Social Businesses
Creating Social Benefits
Learning Objectives

• Understand what social benefits are
• Understand how and why companies are becoming “socially responsible”
• Understand different ways organizations create social benefits, with and without monetary profit
• Define and understand Social Impact, Social Return on Investments, Outputs and Outcomes.
• Understand how these are measured.
“Social”

• **Social.** Having to do with the social environment, meaning human beings and/or the community. Often “social” is used to mean any or all non-financial impacts including environmental and economic.

Social Benefits

- **Social Benefits.** Anything other than monetary profit
- Sometimes means specifically benefits to people as opposed to the environment
Achieving Social Benefits

• We will look at 3 models that create social benefits
  – Corporate Social Responsibility
  – Charity or aid
  – Social Ventures
• There is overlap among them
CORPORATE SOCIAL RESPONSIBILITY
Corporate Social Responsibility (CSR)

• Form of voluntary self-governance within a business that goes beyond legal obligations
  – Simply not breaking the law doesn’t count

• Provides “social benefits” to stakeholders other than shareholders
  – May include employees, the local community, the world

• Strategic, holistic approach to doing business
  – Aligns with overall direction of business, not just someone’s favorite cause

Source: University of Miami Ethics Dept.’s A Guide to Corporate Social Responsibility (CSR)
Corporate Social Responsibility is often summed up as a “triple bottom line” that takes into account People, Planet, and Profit, as opposed to the view that companies should only be concerned with the profit.
Schwab: Global Corporate Citizenship

• Klaus Schwab discusses 5 ways in which companies create social benefits
• Corporate Governance
  – The way a company is run; compliance with laws, ethics, environmental codes; transparency, accountability
• Corporate Philanthropy
  – Donating money or goods
• Corporate Social Responsibility
  – Stakeholder Approach
• Corporate Social Entrepreneurship
  – “is strictly defined as the transformation of socially and environmentally responsible ideas into products or services”
• Global Corporate Citizenship
  – Focus on global marketplace, meaningful involvement
  – Umbrella under which the other 4 can fall

Schwab, Klaus, “Global Corporate Citizenship.” Foreign Affairs, January 2008 pp. 107-118
http://www.weforum.org/pdf/Schwab_Article.pdf
Corporate Philanthropy

Nestlé gives away free water

Schwab, Klaus, “Global Corporate Citizenship.” *Foreign Affairs*, January 2008 pp. 107-118

[http://www.weforum.org/pdf/Schwab_Article.pdf](http://www.weforum.org/pdf/Schwab_Article.pdf)
Corporate Social Responsibility

Nestlé uses less water in production

– Could also be a form of Corporate Governance

Schwab, Klaus, “Global Corporate Citizenship.” *Foreign Affairs*, January 2008 pp. 107-118
http://www.weforum.org/pdf/Schwab_Article.pdf
Corporate Social Entrepreneurship

Nestlé sells water in biodegradable bottles

Schwab, Klaus, “Global Corporate Citizenship.” Foreign Affairs, January 2008 pp. 107-118
http://www.weforum.org/pdf/Schwab_Article.pdf
Global Corporate Citizenship

Nestlé engages governments and NGOs to reduce broader water use

Schwab, Klaus, “Global Corporate Citizenship.” Foreign Affairs, January 2008 pp. 107-118
http://www.weforum.org/pdf/Schwab_Article.pdf
Why CSR?
Moral Argument for CSR

• Companies are part of an interdependent network. They rely on the communities in which they exist for infrastructure, employees, clients, etc., so companies should treat them well.

• Though companies exist to make a profit, this is not their sole reason for being

Source: University of Miami Ethics Dept.’s A Guide to Corporate Social Responsibility (CSR)
Economic Argument for CSR

• Because it is a holistic approach to doing business, CSR is a point of differentiation that can be a strategic advantage for a company
  – Attract customers by embodying their values
  – Build trust with customers, suppliers, employees

Source: University of Miami Ethics Dept.’s A Guide to Corporate Social Responsibility (CSR)  
Social Responsibility: A Hot Topic

If these guys are doing it, it must be mainstream

Why Now?

• CSR is not a new idea, but has become more relevant recently
• Consumers expect more from the companies they buy from
• Consumers are becoming more affluent and can choose which products they buy
• Globalization and the fast, broad availability of information means consumers hear of corporate mistakes faster and can organize themselves into action, such as boycotts

Arguments Against CSR

• A company’s obligation is to its shareholders; if they want to “do good” with the returns they get from their investment, that is their choice

• It doesn’t necessarily lead to better returns*

• If done insincerely, it can backfire
  – “Greenwashing” is using marketing to make a company or product appear more environmentally friendly than it is, in order to appeal to customers
  – Can tarnish genuine efforts

*Source: “CSR Doesn’t Pay” in Forbes
CHARITY AND AID
Charity and Aid

• When many people think of creating social benefits, they think of giving money to charities, or of countries giving to other countries.

• In this model, there is no expectation that the donors will get anything in return—except maybe good will or a tax break.

• One might think that this is the “best” way to create social benefits because it is “unselfish,” but many argue that it is the wrong approach.
Is Foreign Aid Always Helpful?

• Many people say “No”
• “Free” Aid in the form of food handouts, free labor or products can negatively impact the local entrepreneur and small business owner, because they can’t compete with “free”.
• This prevents a long-term sustainable economy from developing.
• Reference books: *Enough* and *Dead Aid*

Source: Moyo, Dambisa, *Dead Aid: Why Aid is Not Working and How There Is A Better Way for Africa*.
Aid and Business

• Many examples extensively written about how foreign aid can adversely affect local small businesses
  – Haiti volunteers
  – Food aid
  – Mosquito bed nets

• This topic is a subject in itself but is also an important issue for both the business and policy makers to discuss.

• Bed nets have been found to be effective in reducing cases of malaria

• A man in Africa starts a small business employing 10 people to make nets
  – Each employee’s salary supports 15 or more relatives
  – They can’t make enough nets to meet the demand

• What happens when a well-meaning NGO decides to distribute nets for free?

Mosquito Net Example

- With free nets available, no one will pay for them
- The small local entrepreneur goes out of business
- His former employees are out of work, and their dependents no longer have a source of income
- If/when aid runs out, there is nowhere to buy the nets locally

SOCIAL VENTURES, SOCIAL ENTREPRENEURSHIP
Sustainability

• “Sustainability” is a word we hear about a lot when talking about CSR and social ventures
• Sustainability is ability of a venture to continue into the future
  – Financial sustainability means that the venture will generate enough profits to cover its operating costs
  – Environmental sustainability means the venture won’t consume all of a non-renewable resource or degrade its environment to the point where business must cease
• One problem with aid is that it’s not sustainable
  – It requires constant outside capital infusions
Enter the “Social Entrepreneur"

Someone concerned with social and economic value proposition in a new venture
A Social Venture or Social Entrepreneurship seeks to use business skills to solve social problems. They seek to be sustainable but measure success not [only] in monetary but in social terms. Can be for-profit, non-profit [501(c)3 in the US] or co-operative business venture. What examples do you know of?
Iko Toilets Example Video

• One of Acumen Fund’s investments
• Part III of “Choice Not Charity” episode of What the Future
• http://vimeo.com/14308106
PUR Sachets: Failed BOP Venture or CSR Success?

• P&G alliance with Children’s Safe Drinking Water program
• Water purification powder
• Originally a product, now run as an NGO, shareholder value is brand equity, high distribution rates (more than 60M sachets per year).
• Some view this as a business failure but it’s really a good example of social impact and how to achieve it.

Source: http://www.purwater.com/childrens-safe-drinking-water.html
MEASURING SOCIAL VALUE
• **Outputs** are the direct measurable output of the social business; for example, the number of products sold
Outcomes

• **Outcomes** are the ultimate changes one is trying to make in the world, as well as the intended and unintended side effects of the business. For instance, improved nutrition or decreased incidence of water-borne diseases.

Social Value

- **Social Value or Social Impact** refers to the portion of the total outcome that happened as a result of the company’s activity, **above and beyond what would have happened anyway**. The impact may not always be positive.
Measuring Social Value

• Part of a general trend over the past decade to bring a business focus to the social sector

• For-profit businesses measure the value of projects in many ways, one of which is Return on Investment (ROI). ROI is net profit divided by the cost of the project

Measuring Social Impact is part of the general trend over the past decade to bring more of a business focus to the social sector and to run non-profit organizations like a business. A key measure in assessing business or economic value is the value proposition and the economic Return on Investment. There is a growing literature on measuring social impact. (see the end of the document for some good references) and much of it has been done by the investment community. This means both traditional investors such as mutual funds or investment banks, or social investors like the Gates Foundation. Sustainability measures drive much of this in the private sector (the need to be green). One thing most of these measure have in common, is that they are very complex. They are usually done by sophisticated organizations with a staff of MBAs and are done on relatively mature organizations. Neither of those is true for the SSI teams or the NGO (in this case CTI).

Measuring Social Impact accurately is not feasible for the scale of projects in SSI, at least initially. However, assessing and estimating output can, and must, be done. In addition, the impact value chain and social value proposition should be defined, along with an estimate of what social impact could be (identify what is being impacted and how).

As an example, the University of Minnesota is part of the Natural Capital project with the WWF and the Nature Conservancy, to determine how to measure economic value of the environment. [http://environment.umn.edu/naturalcapital/index.html](http://environment.umn.edu/naturalcapital/index.html). A corporate example is [http://www.trucost.com/](http://www.trucost.com/).
• **Social Return on Investment (SROI)**: A quantitative measure of social impact from a capital investment.

• Related concepts include benefit-cost analysis, economic rate of return, public sector value measurement and extra-financial impact assessment.

• SROI is a way for non-profits or social ventures to evaluate the success of their efforts.
Social Impact Value Chain

Value Proposition

- For-profit businesses talk about the value proposition of their product or service: the benefits it brings to the consumer
- We can offer a social value proposition, which is the social benefits of the products we sell
- It may differ from the economic value proposition, which is measured in monetary terms
- Both will be important in your business plans
Value Proposition: Example

• You are an entrepreneur who has just developed a brand of fair-trade coffee called Happy Rainforest Brew

• Your want to sell your product to environmentally and socially conscious coffee drinkers

• Your Value Proposition would include
  – Providing plantation workers a living wage so their kids can go to school
  – Saving the songbirds that live on the plantation where Happy Rainforest beans are grown
  – Delicious taste at a low price
Value Proposition: Example

• Note that if your target customer was a price-conscious coffee connoisseur, you would emphasize different points
  – Bold, rich aroma
  – Ultra-fresh flavor from small-batch roasting
  – Brewing it at home provides comparable flavor to the corner coffee shop at a lower price
SOCIAL VALUE IN YOUR BUSINESS PLANS
What Acara Wants to See

• The goal of the Acara Challenge is to create a positive change in the world through social ventures
• Successful presentations will discuss social impact
• Because of the limited time involved, you will not be expected to measure outcomes, but you can use output as a proxy
For the Acara Challenge, Social Impact Value Proposition and SROI are treated the same as the economic value proposition and ROI. The relative weighting given to each in deciding an approach is an important thing to understand. Students need to understand what the mission is of the organization that will use the sales plan. This will help define the emphasis on social and economic value proposition. Every organization must have a good economic value proposition in order to be practical and viable. Social ventures must also have a social value proposition. Understanding the mission helps you understand the emphasis on these two propositions.
Your Output

- Some ways you may measure output
  - Number of units sold
  - Number of communities or households served
- These are just a starting place; the type of business you create will in some ways dictate what kind of output you use
3 Broad Categories of Impact / Outcomes

• **Economic**: Financial impacts on parties other than the owners or investors of the enterprise, and other than the financial performance of the business itself,
  – Changes in the income or financial stability of employees or community members
  – Changes in public expenditures
  – Providing local jobs
3 Broad Categories of Impact / Outcomes

- **Social**: Impacts other than economic or environmental experienced by stakeholders of the enterprise
  - Changes in physical and mental health
  - Changes in quality of life
  - Changes in attitudes or behaviors.
3 Broad Categories of Impact / Outcomes

• **Environmental**: Impacts having to do with the status of natural resources and ecosystems, such as
  – Changes in carbon emissions related to climate change
  – Changes in water quality
  – Changes in biodiversity
Your Value Proposition

• The three categories above (economic, social, environmental) all eventually equate to monetary units of some sort

• What benefits does your product or service offer?
  – People are willing to pay for a product’s features, which may mean being more environmentally friendly

• What are the alternatives to your product in terms of both cost and social impact? You will need to show comparisons in your plan.

• What makes your product or service different? Why would people choose your product or service over another?
Steps to Defining Social Impact

1. Define the activities (what you are selling, other related things needed to execute the sales plan)
2. Define the outputs of the business that can be measured (what are you selling, how many, what is the cost to the business, etc.).
3. Define the social value proposition.
4. Define what the social outcomes may be, and how they might be measured. Make sure to examine economic, social and environmental outcomes.
5. Define the social impact.
• **Acara wants to see students define**
  – An Economic Value proposition
  – A Social Value Proposition
  – Outputs (What are you producing?)
  – Outcomes (What is the social outcome?)
  – Economic ROI
  – Social ROI (Define at least qualitatively and somewhat quantitatively, with respect to all the factors).
Discussion

• Is a publicly traded company’s only obligation to increase value for its shareholders? What other obligations do or should they have? What about private companies?
• Is CSR just a marketing ploy?
• What is the economic value proposition of a well understood NGO, like Kiva.org? What is the social value proposition? How do they differ?
• How might you estimate outcomes if all you can measure is output (how many products sold, for example)?
Resources

- University of Miami Ethics Dept.’s *A Guide to Corporate Social Responsibility (CSR)*
- Schwab, Klaus, “Global Corporate Citizenship.” *Foreign Affairs*, January 2008 pp. 107-118
  [http://www.weforum.org/pdf/Schwab_Article.pdf](http://www.weforum.org/pdf/Schwab_Article.pdf)
- Thurow, Roger and Kilman, Scott, *Enough: Why the World’s Poorest Starve in an Age of Plenty*
  New York: PublicAffairs, 2009
- Moyo, Dambisa *Dead Aid: Why Aid is Not Working and How There Is A Better Way for Africa*
  [http://online.wsj.com/article/SB123758895999200083.html](http://online.wsj.com/article/SB123758895999200083.html)
- Acumen Fund [www.acumenfund.org](http://www.acumenfund.org)
  [http://online.wsj.com/article/SB10001424052970203946904574301802684947732.html](http://online.wsj.com/article/SB10001424052970203946904574301802684947732.html)

• **A framework for approaches to SROI analysis**, May 2005, Drafted by Sara Olsen and Jeremy Nicholls.

• This link, has the following papers: *Measuring and/or Estimating Social Value Creation* and *Insights Into Eight Integrated Cost Approaches*; Prepared for Bill & Melinda Gates Foundation, Impact Planning and Improvement; Melinda T. Tuan; December 15, 2008


• Acumen Fund reports