> <http://www.socialfranchising.coop/uploaded/KOMOSIE.pdf>

but always remember that you should consider trying to increase your social impact and improving more lives in your community and around the world.

In the next chapter, we will take a quick look again at some of the advice that you should consider when developing your social enterprise, based on the lessons learned by real social entrepreneurs around the world.

### Additional Resources for Chapter 7

- The specific steps to scaling depend on the nature and location of your social enterprise as well as the outcomes of your first steps in the market. The Harvard Graduate School of Education [has produced this article describing a few generic steps in scaling impact](#) in the nonprofit sector, which is also relevant to most social enterprises.
- [This article in \*The Guardian\*](#) focuses on scaling social innovations and how entrepreneurs should be certain about how they will approach this challenge.
- [This blog post](#) talks about the policy barrier that prevented a Japanese social enterprise, Carepro, from scaling, and how the removal of that barrier led to some unintended consequences for the enterprise.



## Chapter 8 – Advice from other Social Entrepreneurs

### This chapter will tell you –

- Some of the common misconceptions and mistakes made by real social entrepreneurs...
- ...and how to avoid them

This chapter contains a summary of the main tips and advice that were spread across the previous pages of this manual. The points below are **lessons learned by real social entrepreneurs** based mostly in Armenia, and interviewed towards the end of the LIFE Program by Save the Children.

The pieces of advice have been arranged into categories for simple reference.

#### **Product development**

- Once you figure out the product or service you are going to offer to the market, clearly understand and write down its unique features.
- Develop your product range based on the market demand; try not to let your own professional competence or the experience of your personnel dominate decision making in this area. You may need to stretch your comfort zone – for example, suppose you want to provide jobs to people with disabilities who are all good at baking. You should not assume that your social enterprise *must* produce baked goods – this decision should be based on an analysis of the market demand, existing competition etc. If necessary, you should consider teaching them a new skill, and setting up a social enterprise with a completely different product.
- Try to keep balance the engagement of professionals and family or NGO members in the staff of your social enterprise. Especially in the early stages, social enterprises tend to be small units involving your family or the staff of the NGO that is the parent organization. But some business functions—like marketing, business development and sales—are critical for growth and require real expertise. If you don't hire a professional who has a business mindset, your enterprise might fail to grow.
- Design your projected growth based on real assumptions using marketing research, and not on your own thoughts and information. Once again, it might be worth your time and money to hire an experienced outsider to work with you on this. When projecting your sales and social impact, try to avoid

being blinded by the fact that you are doing a “good thing” for society – this can lead to overly optimistic expectations of quick growth and the reality can end up damaging the morale of your team.

- Keep everyday track of your sales and cost-benefit ratio. A commercial business does this – it helps you stay afloat financially, which is a pre-requisite for you to have social impact.
- Be careful when outsourcing sales to other companies or using distributors. You need to maintain control of your prices and avoid any unjustified profit margins that distributors might add on, because these will damage the social impact message that is the focus of your company.
- Try to find professionals in your personal network who are more experienced and intelligent than you, and ask them to become the board members of your social enterprise. Spend time in monthly informal meetings with them around coffee or in another casual setting.
- Do not start a business without a Business Plan and sound Marketing research.

### **Strategic Documents and Routine Operations**

- Prepare proper, written strategic documents such as a Business Plan, Marketing Analysis and Cash Flow Projections based on your current abilities in finance and business experience.
- If possible, engage a professional consultant during the different stages of working with these strategic documents until you can easily navigate through each in detail and finally become the “real owner” of them, with the ability to adjust and change them, if necessary.
- Accept them as your desk documents and high-level instructions for everyday operations especially during the startup stage.
- Change the business plan according to the changes in the external environment: e.g. changes in prices, the cost of raw material and market demand.
- Together with strategic documents such as the business plan and marketing strategies, design

day-to-day management reports which will help you to monitor outputs and, through them, produce outcomes.

- Prepare a few simple but interconnected documents in finance, sales and operations (daily sales analysis, competitors monitoring, cost calculation and cash flows) for your everyday management activities. Working with such documents on an everyday basis is a must for you to manage a successful enterprise.

- Do not expect society or customers to make purchasing decisions based solely on the emotional aspect of the problem you are solving. Customers may be sympathetic to your cause but may choose the products of a commercial competitor even if you are solving a very important social problem or, for example, hiring people with disabilities. You need to match or exceed the quality, price, and convenience offered by your competition before the social side comes into play as your advantage.

- Take into account the stereotypes and attitudes of your customers towards products produced by your target group. Sometimes their reaction can be negative because of negative biases towards the marginalized group involved, which means it becomes part of your task to change the perceptions of the target market.

- Use the life experience and investigate unsatisfied demand of the target population in your staff, if any, to understand the requirements of this marginalized groups as customers and offer tailor-made services and products to those unique markets.

- Although your organization may solve integration and life quality problems by engaging people with disabilities as staff and customers, this may require additional investments in infrastructure (e.g. wheelchair ramps, special toilets, etc.) and additional transportation and medical expenses.

## **Market and Environment**

- Allocate financial resources for marketing before and during project implementation.
- Marketing is an everyday operation, just like the production process.

- Do not ignore meetings and collaboration with other organizations similar to yours.

• Be proactive and flexible and be prepared to change your strategy depending on regional and macroeconomic changes. Do not ignore exchange rate fluctuations and macroeconomic basic indexes. Such macro changes can affect your micro and small enterprise dramatically in direct and indirect ways. For example, the devaluation of your national currency towards the currency of the country from which private transfers are received by your customers can change their preferences and spending levels.

### **Accountability and finance issues**

- Hire and strongly follow the instructions of the professional consultant during the procurement stage in order to purchase equipment and technology that also take the future—and possibly more complicated—requirements of the market into consideration. Otherwise, adjustments of the production process and operations to changing requirement of the market can require a lot of investment.

- Keep social impact track records. These measurable results of your social problem solving can become a “social asset” if, for example, you decide to apply to special funds specially designed to finance social entrepreneurs.

### **Some advice to NGOs which are initiating social enterprises as parent organizations**

- Use your experience in NGO activities but avoid using the same strategy of management and promotion when running the everyday activities of the social enterprise. Running an income-generating business is very different from a non-profit organization.

- If possible, distribute the management responsibilities of the social enterprise to other people who are not directly involved in the NGO while you stay in a strategic supervision site. Alternatively, focus solely on the social enterprise and reduce your role at the NGO, if you have the business background to run the for-profit arm.

- Remember that the requirements of the real market are quite different from the requirements of donors or governmental authorities to NGOs. However, you can consider your network of partner NGOs as a target market for your product or service.

## Afterword

For any problem you want to solve, social entrepreneurship offers exciting possibilities that are very different from traditional non-profits or charities. While the chapters in this manual have strived to present things in a simple and concise manner, we do not want to create the impression that setting up and running a social enterprise is easy. On the contrary, it is probably just as difficult as setting up any business, or perhaps even more.

At the end of this manual, we list a few resources that can help you along on this journey. Naturally, this is just a sampling of what is out there. Based on your location, cause and other considerations, you can probably find other networks and resources that will also be useful.

We wish you the best of luck and hope that a future edition of this manual or other social entrepreneurship literature will also include your social enterprise as a successful case story!

## APPENDIX 1. More Useful Resources for Social Entrepreneurs

In addition to the “additional resources” listed at the end of each chapter, the items listed below will help you learn more during your social entrepreneurship journey.

### Online resources

- The i-Lab at Harvard University is a program on startups and innovation, including social entrepreneurship. They have a [playlist of lectures and discussions](#) for social entrepreneurs on the program’s YouTube page.
- The [Stanford Social Innovation Review](#) is a magazine dedicated to issues of interest to social entrepreneurs. The online version of the magazine has a lot of useful content and many thought provoking articles.
- New York University’s Reynolds Program in Social Entrepreneurship has a series of videos featuring lectures and discussions on this topic on [their YouTube channel](#). Many of the talks feature successful social entrepreneurs sharing their insights and experiences.
- The European Commission’s [Social Economy and Social Entrepreneurship Guide \(Volume 4\)](#) is a downloadable PDF that looks at the state of the social economy in Europe and serves a good source for ideas and insights into the latest trends in social entrepreneurship.
- Social Edge was a network of social entrepreneurs that existed from 2003 up to 2013, and was supported by the Skoll Foundation (see Appendix 2). Although it no longer exists as an active forum, all the discussions and posts [have been archived](#) by the Skoll Foundation and provide great material on a variety of topics such as leadership and organization management, fundraising, sustainable markets and more.
- [This article at Convince and Convert](#) links to three good TED talks on storytelling for marketing purposes. Watch the videos to learn more about how storytelling can help promote your cause and social enterprise.
- UnLtd is the leading provider of support to social entrepreneurs in the UK and can help you along your journey in a number of ways. Check out their website, particularly the [social enterprise guide](#) that they have available for free download.
- The United Kingdom has arguably the best developed social entrepreneurship infrastructure

and ecosystem in the world today. Social Enterprise UK has prepared [this guide](#) to starting and running a social enterprise.

Naturally, there are new resources for social enterprises coming online every day, and the list above just gives you an idea of what is out there.

## Books

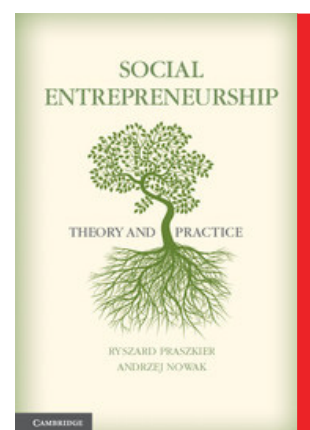
### 1) **Social Entrepreneurship: Theory and Practice**

Authors: Ryszard Praszkiel, Andrzej Nowak

Published: 2012

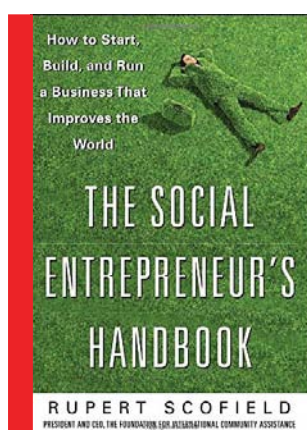
Pages: 250

Publisher: Cambridge University Press



This book starts with the basic definitions and dimensions of social enterprise and how to identify it in practice. The authors then outline various theories of social change and talk about the social capital built and used by social entrepreneurs.

The final section of the book will be particularly useful to emerging social entrepreneurs as the authors look at leadership issues and how to overcome problems that seem insurmountable at first. The book is full of the stories of real-life social entrepreneurs and is an inspiring read for anyone who wants to join that big family of change makers.



### 2) **The Social Entrepreneur's Handbook: How to Start, Build, and Run a Business that Improves the World**

Author: Rupert Scofield

Published: 2011

Pages: 273

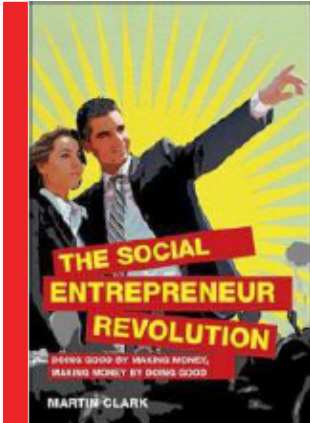
Publisher: McGraw-Hill Education

The author of this book is the cofounder and President of FINCA International, a microfinancing institution that has been involved in social entrepreneurship for more than 40 years.

The book says that you only need two things to start a social enterprise: an idea and a plan. The former comes from you, the book provides the latter. The author guides you through creating a realistic plan for the cause you have selected, gathering a good team, developing a business model and staying in good financial

shape.

In simple language, the author lays out knowledge from his experience in Africa, Latin America, Eurasia and the Middle East, making this book a gem for any budding social entrepreneur.



### 3) The Social Entrepreneur Revolution:

#### Doing Good By Making Money, Making Money By Doing Good

Author: Martin Clark

Published: 2009

Pages: 208

Publisher: Midpoint Trade Books Inc.

The author profiles four leading social entrepreneurs – focusing on Muhammad Yunus and his Grameen Bank, John Bird and The Big Issue, Victoria Hale and the Institute for OneWorld Health as well as Nic Frances and the Furniture Resource Centre. For each entrepreneur, Clark tries to look at their characteristics by providing a few bullet points about what made them tick.

Before this, there is a whole chapter dedicated to what a social entrepreneur is and then another where you ask yourself whether you can be one.

This book is peppered with examples and is written in engagingly simple language, making the world of social entrepreneurship seem fun, exciting and simple. Perhaps it is written too positively, meaning that a few bumps along the road might discourage any aspiring social entrepreneur who misread the rosy picture painted by the book.

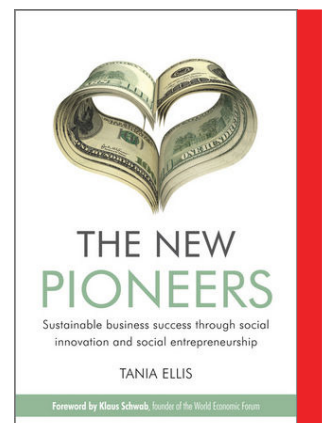
### 4) The New Pioneers: Sustainable Business Success through Social Innovation and Social Entrepreneurship

Author: Tania Ellis

Published: 2010

Pages: 247

Publisher: Wiley



This book does a great job capturing the growing problems in our global society and presents social entrepreneurship as a truly sustainable solution to a better life on our planet. Ellis says that social change is the purpose of social entrepreneurship, innovative problem solving is the solution and business methods are the means to get there.



The author provides readers with a number of case studies and examples from around the world and lays out her vision for the paradigm shift that is inevitably going to happen as more entrepreneurs seek to find lasting solutions to the problems in their communities.

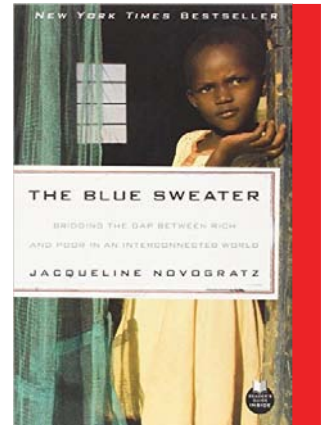
### 5) **The Blue Sweater: Bridging the Gap Between Rich and Poor in an Interconnected World**

Author: Jacqueline Novogratz

Published: 2009

Pages: 309

Publisher: Rodale Books



*The Blue Sweater* can be described as a classic that any budding social entrepreneur should read. It follows the personal story of how Jacqueline Novogratz left the commercial business world to tackle the problem of poverty, through social entrepreneurship. Novogratz went on to found the Acumen Fund (see Appendix 2), which is one of the most influential organizations in the global social entrepreneurship ecosystems. So knowing her back story is doubly beneficial to social entrepreneurs – it is both an inspiration in itself, and gives one insight into the mind of a big player on the international social entrepreneurship scene.

## APPENDIX 2. The Global Social Enterprise Ecosystem

Your organization does not have to go on its social enterprise journey alone. Below we present a list of global organizations and networks that work with social enterprises and provide various kinds of support along the way.

### Foundations and supporters

The following organizations are global structures that either provide direct funding to social enterprises or other in-kind support. Research their websites to see the countries and topics that interest them; connecting with any of these organizations can be very beneficial to your social enterprise. In addition to these, look for “impact investors” online – these are organizations and individuals that invest money in organizations and expect *both* financial results as well as a positive social impact.

- The [Skoll Foundation](#) is one of the biggest names in the social entrepreneurship ecosystem. The Skoll Foundation has invested approximately \$400 million worldwide, including the Skoll Award to 118 social entrepreneurs and 96 organizations on five continents.
- [Ashoka](#) has been support social entrepreneurship around the world for more than 35 years, working with more than 3,000 Ashoka Fellows solving problems in 89 countries.
- The [Schwab Foundation for Social Entrepreneurship](#) was founded by Klaus Schwab, the man behind the World Economic Forum in Davos. The Foundation does not usually invest directly or give grants, but provides opportunities for social entrepreneurs to have access to very high-level networks and thus mobilize new resources.
- [The Omidyar Network](#) was founded by Pierre Omidyar, one of the people behind the auction site and online marketplace eBay. The Omidyar Network invests directly in social enterprises and provides advice on strategy and other vital areas.
- [Acumen](#) is a global foundation that raises charitable donations to invest in companies, leaders, and ideas that are changing the way the world tackles poverty. Their work has positively impacted the lives of more than 100 million people. For more insight on how the organization got started, we’ve listed the founder’s *The Blue Sweater* as a recommended book in Appendix 1.
- [Echoing Green](#) has a fellowship program through which social entrepreneurs can learn, network and gain access to investment.

## Networks

It's great to read manuals and articles featuring case studies on other social enterprises, but it cannot beat being in direct contact with active and experienced entrepreneurs from around the world. This list features some well know international organizations that serve as a great place to network with others who can mentor and teach you, helping your social enterprise fulfil its full potential for good.

- The [Global Social Entrepreneurship Network](#) is a body that unites organizations supporting social entrepreneurs around the world.

- [Impact Hub](#) is a network of people and organizations making an impact around the world. There are more than 85 hubs in five continents today. In most cases, each Impact Hub is a physical location that serves as a co-working space and networking opportunity. Being an Impact Hub member is a great way to make new contacts and learn from others, both within your country and globally.

- [The Unreasonable Institute](#) is an acceleration program for social entrepreneurs that has programs in more than 25 countries and has supported more than 300 social ventures. Explore their website to learn more about the opportunities for enrolment and mentorship available today.

- [Network of social enterprises and employers](#) is an platform which aims at discussing and empowering persons with disabilities throughout Armenia. It is an open space for exchange of information and experiences, capacity building and advocacy. More than 40 member of the Network are DPOs, NGOs, Business structures, employers and individuals who are interested in social entrepreneurship.

