

Changing the World: Entrepreneurship:

-How Innovation and Entrepreneurship Changes the World

-Jack M. Wilson

Chapter 5 Social Entrepreneurship

In the first chapter we explored many different examples of entrepreneurship and heard a bit about the characteristics of a diverse set of entrepreneurs. We found that these individuals defined “wealth” and “profit” in broad and different terms. Some entrepreneurs were indeed driven by a desire for wealth, fame, and profit in the most commonly accepted views. We found that others were more focused on social good and “profited” by solving important problems rather than amassing financial rewards.

For most of the entrepreneurs that we met, the motivation was a combination of a search for financial success and a desire to change the world in some significant fashion. It is not a black and white situation in which individuals are driven by either financial or social goals. The drivers exist on a spectrum in which some, like Mother Teresa for example, are driven almost solely by social goals and others appear to be driven more by financial goals. Many social entrepreneurs, like Muhammad Yunus and Harish Hande, are driven by both social and financial goals. We will discover that even the most socially conscious individuals must pay some attention to finances if they wish to solve social problems and change the world.

Social Entrepreneurs use many of the same techniques as the other forms. The key difference is that their primary goal is to meet social needs rather than financial profit. However, they do need to make the enterprise financially sustainable and thus they must attend to revenues, expenses and profits like anyone else. **If there is no margin (profit or surplus), then there is no mission.**

A social entrepreneur can organize as a non-profit and support the enterprise, at least in part, through charitable donations to the mission. Mother Teresa organized her enterprise in this way. They can also organize as a for-profit as did Harish Hande, Muhammad Yunus, and d-Light. In this case, the profits from the venture can be used to address the social mission.

There are those who will dispute whether a for profit company can be an example of social entrepreneurship, but there are also scholars who think that ONLY a for-profit venture can properly termed “social entrepreneurship.” The preponderance of opinion among those who study social ventures is that both types of ventures can be called social entrepreneurship. We will consider this more closely later in the chapter.

Corporate Social Responsibility (CSR)

Large Corporations will often become involved in some kinds of Social Enterprise. They often do this through a sense of corporate responsibility toward the communities in which

they operate. This **Corporate Social Responsibility (CSR)** has become an important part of their operation and is often required by communities as part of their license to operate.

Triple bottom line

The **triple bottom line** encourages companies to focus on more than the bottom line of profits. It includes

*Social,
Environmental, and
Financial results.*

Engaging with the community can sometimes be challenging. In many cases the company may be engaging with individuals who are leading bitter protests towards the company. It still needs to be done.

All of this is a part of creating sustainable enterprises and sustainable communities. They are linked.

Public Sector -Governments and Quasi-publics

There is also a need for entrepreneurship in the public sector. How can the government deliver better services and do so economically? Each year the University Of Massachusetts Lowell host and co-sponsors the [Deshpande Symposium on Innovation & Entrepreneurship in Higher Education](#) which brings hundreds of academic government, and industry leaders from around the world to Massachusetts to discuss ways to incorporate entrepreneurial thinking into academic and governmental institutions everywhere. The goal is to teach the university to be more entrepreneurial, and to provide educational opportunities for the students to encourage them to be more entrepreneurial in whatever career path they follow.

Motivation

The primary motivation for most entrepreneurs is “to change the world” or to “make a difference.” Even entrepreneurs who are motivated financially demonstrate strong desires to do these things. People feel more satisfied when they are “making a difference.” Some research has shown that motivations can be organized in three categories:

Darwinians –focused on competition and business success.

Communitarians focused on social identity and the community, and

Missionaries –who have the strongest desire to change the world.

- http://www.bsl-lausanne.ch/wp-content/uploads/FauchartGruberAMJ_Oct2011.pdf

Organizational motivations can be a powerful incentive and should not be ignored. While many leaders are internally driven to be socially responsible, many others benefit from incentives created by government to encourage them to focus on social responsibility. For many businesses, there is a need to obtain a license to operate, and many communities make certain kinds of social responsibility a part of securing a license to operate. Even when this is not governmentally mandated, there can be community and government pressure to be socially responsible. Many corporations have realized that social responsibility can be an asset to their operation. It can help in aligning values for an organization. For the employees, it creates an esprit d 'corps and excitement around the mission. It may also offer an opportunity to create a learning laboratory for some aspect of the enterprise's mission. Involvement in social challenges can yield insights into innovative ways of doing things in difficult conditions.

Nevertheless, the challenges of the Social Enterprise can be similar to those of a commercial enterprise and can even exceed those. Among those challenges are a lack of resources and conflicts with stakeholders with very different needs. Particularly in non-profit institutions, compliance and participation is often voluntary and is generally mediated by volunteers - who do what they want to do and are not easily organized or motivated. Funding can often come in lumps, with big grants and then long periods without. Many of the problems that the ventures are addressing have huge scale or may indeed be unsolvable. One can make improvements, but the underlying problem is only being managed –not fixed.

Who are the social entrepreneurs?

In the first chapter we introduced Muhammad Yunus¹ of Bangladesh who won the Nobel Peace prize for the development of the concept of microcredit for women entrepreneurs in the region. Yunus graduated from Chittagong College and Dhaka College and then obtained his PhD in Economics from Vanderbilt. He became a Professor of Economics in Bangladesh and then founded profitable packaging company.

He came up with the idea of microcredit and microfinance in which small loans were given at high interest rates to small business founders. When the loans were paid back, the proceeds were then used to make new loans. More than 94% of Grameen loans have gone to women, who suffer disproportionately from poverty and who are more likely than men to devote their earnings to their families². Eventually he founded Grameen Bank with this as its mission. The success of the Grameen microfinance model inspired similar efforts in about 100 developing countries and even in developed countries including the United States. Many microcredit projects retain Grameen's emphasis of lending to women. In 2006 he was recognized with the Nobel Peace Prize.

¹ <https://www.jackmwilson.com/Entrepreneurship/Cases/Case-MuhammadYunas.pdf>

² https://en.wikipedia.org/wiki/Muhammad_Yunus

In the late 1980s, Grameen started to diversify by attending to underutilized fishing ponds and irrigation pumps like deep tube wells. In 1989, these diversified interests started growing into separate organizations. The fisheries project became Grameen Motsho ("Grameen Fisheries Foundation") and the irrigation project became Grameen Krishi ("Grameen Agriculture Foundation"). In time, the Grameen initiative grew into a multi-faceted group of profitable and non-profit ventures, including major projects like Grameen Trust and Grameen Fund, which runs equity projects like Grameen Software Limited, Grameen CyberNet Limited, and Grameen Knitwear Limited, as well as Grameen Telecom, which has a stake in Grameenphone (GP), the biggest private phone company in Bangladesh. From its start in March 1997 to 2007, GP's Village Phone (Polli Phone) project had brought cell-phone ownership to 260,000 rural poor in over 50,000 villages³.

The business models that he used were both for-profit and non-profit, and for many critics, this was not acceptable. In spite of winning the Nobel Prize and changing the world in a spectacular fashion, there are many who remain critical of his efforts. As they say, "no good deed goes unpunished." This is not unusual at all in social ventures. The problems addressed are often large, almost intractable, and with political and social implications that can be divisive. Not everyone will think that the social entrepreneur is doing a good thing. Even Mother Teresa had her critics!

In the first chapter, you got to know something about a wider range of entrepreneurs. Perhaps you found some of the stories surprising? Had you ever thought of Mother Teresa as an entrepreneur before? My friend and colleague Jim O'Keefe certainly never had –until he went to visit her and work with her. Jim grew up in Pittsfield Massachusetts. In his teen years, Jim caddied at the local golf course where Jack Welch, who was then an executive with GE Plastics, often played. Soon Jim became Jack Welch's (UMass Amherst '57) favorite caddie. When Jim headed off to college, Jack told him to come back and see him after college, and he would get him a job at the GE plant in Pittsfield.

After Jim finished his undergraduate degree, and then did an MBA in Wharton, he decided to take Jack up on the offer. By now Jack was the CEO of General Electric -headquartered in Fairfield Connecticut. Undaunted, Jim went to the CEO's office and told the receptionist that he had an appointment with Jack Welch. You will not be surprised that the receptionist was not buying the story –even when Jim told her the whole story. But she took his name and passed it on up the chain of command.

A few days later, Jim O'Keefe got a call from someone who said that he was Jack Welch's Chief of Staff. *"So, Mr. O'Keefe I guess I had better find out who you are and what you can do because Mr. Welch says I need to find you a job,"* he offered.

Over the years, Jim rose through the ranks to head all of GE's Latin American holdings. At one point he took a short sabbatical to go to India and work with Mother Teresa. Jim was

³ https://en.wikipedia.org/wiki/Muhammad_Yunus

ready to be impressed to the point of awe by her charitable work, but something that he had never considered just blew him away. He called Jack Welch to say something like: *“Jack, you have got to come over here and see the amazing thing that Mother Teresa is doing.”* *“I know all about her Charity work”* Jack replied in his gruff manner. *“No! Not that,”* Jim retorted. *“She is running a world-wide enterprise with the smallest and most efficient management team I have ever met.”*

In the first chapter we learned that she ran an enterprise, the Missionaries of Charity, with over 4,000 missionaries -- in addition to thousands more lay volunteers – and with 610 foundations in 123 countries.

Jim learned what every leader of a charity or a non-profit organization quickly learns: **No margin – no mission.** Being a non-profit does not mean non-expense and certainly cannot mean non-revenue. Mother Teresa was a very effective entrepreneur. Her enterprise was non-profit, but even non-profits need money to operate and need to spend that money efficiently. She saw “wealth” differently than many entrepreneurs. The wealth that she created could be seen in the health and welfare of the people whose lives she helped – directly or indirectly. Her profit was the lives she saved, the diseases she cured, and the afflicted that she comforted.

The technical term for what she did is **“Social Entrepreneurship,”** but even that seems so inadequate in her case.

Although Mother Teresa organized her enterprise as a non-profit enterprise, most examples of Social Entrepreneurship are organized as for-profit enterprises. Muhammad Yunus, Harish Hande, and perhaps Teresa Mbagaya are all considered social entrepreneurs and they all have founded for-profit enterprises.

The problem that Harish Hande⁴ saw was that an estimated 1.2 billion people, or 17% of the global population, – did not have access to electricity in 2013. This was 84 million fewer than in the previous year. Many more suffer from electricity supply that is of poor quality. More than 95% of those living without electricity are in countries in sub-Saharan Africa and developing Asia, and they are predominantly in rural areas (around 80% of the world total). While still far from complete, progress in providing electrification in urban areas has outpaced that in rural areas two to one since 2000⁵. Of those about 400 million are in India alone.

Harish Hande, after graduating from UMass Lowell with his PhD in Mechanical Engineering, decided to address this social problem, but to do it with a social enterprise organized as a for-profit enterprise. In 1995, he created a company, SELCO Solar Pvt. Ltd, as a social

⁴ <https://www.jackmwilson.com/Entrepreneurship/Cases/Case-SolarElectricLight-HarishHand.pdf>

⁵ International Energy Agency

<http://www.worldenergyoutlook.org/resources/energydevelopment/energyaccessdatabase/>

enterprise to provide “sustainable energy solutions and services to under-served households and businesses.”

Their website⁶ goes on to say:

It was conceived in an effort to dispel three myths associated with sustainable technology and the rural sector as a target customer base:

- *Poor people cannot afford sustainable technologies;*
- *Poor people cannot maintain sustainable technologies;*
- *Social ventures cannot be run as commercial entities.*



“SELCO aims to empower its customer by providing a complete package of product, service and consumer financing through grameena banks, cooperative societies, commercial banks and micro-finance institutions.”

SELCO’s key features:

Creating products based on end user needs: going beyond just being a technology supplier but customizing our products based on individual needs.

Installation and after-sales service: dedicating regional energy service centers to ensure prompt maintenance and service.

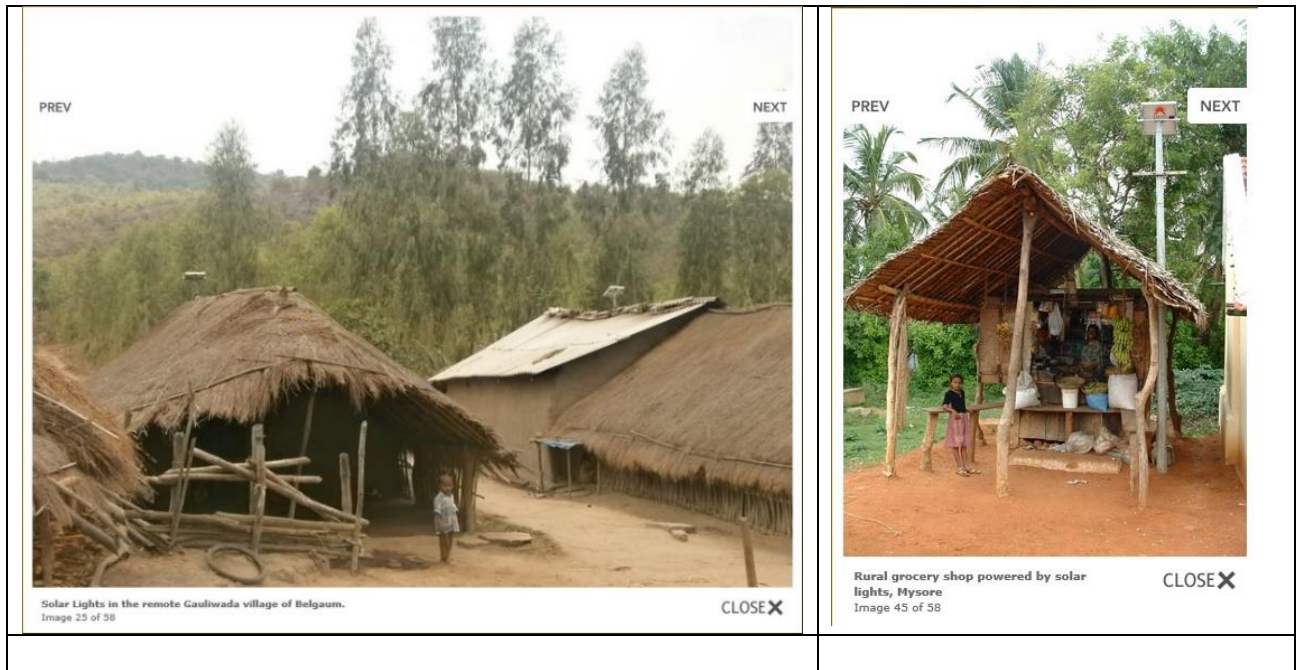
Standardized financing packages: creating channels for end users to afford systems based on their cash flow.

SELCO currently employs about 375 employees in in Karnataka, Gujarat, Maharashtra, Bihar and Tamil Nadu spread across 45 energy service centers. Since 1995, we have sold, serviced and financed over 2,00,000 solar systems to our customers.

“Our team is uniquely qualified to operate and grow a company focused on providing sustainable technologies and energy services to rural markets in India and other developing countries. Our leadership has the skills demanded of their positions, significant experience working as a team together, and the blend of passion and commitment required for this business.”

⁶ http://www.selco-india.com/about_us.html

*“Collectively, our management has over 44 years of grassroots experience in the field of providing sustainable energy services to the under-served. The team along with other staff has proven the fact that there are strong linkages between **poverty alleviation, sustainable energy, social business and micro-finance**: linkages that are not easily proven to be commercially viable.”⁷”*



Fund need-based innovation to tackle climate change, says Harish Hande

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Business Today in India quotes Hande⁸:

"There is need to invest in building human resources in rural areas in the field of sustainable energy. For instance, we need to have energy technicians in rural areas. Then, there has to be focus on end-user financing. To top it all, money is needed to fund need-based innovation as against a want-based innovation."

"Giving an example, he said: "We could, for instance, encourage innovations that look at the

⁷ <http://www.selco-india.com/management.html>

⁸ <http://www.businesstoday.in/current/economy-politics/innovation-climate-change-selco-india-narendra-modi/story/210359.html>

motors that run rice mills. Today, they use diesel. How can there be innovation to make motors that run efficiently on sustainable energy."

Another magazine, LiveMint says⁹:

"Hande, 47, won the Ramon Magsaysay Award in 2011 because the ideas at Selco (Solar Electric Light Company—India), the solar energy equipment supplier company he co-founded in 1994, shine brighter than the lights it sells to the poor."

"Take, for instance, Selco's Light For Education project whose participants include around 30,000 children in Karnataka. Solar panels are installed on school premises and the battery, about the weight of a lunch box, is given to children. Children charge the batteries when they come to school. If they don't come to school, there's no light at home. "We stole the idea from the midday meals scheme," says Hande. Stole and innovated."

*"Hande sees the poor as asset creators, and not as a bottom of the pyramid sales opportunity. **"Don't sell to the poor. That's our fundamental rule. And if you're selling to the poor, make sure that the value you're giving to the poor is much more than the monetary value they give you back,"**(emphasis added)" he says. "*

"So when Selco representatives found that 32 Sidi families in rural Karnataka spent more money annually on candles, kerosene and to charge their mobile phones than it would cost to set up a simple solar system, they had to fix this. No bank was willing to lend the money to these families, so Selco offered a 100% guarantee on their behalf. Six months later, the bank reduced this guarantee to 20% as the payments were regular. "The best response was from the Sidis," says Hande. "They said, light is great but once the solar loan is done, I will take a loan for a sewing machine." They had become bankable."

In many ways Harish Hande adapted the Grameen Bank Model of the Nobel Prize winning Muhammad Yunus. Both entrepreneurs had served an unmet need in a poor population. Both extended credit to individuals that had previously been seen as "un-bankable." The result was to make the un-bankable bankable!

Is the primary motive financial profit or solving a social problem?

The key aspect is whether the driving force is the profit or the social problem being addressed. One of the best expositions of this comes in a paper published by Stanford University entitled "*Social Entrepreneurship: The Case for Definition*"¹⁰," The money quote here is "*This does not mean that social entrepreneurs as a hard-and-fast rule shun*

⁹ <http://www.livemint.com/Leisure/dLJtbPdbJeHgXmC6Qo2gWN/Harish-Hande--Here-comes-the-sun.html>

¹⁰ Social Entrepreneurship: The Case for Definition;" Roger L. Martin & Sally Osberg; Stanford Social Innovation Review Spring 2007. <http://www.ngobiz.org/picture/File/Social%20Entrepreneur-The%20Case%20of%20Definition.pdf>

profitmaking value propositions. Ventures created by social entrepreneurs can certainly generate income, and they can be organized as either not for-profits or for-profits. What distinguishes social entrepreneurship is the primacy of social benefit, what Duke University professor Greg Dees, in his seminal work on the field, characterizes as the pursuit of “mission-related impact.”

Their cover story on social entrepreneurship features Muhammad Yunus¹¹.

“Social entrepreneurship is the attempt to draw upon business techniques to find solutions to social problems. This concept may be applied to a variety of organizations with different sizes, aims, and beliefs. Conventional entrepreneurs typically measure performance in profit and return, but social entrepreneurs also take into account a positive return to society. Social entrepreneurship typically attempts to further broad social, cultural, and environmental goals often associated with the voluntary sector. At times, profit also may be a consideration for certain companies or other social enterprises.”

Note that Wikipedia also says: “Some have advocated restricting the term to founders of organizations that primarily rely on earned income—meaning income earned directly from paying consumers. Others have extended this to include contracted work for public authorities, while still others include grants and donations.”

In other words, some scholars feel that to be an example of a social entrepreneurship the organization essentially must be a for-profit organization or at least a non-profit that operates like a for-profit with revenues and expenses and net margins. (But may **not** distribute those profits to owners.) I side with most scholars who take the definition more inclusively as defined by the previous page.

Thus, Muhammad Yunus is considered a social entrepreneur even though his enterprises are often for-profit. I am sure that you can think of many others including -Harish Hande and Teresa Mbagaya.

Questions:

What does SELCO see as their main purpose for existing, and specifically what do they focus on to implement that purpose?

Do you see SELCO as an example of Social Entrepreneurship? Why or why not?

Why do they keep referring to developing “sustainable technologies?” What is that?

¹¹ <https://entrepreneurship.duke.edu/news-item/the-meaning-of-social-entrepreneurship/>

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How does the fact that they are a commercial enterprise affect their ability to conduct their mission?