

Beyond Profit The Social Enterprise Movement

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Abstract

Before we can address this question, a setting of the context is called for. So, what is Social Enterprise? While there are many definitions, the one that describes a social enterprise as “businesses with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners.”¹ Is the definition that truly exemplifies a social enterprise’s raison d’être. Social enterprises are often regarded - erroneously - as non-profit organisations. They are very much for-profit, it is how the profits are used that differs from traditional business. It is said that there are three

factors which frame the business philosophy of a social enterprise:²

- The extent to which it engages in ethical review of the goods and services it produces, including its production processes;
- The extent to which its social purpose is at the core of its business strategy, as evidenced its measurement of social impact;
- The extent to which it democratises ownership, management and governance by passing control of its human, social and financial capital to its primary stakeholders (producers, employees, customers, service users), as against “shareholders”.

The social enterprise movement was started as an alternative to traditional businesses or corporations to counter the many ills of unadulterated capitalism, and more specifically, the over valuing of short- term financial performance over all else. Today, about 40 years after this movement started, the boundaries between social enterprise and the corporation is beginning to blur.



Events at Enron, BP, News International etc. have shown corporations in very poor light. The sins of multinational companies have become well known and resulted in the serious questioning of corporate behaviour. There has been a universal drive to fundamentally reform corporate DNA. Having said that, one must acknowledge that by the usually accepted corporate metrics of success – huge bottom lines, a large employee base, financial and geographical scale, the social enterprise sector may yet have a long way to go.

In this context, is there really something that big business can learn from social enterprise? They most certainly could. Here is how.

Designing Systemic Solutions

In the words of Greg Van Kirk, founder of Community Enterprise Solutions, established to empower business and educational entrepreneurs in the developing world social enterprises are “very good at innovating solutions and often times not as effective at understanding people's needs; whereas, social

entrepreneurs are good at identifying the needs and desires – and the challenges and opportunities – of the most vulnerable populations.”³ Consequently, “people don't just need HIV medication, but they need refrigeration and nutrition.” If companies could put these different pieces of the value chain together without being restricted by the constraints of core competence they could maybe deliver multi-pronged value. It could be that a hybrid Value chain consisting of business and social enterprises is the answer. The Pharma industry has taken the lead here it would seem with the industry is looking to smaller firms for discovery and drug development and to social entrepreneurs for new types of business models.

Small is nimble

Being much smaller in size than traditional corporations, social enterprises can adapt more quickly to changing environments and build their business model more in accord with customer need. A lesson to be learnt for the oligopolies of today? Big business can us this nimbleness to



their advantage by partnering with them to:

- Develop their markets by gaining access to local communities
- Communicate effectively with hard-to-reach audiences, particularly at a local community level.
- Provide customers with a quality of service which they may not so readily find from bigbusiness.

Creating Shared Value

The big question is whether the commitment to social value that is at the heart of social enterprise models is something that can be learned and adopted by big companies. It seems that the “other side” is answering with a pretty resounding yes. What has traditionally been seen as corporate social responsibility is now morphing into “Shared Value”⁴. C.K. Prahalad, author of *The Fortune at the Bottom of the Pyramid*, has chronicled the evolution of corporate social responsibility, or CSR, from hands-off projects which were primarily for

publicity to innovative experiments that lead to novel and profitable products in his fifth edition of the book. He uses the example of GE as a company that used the ECG machine (MAC 800) whose development arose from CSR work in villages in China and India but is now being deployed commercially in the U.S., as a case in point. So if GE can create a financially viable, fully functional product at less than one tenth the cost to ensure that previously unserved markets are served why can't other big businesses? It seem that they indeed can – through shared value.

Shared Value is the reconceiving of the intersection between society and corporate performance. It is about recognising that the capitalist model of corporations does have much of value. They have been the unparalleled vehicles for meeting human needs, improving efficiency, creating jobs, and building wealth. Now all that is needed is to go a little beyond this and embrace society's needs as part of its core mandate counter to the traditional view of pitting this against business drivers. The concept of shared value, in



contrast, “recognizes that societal needs, not just conventional economic needs, define markets. It also recognizes that negative social impacts create internal costs for firms—such as wasted energy or raw materials, costly accidents, and the need for remedial training to compensate for inadequacies in education.”⁵ As GE has shown, addressing these societal needs does not

necessarily raise costs for businesses. In fact it possibly drives innovation in technology, business processes and management approaches helping to increase productivity and expand markets.

This is not the only example. Closer home, Nestle India runs its ‘Saanjhapan’ (meaning joint benefit) as integral to its business strategy. In the areas of Nutrition, Health and Water, areas that are bang in the middle of Nestlé’s core businesses, they have made significant progress in making their products more nutritional, healthy and affordable not just for urban consumers but for rural consumers as well.⁶

Dow Agro, a wholly owned subsidiary of the much maligned Dow Chemicals, has also jumped on the bandwagon it seems and their line of Omega-9 rich oils from their ‘Nexera’⁷ range of seeds, with zero trans fats and the lowest levels of saturated fats vis-à-vis other cooking oils, claim to have eliminated nearly a billion and a half pounds of trans fat and saturated fat from North American diets till date⁸. This is one of their most profitable lines of business as well.

Of course one could label all this as just marketing hype and we need to be careful to be continually ask the right questions and dig beneath the surface, but what if maybe, just maybe, big companies are just waking up to reality that there is really no other way to go? Is it, then, so inconceivable that a decade down the road big business will have all converted to doing business the truly shared value way, becoming the social enterprises of tomorrow?

Reference:

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<http://www.socialenterprisemark.org.uk/the-mark/what-is-social-enterprise/>



² Social Enterprise Europe. This definition followed a review by 14 experienced consultants working across four continents.

³ <http://www.theguardian.com/social-enterprise-network/2011/jul/22/social-enterprises-teach-big-business>

⁴ This is a term coined by Michael E. Porter and Mark R. Kramer of the Harvard Business School

⁵ *Creating Shared Value*, Michael E. Porter and Mark R. Kramer, Harvard Business Review January 2011

⁶ For more details please refer to <http://www.nestle.in/asset-library/documents/creating%20shared%20value/csv%20publication%202010new.pdf>

⁷ <http://www.dowagro.com/sustainability/>

⁸ http://www.dow.com/sustainability/pdf/3Q13_Sustainability_Report.pdf