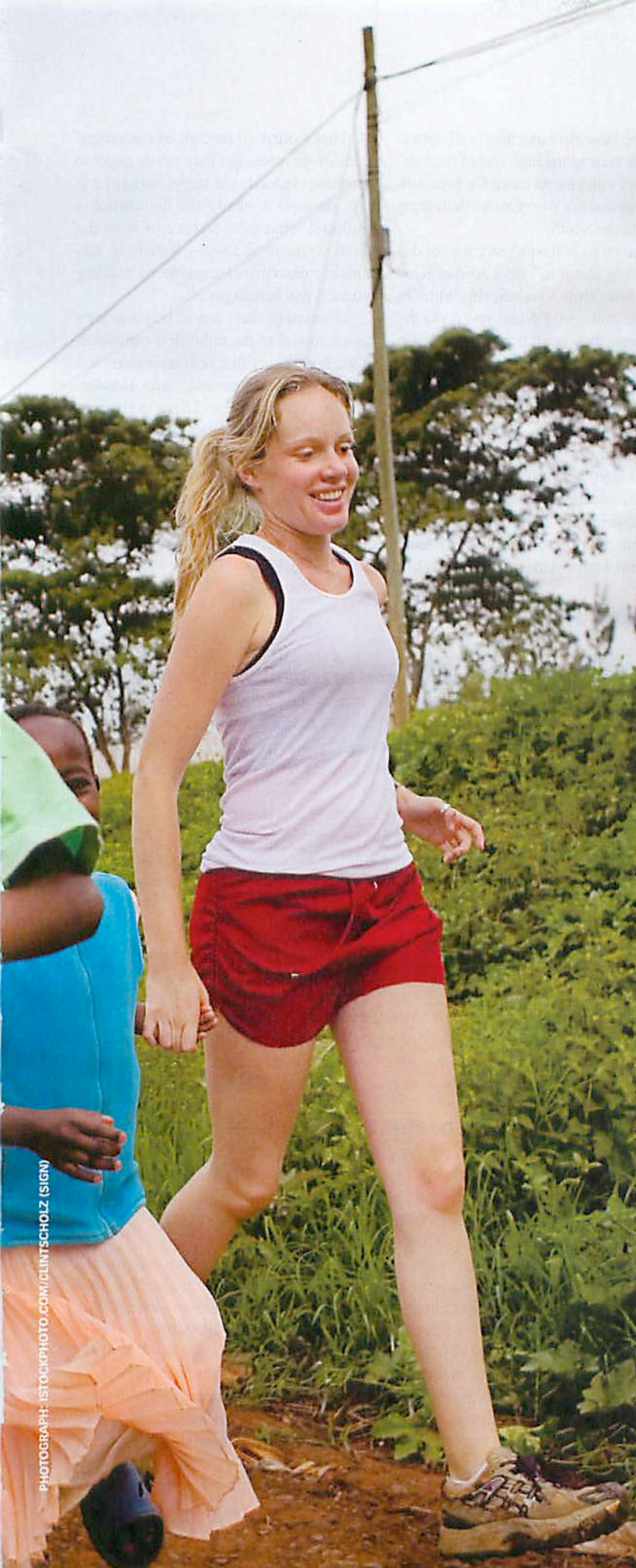


Never let a crisis go to waste



OXFORD'S SAID BUSINESS SCHOOL STUDENT CLAIRE WILLIAMS CO-FOUNDED HOPE RUNS IN KENYA TO USE RUNNING TO EMPOWER AIDS ORPHANS. SOCIAL ENTREPRENEURSHIP IS "ABOUT" CREATING SUSTAINABLE BUSINESSES THAT WORK FOR THE BENEFIT OF BOTH THE SOCIAL GOOD AND THE BOTTOM LINE," SHE SAYS.



Social entrepreneurs see the economic upheaval as a chance to go mainstream.

By Andrew Tolve

IN THE WAKE OF THE 2008 FINANCIAL FLAMEOUT, most business people are, to put it mildly, downbeat. Banks aren't lending, consumers aren't spending and the prospects for the rest of the year seem grim. All of which makes social entrepreneurs, well, intensely—even passionately—optimistic.

"This is a slam dunk," says Willy Foote, the founder of Root Capital, which provides loans to rural businesses in Latin America, Africa and Asia. "The Wall Street meltdown provides a chance to think about how we transition from a financial system that is complex, opaque and anonymous to one that is direct and transparent."

The world seems ready for such a change. In the middle of one of the farthest-reaching financial collapses in history, U.S. President Barack Obama came into office faced with the challenge of delivering on his promise of change. People are tired of business as usual. The exasperation is palpable, but so is the hope that this time, we can and will do things differently. Social entrepreneurs have always believed this, and for many, it's their moment to shine.

"In a world where change is escalating exponentially, the only way we'll make it is if everyone has the mindset of a social entrepreneur," says Bill Drayton, a pioneer in the field and founder of Ashoka, which sponsors international leaders in philanthropic business. "The current upheaval is a great opportunity to flip the switch. We need to make everyone a change-maker."

That will require a lot of change. According to Kevin Lynch and Julius Walls, Jr., authors of *Mission Inc.: The Practitioner's Guide to Social Enterprise* (see excerpt on following page), "A social enterprise is a business whose purpose is to change the world for the common good." >>>

That's a tall order, but those at the vanguard of the movement are well placed to make it happen.

The field is "a response to the failure of both business and government to deliver on their promise to society," says Lance Henderson, vice-president of programs and impact at the Skoll Foundation, which, like Ashoka, nurtures transformation around the world. "Social entrepreneurs are very good at innovation and integrating sustainability into society."

CONSIDER READING GLASSES. PEOPLE start to lose their eyesight around age 40. In the North, we fix the problem easily at the local drugstore. But in the South, where glasses are far more difficult to find or afford, the problem is much more serious and often costs people their livelihoods.

Despite the large demand, nearly all optical companies stick to the high end of the market, so they can charge more for prescription glasses and not worry about delivering products to the South.

"Shame on us in the industry for not doing anything about it," says Jordan Kasalow, whose firm VisionSpring aims to redress the problem. "When you go to the optical firms, they're all fighting for the tip of the pyramid, meanwhile ignoring the 4 billion people who need their products, the half billion who are losing their economic lives because they can't see the work in front of them, the tens of millions more who can't learn because they can't see the blackboard. Shame on us."

VisionSpring manufactures glasses in China and sells them in Southern Asia, Africa and Latin America for roughly

\$4. That's often 10 percent of customers' monthly incomes, but they prove eager to purchase. Indeed, the target audience is vast, demand is steady and the impact is profound. That's the essence of what the social sector is all about—launching sustainable enterprises capable of making products that benefit people.

"Ultimately, there has to be some successor model to the unbridled capitalism of the last century that both businesses and investors coalesce around," says Henderson. "And that model will have to factor in business sustainability and social value."

Metrics is the buzzword in the social sector right now, and for good reason. If these enterprises are to thrive, they need to demonstrate their success, both financially and in terms of social change. The latter part is tricky. How do you quantify



How to run a
social enterprise,
in three (not so)
easy steps

By Kevin Lynch and
Julius Walls, Jr.

THERE'S A BIG PILE OF PROBLEMS OUT THERE: VIOLENCE, POVERTY, environmental degradation, human rights violations, disease and more. It's a big and daunting pile. It's so well chronicled that we needn't repeat endless statistics about its scale and scope, nor endlessly debate how things got to this point and who is to blame. The point remains: We've got to change it—and change it fast.

The good news is, things can change. The pleasant surprise is that business—the same institution that by any measure must bear a fair amount of the responsibility for the current situation—is also the most potent force for turning things around. In fact, hundreds of businesses are already hard at work doing exactly that.

After interviewing social enterprise leaders of every stripe, and through our own experience, we realized that virtually every moving part of a social enterprise is a double-edged sword of challenge and opportunity. Social enterprises can change the world for the much, much better. If social entrepreneurs can navigate around the challenges and capitalize on the opportunities, then perhaps they can improve the odds that their social enterprise will be among the businesses that succeed. Better yet, then perhaps they can go to scale and really change the world. Here's how.

Step 1. Get better to get bigger to do more.

We've all read the statistics about business failure rates. A fact of life for anyone starting any business, social enterprise or not, is that more businesses close their doors than survive, and even more stay small than make it big. If you just go by the odds, you're not going to make it at all, much less on a scale that will make a difference.

More recently, as the field has grown, a spate of articles has been written about the failure rate of social enterprises, some concluding that they have not lived up to their promise. These articles have been met, in turn, by angry rebuttals from social entrepreneurs, consultants and associations. To all of which we say, "Of course social enterprises fail—because businesses fail." In most cases, the reasons are the same as for other businesses: lack of cash, lousy marketing, failure to innovate. In addition, another set of factors can detract from social enterprises' success, including unwarranted optimism, failure to cut losses and belief that the mission will prevail over reality.

These factors operate so powerfully that they often become almost

change? Can you measure the difference you've made to the lives of farmers in El Salvador, say, or the inner-city poor in Philadelphia? It can be a difficult pitch, but a critical one if you want investors to embrace smaller financial returns in favor of the larger social good.

Kassalow does his metrics by tracking how many pairs of glasses his company sells, whether the incomes of the people who buy them increase and, if so, how that money is spent—on better housing, health care and education or television sets and booze. Similarly, Foote of Root Capital has established 35 metrics to help him follow his company's loans and the economic, social and environmental impact they have. By judging themselves against hard metrics like these, he says, social entrepreneurs—and their investors—can go beyond the

feel-good factor.

"It's great to have really good stories," Foote says. "Everybody needs hope. But let's get into a mentality of hanging hope on concrete, specific examples. We need to be explicit."

BUT SOCIAL ENTREPRENEURS KNOW they can't effect widespread change on their own. The size of the sector compared to the conventional business sector is too small. And if businesses continue to neglect social problems, all the good in the social sector won't add up to much. To capitalize on the crisis, therefore, these entrepreneurs need to convince mainstream corporations to operate the same way they do. The best way to do that? From the inside.

A whole new niche of the sector has switched its focus to CEOs, their



WITH LOANS FROM ROOT CAPITAL, MEMBERS OF THE UGANDAN COOPERATIVE UNEX CAN BRING THEIR COFFEE TO MARKET.

a part of the DNA of social enterprises. The passion of purpose can blind one to the hard calculated decisions that must be made to grow a business. But these factors can be overcome. They require nothing more than leaders who, at their core, understand that social enterprises demand the same levels of business discipline as any other successful enterprise.

Social entrepreneurs can take comfort in realizing that an equally powerful set of factors, not generally available to traditional businesses, can propel their success exponentially. For example, the mission can create a compelling marketing proposition, and social entrepreneurs have a greater-than-average chance of attracting great talent and harnessing their passion. The formula for building a sustainable social enterprise is actually quite simple to articulate, if not necessarily easy to execute: Do all the right things a traditional business does, avoid the social enterprise traps, and grab the points of leverage that are available only to you.

Step 2. Survive long enough to get lucky.

The job of the social entrepreneur is to make sure your enterprise lives to fight another day. Do this enough days in a row, with the power of your social purpose and your commitment to changing the world, and your break will come.

If you take seriously the survive-to-get-lucky mantra, then you shouldn't presume for a moment that the social enterprise you are starting or running today will resemble in any way the one that is going to be creating social change five or 10 years from now. Remember, you're dealing with two variables: the needs of the world you are seeking to change and the dynamics of the industry in which your enterprise is competing.

Rubicon Programs is among the largest and most successful social enterprises in the employment field. Today, it is a \$16 million enterprise employing 250 people and serving more than 4,000 through its programs. This is what Rubicon became, but it's not what Rubicon set out to be. It was initially a drop-in center in Richmond, California, for very low-income people with severe disabilities. It had no programs and its first social enterprises were very small programs that were seen more as extensions of training than anything else. For example, a plant nursery that was started in a local supermarket in the late 1970s and a couple of small cafés started in the early 1980s were primarily training programs that also generated some revenue. Rubicon has evolved into an organization that today

serves low-income, homeless and mentally disabled people in the businesses, housing and services it provides. About one-third of the people currently served have a mental health disability, so its original focus is still a part, but not the largest part, of what Rubicon does.

Step 3. Be prepared to operate at the rate of rapidly accelerating change that every business is faced with—squared.

We admire no one more than Jeffrey Hollender, founder and CEO of Seventh Generation, a \$100 million firm that makes, among other things, green cleaners, laundry detergent, dishwashing soap and paper towels. Get this: Despite a principled decision not to sell his business to Wal-Mart, Hollender acts as an unpaid adviser to that corporation on environmental and climate-change issues. He does so knowing that his efforts make the competitive landscape for his own business more treacherous, but seeing that larger companies have a greater influence on the environment than Seventh Generation. Increasingly, his goal is as much about influencing larger companies as making an impact with his own business.

Interestingly, he notes, Wal-Mart is probably the greatest reason his business is more competitive than ever. In large part, Wal-Mart's pressure on the supply chain to be more environmentally responsible has affected the research-and-development spending of virtually every large packaged-goods company in America, resulting in a tremendous flow of green products into the market. While this creates stiff competition for Seventh Generation, Hollender sees it as a good thing. It has improved the landscape of products but also eliminated one of his points of difference.

Why does he do it? His answer embodies the core principle of social enterprise: "We are not in business to be in business," he says. "We are in business only because of our mission." In fact, Hollender inspires us to reconsider our earlier-stated credo. Perhaps the credo shouldn't be "Survive long enough to get lucky," after all. Perhaps, instead, it should be "Get lucky long enough to become unnecessary." We have to get better all right. We have to get so good we're no longer needed.

This is an edited excerpt from Mission Inc.: The Practitioner's Guide to Social Enterprise by Kevin Lynch and Julius Walls, Jr., published by Berrett-Koehler.



“Social entrepreneurs are the role models, the mass disrupters and the mass recruiters of local change-makers.”

—Bill Drayton, founder of Ashoka

companies and the next generation of management. The Aspen Institute, which strives to inspire more enlightened leadership, runs programs geared toward moving aspiring moguls into this sector. Its Aspen Global Leadership Network includes 850 fellows from 37 countries. Reed Hastings, founder of Netflix, is a former fellow, as is Kassarov, who expanded VisionSpring after his time in Aspen.

“We’re getting them to stop, think, hit the pause button and consider the platform they now command,” says Peter Reiling, a former fellow and the Aspen Institute’s executive vice-president. “If these messages of ethics and sustainability resonate with them, you get a ripple effect.”

Two Aspen fellows, Jay Coen Gilbert and Andrew Kassoy, recently created B Corporations along with Bart Houlahan to expand this effort. B Corp offers a certification process for socially and environmentally minded companies, much like certifications for organic produce and energy-efficient buildings. To become B Corp-certified, companies must pass extensive reviews of their business practices, social outreach and environmental footprint. The goal is to ensure companies value their shareholders and communities equally. The 134 certified B Corporations include law firms, restaurants, advertising agencies and clothing manufacturers. “Everyone thinks of socially responsible businesses in a fairly narrow way,” says Christina Houlahan, B Corp’s vice-president of business services. “We want to broaden that

understanding to disparate companies so that it becomes truly mainstream.”

Business schools are another area of focus. Ten years ago, social entrepreneurs were virtually nonexistent in academia, and students weren’t complaining. Now, they’ve made headway into business schools throughout Europe, Asia, Australia and North and South America. In the U.S., Stanford University has a department of social innovation, and most of the Ivy League schools offer classes. So too does ESSEC Business School in Paris, IESE Business School in Barcelona and Oxford University in the U.K.

THE SKOLL CENTRE FOR SOCIAL ENTREPRENEURSHIP at Oxford’s Saïd Business School is a leader in the field. “Young people are really fascinated with the idea of combining their values with making money,” says Pamela Hartigan, director of the Skoll Centre and adjunct professor at Columbia Business School in New York City. “It’s not just about padding pockets for them. They want to go and pursue something with meaning.”

That’s certainly the case for Saïd Business School student Claire Williams, co-founder of Hope Runs in Kenya, which uses running and education to empower AIDS orphans. In recent months, she says, social entrepreneurship has suddenly become cool. “When you said you were a social entrepreneur in business school,

people used to think you were a little too fuzzy or tree-huggy. But ... social entrepreneurship isn’t a cop-out. It’s about creating sustainable businesses that work for the benefit of both the social good and the bottom line.”

Hartigan says the new generation of social entrepreneurs—the ones with degrees in the field—are focused on making community enterprises commercially viable rather than donor-dependent and on developing academic metrics to ensure this independence. Hartigan likes to remind students that metrics aren’t everything—as Albert Einstein said, “Not everything that counts can be counted”—but that it’s critical to convene researchers and practitioners to establish uniform standards of accountability, governance and transparency.

This collective and businesslike spirit will be key if this approach is to succeed, says Ashoka’s Drayton. “Social entrepreneurs are the role models, the mass disrupters and the mass recruiters of local change-makers. They are the ones who get thousands of people and thousands of communities to stand up and say together, ‘Oh, that’s a pretty good idea. I’m going to make that work here.’ That’s the spirit we need to infuse throughout society.”

ANDREW TOLVE, whose entrepreneurial spirit is limited to freelance writing, wrote about district heating in the January/February 2008 issue.



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