Social Enterprise Reporter

Innovative Business Solutions for Nonprofit Entrepreneurs

The Integrated Approach to Social Entrepreneurship:

Building High Performance Organizations

by Kim Alter and Vincent Dawans

NEW PARADIGMS

The *raison d'être* of social enterprise practitioners is to *create* and *sustain* social value. Social value creation speaks directly to accomplishing a social mission and achieving social program objectives, while sustainability requires organizational and leadership capacity, business-oriented culture and financial viability. Thus, a social enterprise is more likely to achieve *sustained social value* when the enterprise is integrated within program, operations, culture, and finance.

Rick Aubry,[1] Executive Director of Rubicon Programs, says of his organization's social enterprises, "we are not in the business of baking cakes; we are in the business of transforming lives. We see business as the primary vehicle for achieving this change, but social enterprise is comprehensive and must be integrated into the whole [organizational] package." [2]

The opportunity to realize social enterprise's promise—High Performance Organizations—is being missed.

Regardless of its degree of integration, a social enterprise catalyzes organizational change whether invited or not. Examples of organizations whose social enterprises have survived, and gone on to thrive, recognize this—often after substantial trauma—and have ultimately integrated the enterprise throughout the organization and worked to manage this change. The hypothesis follows: when integrated within an organization, social enterprise is a *transformation and strengthening strategy* that can increase mission accomplishment and social impact, improve organizational and financial performance and health, and engender a more entrepreneurial culture.

This "integrated approach" to social enterprise offers practitioners a new paradigm to create and transform enterprises into High Performance Organizations, organizations capable of achieving sustainability, appropriate scale, significant impact, and providing blueprints for replication. However, the opportunity to realize social enterprise's promise—High Performance Organizations—is being missed.

(continued on page 2)

index

SER 204

1 Rick Aubry received the Klaus Schwab Foundation "Social Entrepreneur of the Year" award in 2001

2 Interview with Rick Aubry, Executive Director, Rubicon Programs, Richmond, California, March 19, 2005.

The Integrated Approach

(continued from page 1)

Fragmentation and Myopia

There is a lack of wholeness and integration in the social entrepreneurship field, evidenced by the divergence of players and three schools of thought—leadership, funding, and program.

• The "**leadership approach**" supports professional development efforts for individual "social entrepreneurs". The shortcoming of this approach is that individuals are not replicable and too often their "social change innovations" have not been used to build the practice or replicate their successes.

• The "**funding approach**" advocates that nonprofits start commercial ventures to diversify their funding. Typically, the venture is structured as an auxiliary project of the organization. The funding approach to social entrepreneurship has increased the number of nonprofits incorporating market discipline and income-generating activities into their organizations, yet problems arise from disappointing financial returns, harder than expected implementation, complex legal and tax issues, organizational discord and mission dissonance.

• The "**program approach**" to social entrepreneurship is when business activities and social programs are one and the same, typically in cases where business activities are central to, or compatible with, the organization's mission. The program approach suffers from the opposite problem of the funding approach—relying too heavily on social sector resources and lacking business acumen. Practitioners of the program approach are fragmented or "siloed" by sector, geography, and barred by industry vernacular thus, little sharing of knowledge and experience occurs between silos.

In drawing inspiration from business, social enterprise has taken bits and pieces but has missed the big picture, stressing business function over social benefit and doing little to integrate the two.

Bias Toward Funding

Among North American organizations there is a bias toward the funding approach. Currently, the majority of the literature and public forums speak to helping nonprofits start earned income ventures. This is likely more of a PR issue than a practice issue—nonprofits need funding, grants or otherwise, and the promise of earned-income is the allure that leads nonprofits down the garden path. This dangerously narrow view shifts attention away from the ultimate goal of any self-respecting social entrepreneur, namely social impact, and focuses it on one particular method of generating resources. [3] Though profit is a sexy proposition for practitioners, the reality is that social enterprise as a funding mechanism has not paid off for many who have hungrily followed its lure.

Misunderstanding the Benchmark

In drawing inspiration from business, social enterprise has taken bits and pieces but has missed the big picture, stressing business function over social benefit and doing little to integrate the two. The private sector does not consider any one aspect of business in isolation. A business plan, for example, maps and connects the internal aspects of a company to each other as well as to the external environment. The very idea that practitioners use the phrase "mission-driven" is antithetical to business ethos, even if the standard corporate mission is "maximizing profit for shareholders." In the social enterprise the mission is complex but, like business, must be central and anchor all decisions and activities.

Missing an Opportunity To Do More Mission

The emphasis on funding means that opportunities are being missed to realize other benefits that social enterprise offers. A recent *Harvard Business Review* article instructs nonprofits to "put their missions first rather than starting with a venture's financial potential," citing that "a mission-first assessment of earned-income opportunities returns the nonprofit sector to its fundamental principles.[4]" Sadly, few recognize social enterprise as a deliberate method to accomplish social mission, achieve social impact, create a stronger organizations and affect a more entrepreneurial culture. Financial aspects of resource management are

(continued on page 3)

3 Dees, Gregory, *Social Entrepreneurship Is About Innovation and Impact, Not Income*, Skoll Foundation Social Edge, September 2003.

4 "Should Nonprofits Seek Profits" (January 2004)

The Integrated Approach

(continued from page 2)

an integral part of the social enterprise paradigm, hence *the issue is less of perpetuating a money myth than missing a mission opportunity*.

Resource Management—Not "Profit"

The perception that social enterprise is strictly about earned-income or profit is misleading. No amount of profit makes up for failure on the social impact side of the equation. Any social entrepreneur who generates profits, but then fails to convert them into meaningful social impact in a cost effective way has wasted valuable resources.[6] Social enterprise requires effective resource management, which must go beyond the narrow view that financial resources are the only resources. Typically, nonprofits most valuable resources are their people, networks or members, and intangible assets such as methodologies, content, reputation *and* social impact. An integrated approach to social enterprise recognizes the financial as well as non-financial capital (human, social, environmental and physical) and motivates practitioners to productively employ and manage these assets.

Challenges, Risks and Learnings

Little research has been conducted to ascertain why social enterprises fail, however, the practice speaks volumes—cultural tension and low capacity are the main offenders. Change is hard and resistance to change is human nature, present in both for-profit and nonprofit sectors. Social enterprise challenges the traditional concept of charitable action and its implications on social structures—do we (western society) really want the poor no longer poor, or the homeless no longer homeless?

> "Social enterprise as a tool for achieving mission has come to the fore. It's more than a revenue strategy. People are beginning to look at it as a tool of economic empowerment for the communities they serve. It's not just another fund-raising tool—it's a mission fulfillment tool!"[5] —Yma Gordon, Program Officer, Ms. Foundation for Women

These potential institutional benefits of social enterprise, if left unmanaged, are equally a source of institutional risk. Authors and practitioners have shared many a cautionary tale of mission creep, cultural strife, stakeholder and/or staff tensions, lack of vision or capable leadership, financial losses, operational inefficiencies, weak marketing, and threats to an organization's reputation.

Much of the value of social enterprise is in the process-for example, the learning gained developing a business plan often exceeds the value of the plan itself. Social enterprise is an organizational change and transformation process, therefore there is a need to define a framework for monitoring the impacts that the process of developing and managing enterprise activities has on nonprofits themselves.

Lack of Inclusion of International Organizations

Microfinance institutions (MFI) are quintessential social enterprises and their leaders are some of the world's most formidable social entrepreneurs, yet they have largely absent from the conversation. From early on microfinance practitioners implemented MFIs as a vehicle by which to achieve wide-scale sustainable social impact. The microfinance methodology takes a holistic approach, its ethos is that the "social programs" (micro-credit services) must be institutionalized in order to be a going concern. Social programs and impact are not disaggregated from business activities and financial aspects of the organization, rather they are an integral part of the business model. Capacity building is an enduring process and central to implementation and development of the MFI. Last year's Micro Credit Summit celebrated reaching 100 million poor borrowers. This is success, yet little has been done to learn from their experience or share their immense intellectual capital with other practitioners.

A New Social Enterprise Paradigm

The reality of the current state of practice is that social enterprises are executed in isolation—treated as a distinct project or activity—when in

(continued on page 4)

5 Interview in July 2005 issue of *Social Enterprise Reporter.*
6 Dees, op.cit

The Integrated Approach

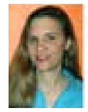
(continued from page 3)

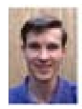
fact social enterprise has profound effects on the whole organization. The three approaches to social entrepreneurship (funding, leadership and programmatic), alone or in combination, do not go far enough. The true opportunity for social enterprise as an agent of organizational transformation lies in integrating these approaches in a way that builds high performance organizations.

The Integrated Approach takes the best of business and marries it to social interest. It is strategic, requiring a long-term vision and clear objectives in order to manage performance and change, and to measure results across the organization. Capacity building is tied to objectives and is systematically incorporated across the organization to strengthen it and support cultural shifts related to the enterprise. This approach recognizes resources inherent both to the organization and the external environment, and mobilizes and manages these resources to increase organizational productivity and yield. Mission is the cornerstone, and serving it, the impetus for venturing. The social enterprise is first and foremost a vehicle to accomplish, strengthen, enhance or expand the organization's mission.

"Social enterprise is first and foremost a vehicle to accomplish, strengthen, or expand the organization's mission."

The Integrated Approach challenges the notion that unrelated business ventures *are* social enterprises, believing that if business activities are not central or strongly related to the social mission then it is pure business undertaken by a nonprofit, and not social enterprise. An Integrated Approach is a methodology that helps practitioners do what they do *better*—innovate, increase impact and effectiveness, and improve performance. ■


Sutia Kim Alter is Founding Partner of Virtue Ventures LLC, a small, innovative firm rooted in practice and committed to furthering the field of social entrepreneurship through action-research, technical services and its own initiatives. Alter is also a Visiting Fellow to the Skoll Centre for Social Entrepreneurship at Saïd Business School, University of Oxford, where she teaches a course on social enterprise design and conducts research. She has authored several works on social enterprise including *Managing the Double Bottom Line: a Business Planning Guide and Workbook for Social Enterprises*, available from ➲ www.SEReporter.com. Alter has worked with practitioners in 35 countries worldwide.
✉ Kalter@virtueventures.com


Vincent Dawans, a Virtue Ventures LLC Partner, conceived the Four Lenses Framework, and has worked with Alter to outline a conceptual framework for The Integrated Approach to social enterprise. Dawans holds an MBA from the ICHEC Business School, Brussels, Belgium. He has worked on projects in Europe, the US and Francophone Africa, Mexico as well as the former Soviet Union.
✉ Vincent@virtueventures.com