

Incorporating Social Entrepreneurship into Development NGOs: Some Recent Perspectives and Recommendations from the Field

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When non-governmental development organizations (NGDOs) were still relatively new actors, much of the debate seemed to center around their legitimacy and role in the international system. However, with NGDOs now entrenched as a permanent and important actor in development, recent discussion of NGDOs has begun to include more and more discussion of the concept of sustainability. Sustainability is a broad concept that includes a broad range of elements from financial resources to environmental impact to program replication. Regardless of the specific context, sustainability is important for NGDOs because it addresses how they will continue to provide their invaluable services to the world beyond the current round of programs or grant proposals. In this paper I will examine one aspect of sustainability: The role of social entrepreneurship and revenue-generating ventures within NGDOs. Social entrepreneurship is important to the concept of NGDO sustainability for two primary reasons: Its revenue-generating potential, as well as its project and product design approaches, which may have implications for NGDO efficiency and effectiveness of service. Using the perspectives of several experts on NGOs and development, this paper will attempt to define social entrepreneurship in the context of development work, identify its value to NGDOs, and provide some preliminary guidance for effective adaptation of social entrepreneurship by NGDOs.

Defining Social Entrepreneurship

The more popular it has become the more diverse types of ventures have been grouped under the heading of “social entrepreneurship,” and as a result the term is now a bit vague and difficult to define. Therefore the first step to determining social entrepreneurship’s relevance for NGDOs is to narrow the definition to what is relevant for this discussion. For example, C.K. Prahalad, in his book *The Fortune at the Bottom of the Pyramid*, takes a broad perspective on what is social entrepreneurship, espousing the virtues of some multinational corporations’ attempts to deliver non-essential products like shampoo and Coca-Cola to low-income consumers at the same time as he praises eye-care clinics for the poor.¹ For our interests this is too broad a definition, as it

¹ C.K. Prahalad, *The Fortune at the Bottom of the Pyramid*. Wharton School Publishing, Philadelphia, 2004.

too market-focused, and lacks a strong connection to international development. There are also those who believe social entrepreneurship must involve making of profit to ensure sustainability. This too does not serve our interests, as there are many cases where NGOs have adopted certain tools from the business world to enhance their effectiveness without creating a for-profit venture. Further complicating our definition, Fowler (2000) believes we should be careful not to confuse civic innovation with entrepreneurship in development, noting that “a useful distinction can be made between civic innovators and social entrepreneurs. The former innovates in terms of how society works for whom. The latter innovates in terms of an economic base to produce public benefit.”² So while both economic empowerment legislation for the black population in South Africa and microfinance in Bangladesh are valuable for social and economic development, only the latter can really be called a social enterprise, as the former is more a policy choice by the government.

So what then is a proper definition of social entrepreneurship for NGOs? While the specifics will depend upon the NGO’s structure, mission, goals and clients, there are a few key concepts to keep in mind for an NGO considering social entrepreneurship:

It must be mission-related, or at least mission-relevant. Drucker, in his non-profit guidebook, *The Five Most Important Questions You Will Ever Ask about Your Organization*, cautions to “never subordinate the mission in order to get money.”³ While this warning is usually raised in the context of pleasing donors’ interests to secure funding, it is just as important when an NGO is considering launching a new service or business such as a social enterprise. If there is a weak or non-existent connection between the social enterprise and the NGO’s core work there is a risk that the new enterprise will do more harm than good by diverting resources or causing confusion amongst allies over the NGO’s priorities.

It should come about naturally from a perceived need of clients or a gap in the market. In studying successful social enterprises, they share many characteristics, the most important of which might be the spontaneous way in which they are usually conceived. A typical social enterprise narrative goes something like this: A community member or community advocate

² Alan Fowler, *The Virtuous Spiral*. EarthScan Publications, London, 2000. Pg. 83.

³ Peter Drucker, *The Five Most Important Questions You Will Ever Ask About Your Organizations*. Leader to Leader Institute, San Francisco, 2008. Pg. 15.

notices a problem or unmet need, tries to identify people or organizations addressing this problem, and when they find no providers, launches their own social enterprise. This approach means that the enterprise will usually have a built-in demand for it that can get it out of the start-up phase of operations.

Profit can occur, but it can't be the primary motivation. As Fowler notes, “what drives a social entrepreneur is the value placed on the public good. However, this value is allied to an economic agenda of generating and reinvesting a surplus to ensure viability pin tackling social problems, rather than a profit to be distributed to the organization’s owners, typically shareholders.”⁴ In the case of NGDOs, the danger is not the shareholders’ motivations, but rather the perceived benefit to the organization of the new enterprise. If the social enterprise is not launched in the interest of more effective mission execution, but rather solely to create income streams, there is a risk that the enterprise will either not succeed or compromise the NGDO’s work and principles.

Why NGDOs Should Care About Social Entrepreneurship

Perhaps the most important question about social entrepreneurship for NGDOs to ask is why they should be interested in social entrepreneurship to begin with? If the answer to this question remains unclear, then an NGDO that tries to incorporate social enterprise into their work is merely following a current trend because of its “buzz” factor. Therefore, a next step for an NGDO interested in social entrepreneurship is to determine just what potential benefits it could bring. For this reason, I have listed several of the largest and most common benefits of social entrepreneurship for NGDOs below:

Financial sustainability and autonomy. As mentioned in the introduction to this paper, social entrepreneurship can lead to programs, products or services that provide new revenue streams for an organization. In addition, since this revenue is not donor-provided, it is discretionary, and can provide greater financial autonomy for an organization. Fisher (1998) identifies both financial autonomy and development of a mass base as key features NGOs should seek to increase their political development capacity.⁵ If designed right social enterprises can both diversify revenue and bring in new clients with new services or service-delivery methods.

⁴ Fowler, 2000. Pg. 82.

⁵ Julie Fisher, *NGOs and the Political Development of the Third World*. Kumarian Press, West Hartford, CT, 1998. Ppg. 181-183.

Reduction in costs of already-provided services. Not all social enterprise has to be providing something new, and can be just as beneficial if it takes an old method of service delivery and improves upon its efficiency and/or reduces its cost. A popular example of social entrepreneurship applied to a pre-existing program is the use of microfinance in malaria net distribution programs in Africa and India, which did not change the nets or the expected health outcome, but instead found a more efficient way to get nets to those who truly valued them in multiple remote locations at once.

Improved client service and targeting of those who value the service. Two of Drucker's five most important questions for an organization are "Who is our customer?" and "What does the customer value?"⁶ By applying market forces like demand and an emphasis on product and service quality to the social sectors, social entrepreneurship can help to better identify just who is interested in an NGDO's services. More importantly, through innovative fee and pricing structures, social entrepreneurship can help NGDOs develop a better idea of the monetary value of a service to a client. Much like the charging of nominal fees for services, the pricing models often seen in social enterprises can help to focus efforts on those who most need and value the services or products the NGDO is offering, reducing waste or misuse of an NGDO's limited resources.

Innovations in management and organizational structure. Like any sector, there is a predominant culture to NGDOs and the professionals that run them. Traditionally this has been a culture that contrasts with the culture of the private-sector. However, social entrepreneurship has shown that there are potential benefits and innovations for an organization that incorporates some lessons from the private sector. In *Going Global: Transforming Relief and Development NGOs*, Lindenberg describes several surprising NGDO/multinational corporation partnerships, and shows how these partnerships helped to improve some organizational capacities of the NGDOs. For example, he describes how CARE's partnership with Starbucks evolved from philanthropic, to transactional, and then to integrative, culminating in staff from CARE receiving training in areas like marketing and human resources from Starbucks, and Starbucks staff serving on

⁶ Drucker, 2008.

CARE's board committees.⁷ If developed out of mutual interest and some pre-existing common ground, these kinds of partnerships can effectively transfer skills to and from NGDOs that NGDO staff might otherwise never have realized they could benefit from.

A stronger connection to the local economy. Fisher argues that NGOs' involvement in private sector development, specifically microenterprises, can have two important benefits for local society. First, she argues for "the habits of participation and empowerment necessitated by creating a business feed back into the political system." Second, she believes that "this convergence between NGOs and informal for-profit enterprises offers some promise for building a different model of society from that found in the developed countries, since profits generated within this new nonprofit—for-profit nexus are invested in public as well as private goods and services."⁸ Working directly with local entrepreneurs through programs like SME development, microfinance, or new cross-subsidized health clinics, NGDOs can connect with the future leaders and new talent of the communities they serve, more deeply imbed themselves as an important part of the local economy, and possibly decrease the perception of the NGDO as an outsider by local clients that can hamper community partnerships.

Matching Opportunity to Mission and Makeup: Some Final Design Considerations

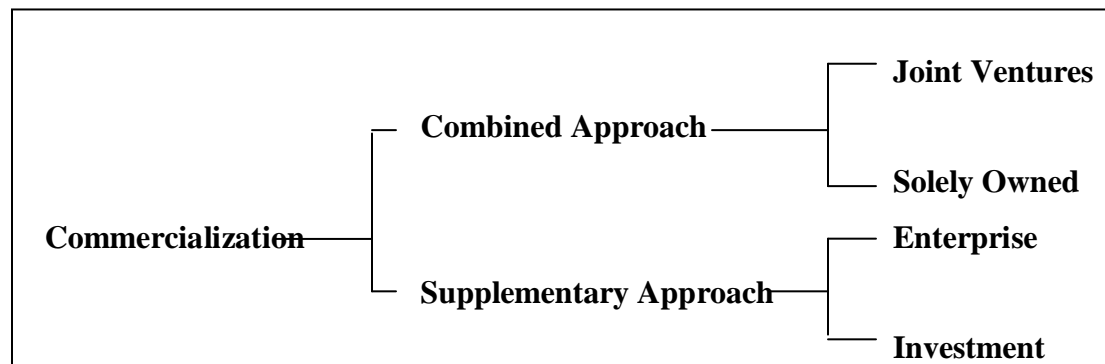
One of the most important cautions for an NGDO in pursuing a social enterprise or business venture is whether it can integrate a for-profit/non-profit hybrid model into its organization, or if it will "collectively alter the character of the sector with potentially negative implications for public perceptions, trust, and government support."⁹ Even if it generates significant revenues, brings in new clients, or raises an NGDO's reputation, if a social enterprise jeopardizes the organizational mission it may end up causing more harm than good. In order to assure that neither the mission of the NGDO nor effectiveness of the social enterprise is compromised, there are a few design considerations that must be addressed:

⁷ Marc Lindenberg and Coralie Bryant, *Going Global: Transforming Relief and Development NGOs*. Kumarian Press, Bloomfield, CT, 2001. Pg. 164.

⁸ Fisher, Ppg. 16-17.

⁹ Alan Fowler, "PVO and NGO Futures: A Framework for Reflection and Dialogue," August, 2004. Pg. 7.

Housing the enterprise within or outside of the existing organization. Fowler (2004) provides a useful decision tree to outline the various options for placement of a social enterprise within and NGDO:¹⁰



Which of the two approaches, and which of the four venture types, an organization should choose will depend upon the type of social enterprise being undertaken, potential partners, and associated costs, among other factors.

Use of existing staff or hiring of new ones? Having the existing staff capacity to implement a social venture can go a long way towards its successful launch, and can greatly reduce costs in the long-run. However, some staff at an NGDO may be hesitant to work on a business venture, or abandon the work they are so passionate about, so management should proceed cautiously and not force staff to shift their time towards this new social enterprise. In general a good strategy to determine what mix of old and new staff will be required is to outline the skills that will be needed for the new enterprise and then cross-check them with the skills current staff already possess, and then approach the relevant staff to gauge their interest in helping to launch the social enterprise.

Does the new service or product link with existing ones? Having similar traits between the NGDO's pre-existing operations and its new business operations will not only increase efficiency, it is an important safeguard to check against mission-drift. Of course there are cases, like Girl Scout Cookies for example, when a venture can be done just to generate revenue without hurting the organization's mission or focus. However, in general a weak connection

¹⁰ Alan Fowler, *The Virtuous Spiral*. EarthScan Publications, London, 2000. Pg. 89.

between new product and old has been shown to make the ventures less effective than if they were closely related to the NGDO's other products or services.

Measuring success across multiple criteria. The challenge here is to find a measurement or series of measurements that reflect both the financial side of the venture to ensure sustainability, as well as measure the social impact of the venture, to ensure it is in keeping with the NGDO's mission. Many different matrices and tools have been developed around this double or triple bottom line, and it is wise to review several before an NGDO designs the criteria they will use.

Conclusion

Just as there is no one silver bullet solution to the large-scale problems development confronts, there is not a single path for NGDOs to take in launching social enterprises or business ventures. The number of social entrepreneurs across the world making an impact in development is growing rapidly, and each one of them presents a new set of lessons that can be adapted by other NGDOs. One final way in which social enterprises are like the private sector is that the greatest risk is assumed by those who go first. However, because social enterprises value not just profit, but social change, the barriers to entry for a late-comer are not nearly as high, and your "competitor" is often really an ally eager to share their model with you to create greater impact across communities or countries. Because of this, I believe that most NGDOs should be carefully studying the work of the more successful and innovative social entrepreneurs within international development and determining how their stories relate to their own work. Fowler writes that "in order to function, the market must satisfy people's aspirations while simultaneously perpetuating their dissatisfaction—a paradoxical condition that works against equilibrium and stability."¹¹ Social entrepreneurship is typically thought of as teaching the development world about business. However, if more NGDOs can successfully incorporate social enterprises into their work, we may find the opposite beginning to take place, with NGDOs showing the business world how they can rethink their operations to accomplish a greater sustainability that goes beyond a balance sheet.

¹¹ Alan Fowler, *The Virtuous Spiral*. EarthScan Publications, London, 2000. Pg. 9.