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A three-pronged approach to social business: a Brazilian multi-case analysis

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RESUMO

Três perspectivas para negócios sociais: uma análise multicasos brasileiros

Empresas sociais apresentam um novo paradigma para o capitalismo, em que as empresas privadas, organizações sem fins lucrativos e da sociedade civil criam um novo tipo de negócio com o objetivo principal de resolver problemas sociais com sustentabilidade financeira e eficiência por meio de mecanismos de mercado. Como todos os fenômenos novos, diferentes autores conceituam negócios sociais com visões distintas. Neste artigo, visa-se apresentar e caracterizar três perspectivas diferentes de definições de negócios sociais: o europeu, o norte-americano e as perspectivas de países emergentes. Cada um desses pontos de vista foi ilustrado por um caso diferente do Brasil. Conclui-se com a ideia de que todos os casos têm características semelhantes, mas também algumas diferenças relevantes que são mais do que apenas geográficas. As perspectivas analisadas neste trabalho fornecem um quadro analítico para compreender o campo dos negócios sociais. Além disso, os casos demonstram que, no contexto brasileiro, o campo dos negócios sociais está em construção e, como tal, recorre a diferentes influências conceituais para lidar com uma realidade complexa e desafiadora.

***Palavras-chave*:** negócios sociais, base da pirâmide, inclusão social.

1. INTRODUCTION

Since the seminal article by Prahalad and Hart (2002) on the relevance of the Base of the Pyramid (BoP), much has been written on the topic. The discussion, which began over the potential of this market (PRAHALAD and HART, 2002; PRAHALAD, 2005) has evolved to incorporate ways of developing business models that can offer access to products and services for the BoP, while also helping to diminish the high social deficit of the world.

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In this context, it is pivotal to understand the role of Multinationals (MNCs), local companies, Non-Governmental Organizations (NGOs), and the public sector. Since the 1970s, the two co-existing worlds of business and civil society have been observed to be very distant and highly resistant to collaborative work (BRUGMANN and PRAHALAD, 2007). In recent years, however, this reality has started to change. Private companies and nonprofit organizations work together in order to achieve win-win relationships, in which both sides learn from each other (BRUGMANN and PRAHALAD, 2007).

Furthermore, the BoP has been a fertile field for the emergence of a new type of organization that brings together two goals previously seen as incompatible: financial sustainability and generation of social value (PORTER and KRAMER, 2011). **Social enterprises**, **inclusive businesses** and **social businesses** are some of the terms currently used to explain organizations that aim to solve social problems with financial sustainability and efficiency through market mechanisms.

During the course of our research, we identified three main approaches to defining social businesses. The European perspective, born from the tradition of social economy (associations and cooperatives), emphasizes the role of civil society organizations with public functions. The American perspective understands social businesses primarily as private organizations applying market logic to the resolution of social problems. A third approach, predominant in developing countries, emphasizes market initiatives aimed at poverty reduction and the transformation of social conditions for marginalized or excluded individuals.

As in any new field of knowledge, there has been an inspiring debate among academics and practitioners over the definition, characteristics, and success factors of social businesses. In the late twentieth century, Dees (1998) warned in one of the field's pioneering texts that the language of social entrepreneurship might be new, but the phenomenon was old. Establishing a common nomenclature would be critical to overcoming and eventually dissolving the boundaries between sectors and actors. The case of social businesses is no different: it opens the possibility of incorporating civil society organizations, cooperatives, small, medium or large companies, financiers, and government into the debate about their contributions to the alleviation of poverty, inequality, and social exclusion.

By analyzing the different definitions of social businesses in the international literature, one identifies views that are closer to the logic of the market and others in which there is a predominance of social logic. To understand the differences among the three perspectives better, we analyzed three completely different social businesses in Brazil. The criteria used to select the cases were based on their distinct nature and proposition. Even though the organizations were not created based on the conceptual perspectives, they stand for those views. Each one of them addresses different structural problems and helps to demonstrate the differences and similarities among the concepts and definitions of social businesses.

The main objective of this article is to shed new light on this discussion by describing different definitions of social businesses, understanding their characteristics and success factors through a multi-case analysis of Brazilian organizations that fit the different perspectives and approaches.

This article has been divided into three parts. In the first, we present the different approaches found in the literature about social businesses, presenting also some Brazilian examples that fit each perspective. In the second, we highlight the criteria used to characterize social business initiatives, using again the cases to clarify the main issues. In the third, we state our final remarks on the main similarities and differences perceived both in academic literature and in the exemplified cases.

2. DIFFERENT PERSPECTIVES OF SOCIAL BUSINESSES

In the literature, there are at least three different views about social businesses, which are explained in details below. To illustrate each perspective we have chosen three cases that show how a social business can be structured using distinct strategic and operational models that reflect different beliefs about how best to achieve social impact. The first case is a small microcredit bank that offers credit for small entrepreneurs; the second is an MNC that works with BoP education to create a win-win situation; and the third is a for-profit company that arose as a spin-off of an NGO that uses technology as its platform to create a network of small entrepreneurs.

2.1. The European perspective

In Europe, the term social enterprise is widespread, being recognized as a legal form of organization in most countries. The initial motivation for the creation of social enterprises in Europe was to offer services that belonged to the sphere of the public sector, but at lower costs, as well as to generate employment opportunities for unemployed or marginalized populations (BORZAGA and DEFOURNY, 2001, cited in YOUNG, 2009, p.33).

According to the definition of the Emergence of Social Enterprise in Europe (EMES) research network, social enterprises are

> "essentially organizations that are businesses governed by social objectives [...] these objectives are based on common and shared values."(1)

The academic approach prevalent in Europe highlights the importance of beneficiary participation in decision making as well as the reinvestment of profits within the organization to enhance growth and social impact. This view is based on the premise that there is tension between achieving financial and social results. Thus, the distribution of profits has the objective of maximizing financial returns for shareholders and investors, which clashes with the pursuit of social impact maximization.

According to Travaglini, Bandini, and Mancinone (2009), in Europe one can group social enterprises in three categories: companies promoting social inclusion and employment, the WISE (work integration social enterprise); companies whose primary aim is to produce goods and services with social utility or driven by a collective interest; companies that promote local economic and social development by encouraging the participation of citizens and local government in the management of their activities. There is no single legal model used to regulate social enterprise in Europe.

Corroborating this view, the Organisation for Economics Cooperation and Development (OECD, 2006) defines social enterprises as organizations seeking social and economic goals with an entrepreneurial spirit and that have a primary purpose other than profit maximization. They must achieve economic and social goals, an area in which they are expected to have the ability to bring innovative solutions to problems of social exclusion and unemployment.

For the Social Enterprise Coalition[(2)],

> "social enterprises are businesses trading for social and environmental purposes. Many commercial businesses consider themselves to have social objectives, but social enterprises are distinctive because their social and/or environmental purpose is absolutely central to what they do – their profits are reinvested to sustain and further their mission for positive change".

In this sense, one can say that intentionality makes all the difference. One definition widely used by organizations in Europe and created by the Department of Trade and Industry of the United Kingdom Government[(3)] states that

> "Social Enterprises are 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 maximize profit for shareholders and owners".

According to Travaglini, Bandini, and Mancinone (2009, p.7), social enterprises have the following characteristics:

"(i) Enterprise Orientation – They are directly involved in producing goods or providing services for a market.

(ii) Social Aims – They have explicit social and/or environmental aims such as job creation, training, or the provision of local services. Their ethical values may include a commitment to building skills in local communities. Their profits are principally reinvested to achieve their social objectives.

(iii) Many social enterprises are also characterized by their social ownership. They are autonomous organizations whose governance and ownership structures are normally based on the participation of stakeholder groups (e.g. employees, users, clients, local community groups and social investors) or of trustees or directors who control the enterprise on behalf of a wider group of stakeholders. They are accountable to their stakeholders and the wider community for their social, environmental, and economic impact. Profits can be distributed as profit sharing to stakeholders or used for the benefit of the community (SOCIAL ENTERPRISE COALITION, 2003)".

The governance model is also one of the most relevant factors in the definition of social enterprises in Europe. This aspect derives from the European traditions of association. According to Graziano (1993), modern pluralism is the pluralism of voluntary association based on the free participation of its members, and the existence of such groups is a consequence of post-revolutionary Europe (French Revolution), more precisely a reaction to the liberal conception of state and its founding principle of national sovereignty "*une et indivisible*." Thus, the logic of decision making in the European model of social business is a participatory and transparent process as a prerequisite for its characterization. In addition, as part of European culture and tradition, the social businesses in Europe provide social services and promote integration with disadvantaged groups and communities, whether in urban or rural areas. Still, they provide services to the community especially in the educational, cultural and environmental areas.

Therefore, in the European model, what prevails is the collective and a participative decision-making of all stakeholders involved and the importance of accountability and transparency in management. These participatory and collective dimensions enable "reducing opportunistic behavior by generating a governance structure" (GALERA and BORZAGA, 2009, p.213). Thus, in the European model, besides having a social purpose, social businesses enjoy the assignment of property rights and power from stakeholders other than the investors, coupled with a model of open and participatory governance (GALERA and BORZAGA, 2009).

One Brazilian organization that has many characteristics of this European Perspective is *Banco Pérola*, a nonprofit NGO that offers credit to young people at the BoP. Their operation is limited to the region of Sorocaba, in São Paulo state (where the large and medium size banks are not well positioned), aiming to develop social awareness in the communities where they serve.

The key feature of this social business lies is its pioneering work, which targets people in the 18 to 35 age group in the lowest social segments of the Brazilian population. The initiative started with the finding that young people have a strong entrepreneurial spirit and that one of the biggest challenges that they face is lack of money and great difficulty obtaining any. The initiative invests in the potential of young entrepreneurs who are facing their first challenges in life, but are not qualified yet to get credit under the conditions and with the guarantees required by the traditional banking system.

From this finding, *Banco Pérola* created a portfolio of products that encourages the enterprises of young people operating in the formal and informal market, supporting the creation, enlargement or improvement of their businesses. The portfolio consists of the following products:

- Working Capital – For the purchase of goods, raw materials and inputs.
- Fixed capital – For the purchase, repair or maintenance of working tools, machinery, equipment and vehicles, or the improvement or expansion of facilities of the enterprise.
- Mixed Capital – For the application of working capital and fixed capital.

The bank provides technical assistance for credit management and guidance for entrepreneurial solidarity groups. This consists of periodical visits to each one of the group members to integrate the group and also to ensure the socioeconomic sustainability of their business. As a result, *Banco Pérola* has a default rate of only 0.5%.

Partnership with other NGOs such as *Artemisia* helped the initiative to develop its business plan, get seed money and structure its business model. Collaboration with *Caixa*, a government bank, provided the resources needed to create an active portfolio and guarantee the reserve deposit required by the Brazilian banking system. The initiative also offers products from the *Caixa* portfolio, such as home building loans and micro insurance. From the private sector, *Banco Pérola* has the financial support of Citibank to compose its loan portfolio.

Thanks to income improvement and the inclusion of youth in the job market, the initiative also contributes to local development, alleviation of poverty, improvement of self-esteem and training of new entrepreneurs in low income communities.

2.2. The North-American perspective

Differently from Europe, in the United States the most prevalent term is social business. It is often used to define a company that has social objectives, such as in Europe, or a business unit embedded in a traditional company. In addition, the term has been appropriated by non-profit organizations that decided to join the market by selling goods and services. The multiple uses of the term are explained by the observation of two academic discussions and practices that were concomitant in the mid 1990s in the country: one arising from the corporate world and the other from the context of social enterprises.

In the first case, there was a discussion about the business strategies adopted by multinationals (MNCs), which were supposedly neglecting a large number of potential consumers classified as base of the pyramid (BoP). Authors such as Prahalad and Hart (2002) were pioneers in highlighting the important role that MNCs might have in mitigating social and environmental problems. The corporate social responsibility activities would be limited and, in some cases, ineffective, to help to improve the living standards of marginalized people. The main contribution of MNCs was expected to consist of offering innovative products and services capable of meeting a type of demand that was quite different from what large corporations traditionally focused on.

A decade after the initial discussion proposed by Prahalad and Hart (2002), many advances became noticeable in this approach. Academics, corporations and even investors have different perceptions of the importance of corporations in creating a positive social and environmental impact on society.

Brugmann and Prahalad (2007) describe an evolution of the relation between MNCs and NGOs, in which both learn from each other. In the most recent stage of the evolution there is a process of co-creation involving a local and insider perspective in order to define new business models that provide corporations with a more social view and NGOs with a management approach. Along the same line of thought, Porter and Kramer (2011) also advocate an evolution in businesses. Previously, there was a wide acceptance of the idea that by merely existing a business created social benefits, such as wages, investments and payment of taxes. The authors believe that there is a blurred line between for-profit and nonprofit organizations and that traditional corporations should create **shared value**, which focuses on creating and expanding connections between societal and economic progress.

Along with this idea of integrating social and economic value, there is the perspective of creating business models that also integrate the environment in a real triple bottom line view. According to Hart (2011), this would lead to the green leap, a concept that merges the strategies of companies that focus on developing new green technologies and of those that develop new, more inclusive business models for reaching and serving the poor.

On the investors' side, JPMorgan (2010, p.5) presents an extensive report about Impact Investments, i.e., the "investments intended to create positive impact beyond financial return." Intentionality is an important differentiator in this concept. These businesses expect financial returns and a positive social and/or environmental impact simultaneously, which should be part of the stated business strategy and should be measured as part of the success of the investment. This is a radical change from the paradigm of maximizing financial results.

In parallel with this debate in the context of social entrepreneurs, there were concerns about the difficulty of obtaining funds through grants, in part explained by the reduction of state funding, which began in late 1970 (KERLIN, 2006, p.251). Thus, some social entrepreneurs argued that it would be possible for nonprofit organizations to offer goods and services and be innovative in achieving social outcomes.

According to Young (2009, p.35), social businesses could be analyzed from the viewpoint of several different disciplines. The author presents a multitude of possible formats, ranging from initiatives related to corporate social responsibility to the marketing of large corporations, set up exclusively to pursue the creation of social value:

> "i. corporate philanthropy – a for-profit organization that dedicates part of its resources to social programs as part of its competitive strategy;
> ii. a company with a social purpose – an organization with a social mission, which operates in the marketplace to accomplish its mission more effectively;
> iii. hybrid – an organization with the dual purpose of earning money for its stakeholders and of addressing defined social objectives;
> iv. a funding project – an organizational activity dedicated exclusively to generating revenue for the organization;
> v. a social purpose project – the activity of an orzanization designed exclusively to address selected social missions or social goals;
> vi. a hybrid project – an organizational activity designed to produce revenue and to contribute to the mission or social objectives of the organization".

Thus, from the North American perspective, the concept of social enterprise / social business includes any market entrepreneurial activity that encompasses social impact within its business activities. Such enterprises can take different legal forms: corporations, limited companies and nonprofit organizations (KERLIN, 2006).

Despite the ambiguities and the difficulty of defining a single format in the United States, there is a growing interest in this type of enterprise, which combines the modus operandi of a traditional corporation with social and environmental values characteristic of social enterprises. It can be summarized as a business model that pursues financial returns concurrently with social and/or environment benefits, in which intentionality is seen as an important differential.

In Brazil, several MNCs are starting to adapt this American view of social business. One example is Coca-Cola, which launched, in June 2009, a project named *Coletivo Coca-Cola* whose primary objective is to provide and contribute to improving life at the BoP, offering tools for income generation and skills building. However, this is not only a Corporate Social Responsibility (CSR) initiative, but is actually part of the company marketing strategy. Besides evaluating social impact, the company analyzes and evaluates sales and distribution efficiency in the regions in which it has conducted the project. It can be considered an innovative project because it shows how a large company can become relevant for society while also benefitting from the positive impact of the project.

The main objectives of *Coletivo Coca-Cola* are two. The first is related to the social dimension in which the company trains low income youth to work in retail and/or to be entrepreneurs. The second is associated with the company's business aim to enhance its distribution and improve its brand equity.

To date, *Coletivo* has served more than 3,000 young people in six markets: São Paulo, Rio de Janeiro, Ceará, Pernambuco, Maceió and Goiânia. This initiative presents many components of the concepts discussed earlier:

- Importance of partnerships with NGOs – Coca-Cola is not developing the project on its own. Aligned with the discussions of Brugmann and Prahalad (2007), the company has important partnerships with two leading NGOs: World Vision and Comonittee od Democarcy in Information Technology (CDI), in order to facilitate the company's interaction with the communities and to help to identify local NGOs that can support the project.
- Importance of partnerships with other companies –To expand the scope and to ensure the success of the project, Coca-Cola involves other companies such as McDonalds, Cinemark (Brazilian leading entertainment company) and *Itaú* (Brazil's largest private-sector bank).
- Community mobilization – The program only works properly with the active participation of the community. To this end and to become relevant, the project focuses on the need of the younger generation to become financially independent. According to a study conducted by the company, 61% of low income young people believe that they should be financially independent within 15 to 18 years.
- Impact evaluation: Coca-Cola closely monitors the project through several indicators, in order to identify youth's confidence in the future, how the Coca-Cola brand is perceived in the community and mainly to measure sales and distribution in the targeted regions.

Consequently, after the project is implemented in one community, it becomes difficult for a competitor to enter the same area efficiently. Thus the cycle is closed. Coca-Cola partners with NGOs and other companies to create a program that makes a difference and is relevant for the local community, working on a structural problem, which in this case is education. On one hand, the initiative creates a new form of MNC to relate with BoP youth, by providing access to employment and income for a vulnerable age group; in addition, the project facilitates the circulation of more money in the neighborhood. On the other hand, Coca-Cola benefits by gaining access to a market that is difficult to reach, thereby increasing its distribution and brand equity.

2.3. The emerging countries perspective

Unlike Europe, where the term **social enterprise** prevails, and the USA, where the term **social business** is normally applied to BoP connected strategies, in emerging countries the term **inclusive business** appears more strongly. The Latin American and Asian visions have several common factors. Both views regard inclusive or social businesses with a strong concern for poverty reduction initiatives, which must have a positive, effective and especially long-term social impact.

In Latin America, researchers from the Social Enterprise Knowledge Network (SEKN), formed in 2001 by leading schools of business administration in Latin America, define social businesses as organizations or enterprises that generate social change through market activities. This includes NGOs and for-profit or private-sector organizations engaged in business activities typical of the public sector, producing products and services of significant value. According to Márquez, Reficco, and Berger (2010), to be an inclusive business it is not enough to be merely self-sustaining; the business must be profitable and should be based on the premise of transforming the standards of living of the low-income population. Thus, from this perspective, an inclusive business that gives

> "access to consumer goods that have a direct impact on health and on the development of capabilities in marginalized sectors can clearly transform the living standards of the recipients" (MÁRQUEZ, REFICCO, and BERGER, 2010, p.29).

An analysis of 33 initiatives in Latin America by the SEKN network between 2006 and 2009 showed that Small and Medium Enterprises (SME) as well as civil society organizations are more agile and open to the internalization of innovations needed to conduct an inclusive business, particularly in regard to collaborative work. In this sense, the group of researchers from SEKN reinforces the role of SMEs as well as of civil society organizations in the implementation of inclusive businesses, emphasizing that the low-income population can join the value chain as suppliers of large corporations. This alternative would generate a greater impact as compared to solutions aimed at low income people only as consumers, the traditional view of BoP proposals.

In Brazilian literature, the most common terminology in academia and among practitioners is social business. Comini and Teodósio (2012) seek to differentiate the two terms (inclusive and social business). Inclusive Businesses tend to be a subcategory of Social Businesses. Actually, inclusive business is an unusual expression in the everyday life of Brazilian companies and NGOs, except perhaps among those that target the incorporation of the disabled into the work environment. Briefly, inclusive businesses are those aimed at generating employment and income opportunities for groups with low or no mobility in the labor market, within the standards of **decent work** and in a self-sustaining model, i.e., generating profits for businesses, and establishing relationships with typical business organizations, whether as suppliers of products or services, or in the distribution system.

This list of workers encompasses women and men over 40 years of age who are poor and uneducated, the local communities with strong ethnic ties and little education, young people without work experience and living in highly vulnerable regions, and other groups in similar circumstances. In short, the absolute majority of the poor population, who lives in a situation of social and environmental risk in emerging countries. The similarity with Popular Solidarity Economy is quite evident in the proposal of social businesses; however, it differs from the former because it is not limited only to cooperatives or self-managed enterprises.

On the Asian side, the greatest inspirer of social business is Muhammad Yunus, the Nobel Peace Prize laureate that created the Grameen Bank and disseminated the idea of microcredit globally. Yunus is widely studied in various parts of the world and his model is widely recognized, especially in countries like Bangladesh and India. For Yunus (2007, p.28), there are two types of social businesses:

> "(i) the first are companies that focus on providing a social benefit rather than on maximizing profits for the owners, and that are owned by investors that seek social benefits such as poverty reduction, health care for the poor, social justice, global sustainability and so on, seeking psychological, emotional, and spiritual satisfactions rather than financial reward.
>
> (ii) the second operates in a rather different fashion: profit maximizing businesses that are owned by the poor or disadvantaged. In this case, the social benefit is derived from the fact that the dividends and equity growth produced by the profit maximizing business will aid the poor, thereby helping them to reduce their poverty or even escape it altogethera."

Unlike the North American Perspective, in the view of Yunus (2007, p.33), the coexistence of social and economic interests, although possible, is very difficult to manage. According to the author, profit maximization and social benefits are conflicting objectives and he believes that it is impossible to have a "hybrid organization." In other words, one either has a Social Business or a Profit Maximizing Business. The author argues that a social business differs from a nonprofit organization, since the owners are "allowed" to recover their investments. However, the author has a very firm position regarding the importance of profit reinvestment in the business and therefore does not advocate the distribution of dividends in social businesses.

One emblematic example of an initiative inspired by this proposition is CDI LAN, a social business that helps low income internet cafes to structure themselves better and that also helps them to develop the offer of more services. CDI LAN was created within an NGO named CDI (Committee for Democracy in Information Technology), a digital inclusion pioneer in Latin America.

The idea of creating a social business from an NGO started from the observation of Yunus' experience with Grameen Bank, which led to a variety of other initiatives such as the Grameen companies. Inspired by this model, CDI investigated the possibility of creating new business models aligned with their mission of providing digital inclusion and education for the low income segments. Together with a consulting company (McKinsey and Company), CDI created and designed a social business model to operate within three opportunity areas: CDI LAN, CDI Consultancy and CDI Research.

To implement the model, CDI partnered with the Wharton School of the University of Pennsylvania students exchange program, to conduct a study on the usage of LAN houses (local terminology for internet cafes). The study found out that the usage of internet and technology by the low income communities is conducted in small interactions through internet cafes, as **internet sachets**, there being a high frequency of interactions with this channel. The team also made a business plan for CDI LANs in which they proposed that the LAN houses could have the potential to be a place of transformation within the community.

In 2009, CDI LAN was created as a for-profit social company, organized under a corporate governance model, and with a governing board involved with its decision-making process. Today, it also has an impact investment fund (Vox Capital) as one of its partners.

In its process of consolidation, the social company established a partnership with Brazil's largest media enterprise (*Rede Globo*), to generate awareness about its activities, helping to bring together 6,200 affiliated LAN houses based on a code of conduct. CDI LAN provides formal training for micro-entrepreneurs. Its value proposition is to improve the income generation of LAN house owners. Once certified, the LAN house is able to provide a space for online consultations offered by a Brazilian agency that supports entrepreneurship and small business owners (*Serviço Brasileiro de Apoio às micro e Pequenas Empresas* – SEBRAE) and thereby act as an agent of transformation and multiplication for local entrepreneurs.

Their mission is to transform the members of this sector into distribution centers for BoP products and services focusing on education and microfinance. In partnership with Affero, a distance education company, LAN houses can become an extension of schools, a meeting place and a study center for distance training and access to content that would be limited to the upper class in the traditional system.

Despite having one of the most sophisticated banking systems in the world, Brazil still has millions of citizens that have no bank accounts or that only get poor banking services in the region where they live. Because of the high penetration of LAN houses, these establishments can be a place for financial inclusion. A partnering agreement with *Banco do Brasil* allows them to function as bank correspondents, providing support for banking in BoP communities as providers of microcredit, bank accounts, savings accounts and pension-deductible loans for pensioners.

In addition to access to information and communication technologies (ICT), education and finance services, CDI LAN aims to transform affiliated LAN houses into distribution centers for goods and services linked with social media tools to have a higher social impact and gain scale within BoP communities.

3. CHARACTERISTICS OF SOCIAL BUSINESSES

From the perspectives discussed above, we conclude that social businesses seek to improve BoP living conditions. For some authors (DAWAR and CHATTOPADHYAY, 2002; PRAHALAD and HART, 2002), this can be obtained **through access to goods and services** previously available only to the most affluent population. This proposition includes companies operating at BoP level, considered in its broad spectrum, without necessarily operating in areas that have structural impact on people's lives such as health, education or housing.

Some authors (KARNANI, 2007; HUDON, 2009) are more critical of a consumerist and market vision, which they believe would not help to reverse the situation of extreme poverty but which would put pressure on the environment due to over-consumption. Sen (2000) emphasizes that the main problem of poverty is that it deprives people of human freedom and, to reverse this it is crucial to offer social and economic conditions, involving access to education, health services, housing and income generation. In this approach, it would be better to encourage initiatives that offer market solutions to expand the supply of the products and services that fulfill the basic and structural needs, which have a higher impact in improving the living conditions of BoP individuals, particularly in areas related to education, health, energy, housing and financial services.

Another element to be analyzed is **who catalyzes the process**. Many authors (PRAHALAD and HART, 2002; LONDON and HART, 2011) reinforce the role of MNCs as key players in proposing solutions to diminish the world's poverty. These companies have the skills and the ability to innovate and to generate solutions that could create access to a better life, in an environmental friendly initiative. Furthermore, according to the authors, MNCs have a unique capacity to scale solutions worldwide.

On the other hand, Khanna and Palepu (2006) show many examples indicating that local companies still excel over MNCs. According to the authors, this happens for three reasons:

- When MNCs operate in emerging markets, they have to face the same institutional voids local companies face. However, local companies and their executives are much better adapted to operate under precarious circumstances.

- As they acquire some measure of success, companies from emerging markets can tap talent and capital in developed countries. For instance, it is much more common for these companies to list themselves in the New York Stock Exchange or NASDAQ and raise money than vice-versa.
- Many multinationals are reluctant to tailor and adapt their strategies to the needs of emerging markets, especially for the BoP.

SEKN studies reached the same conclusions, reinforcing the role of SMEs, cooperatives and civil society organizations in providing solutions for the low income population. From this point of view, the BoP population is often seen as producers and not just consumers.

Another issue to consider is that because of information asymmetry and transaction costs, the BOP market is more costly than other markets (PRAHALAD and HART, 2002; CELLI and GONZÁLES, 2010). This peculiarity has implications for the practices that social business should adopt in order to succeed in such a challenging environment. From the analysis of 33 cases in the Ibero-American region, only those initiatives that introduced innovations and new institutional arrangements were able to achieve scale, reduce distribution chain costs, and improve profitability.

The format of social business may also vary: in one extreme there are market initiatives developed by nonprofit organizations; in the other, there are initiatives aimed at the BoP market created by MNCs. In other words, for the former, the initiative is part of the core business of the organization; for the latter, it concerns a peripheral or secondary activity. In general, these initiatives are included in the areas of Corporate Social Responsibility without engaging in interchange with the business area, though there are a few exceptions, such as the Coca-Cola case discussed above, which shows a new vision and possibility for MNCs.

By analyzing the different concepts of social businesses proposed in the international literature, one could draw a line between propositions that are closer to the logic of the market and those that reflect a predominance of social logic. Just as Austin (2002) proposed a continuum to assess cross-sector alliances and partnerships, we can say that there is also a continuum in the types of social business.

Social businesses are manifold and have many concepts and characterizations. The Table 1 summarizes these various dimensions of the social businesses.

Table 1

Analytical Framework for Social Businesses Analysis

	Higher Emphasis on Market	⟷	Higher Emphasis on Social Aspects
Main objective	Access to a great market (base of the pyramid).	⟷	Poverty reduction.
Offer	Any product or service for the BoP.	⟷	Products and services concerning basic needs (education, health, housing, food and credit) or that include an environmental dimension.
Intentionality	Social value generation is an important but non-core element.	⟷	Social Value generation is the core of the business.
Impact	Indirect contribution to poverty reduction.	⟷	Direct contribution to poverty reduction.
Clients	BoP is not the only target.	⟷	Mainly for BoP.
Base of the pyramid	Mainly as consumers.	⟷	Mainly as producers, suppliers or beneficiaries.
Scalability	Extremely relevant.	⟷	Not very relevant.
Workers	No priority.	⟷	Marginalized or economically excluded.
Legal format	Private-sector companies.	⟷	Civil society organizations.
Involvement of the community in decision making	There is no participation.	⟷	There are institutional mechanisms for collective participation.
Accountability	Not a priority.	⟷	Total priority.
Profit distribution	Dividends distribution.	⟷	Profit is totally reinvested in the enterprise.
Economic value	Profit based on sales minus expenses.	⟷	Profit does not exclude cross subsidies and fiscal benefits donations.
Social value	Tangible indicators (access to products and to income).	⟷	Intangible indicators (citizenship, self-esteem, social capital).

The North-American perspective has a greater emphasis on the market whereas the European perspective has a more social approach. The emerging countries perspective lies in-between, sometimes closer to the European proposition, when it emphasizes that the main driver is social impact, and sometimes more similar to the American mindset as, for example, in the governance model, especially in Latin America.

Each perspective also has different perceptions about **scale**. For an MNC, scale is a pre-requisite for its operation. There is no sense in creating a new program that cannot be scaled up. On the other hand, from the European perspective, based on the idea of social economy, scale is not a major issue. In the emerging countries' perspective, scale is desirable, since the most important objective is poverty reduction, which demands a larger scale.

The disagreement over **whether or not to distribute profits** is closely linked to the format of the social business. Some lines of thinking claim that dividend distribution is part of the market logic and would not be an obstacle to guaranteeing social impact, as it establishes the conditions required for the social business to become the target of further investments, which, in turn, generates the possibility of greater scale and of multiplying social impact (CHU, 2005; JPMORGAN, 2010). However, the approach of experts such as Yunus (2007) is totally against this position, arguing that a social business should maximize social, rather than individual wealth. In this sense, Yunus supports full reinvestment of profit in the venture, to benefit only the agents directly involved in the initiative, as in the well-known case of Grameen-Danone.

In contrast, there are important dimensions of social business that are yet to be fully addressed. The **governance model** of the business has not received much attention in American literature; however, European authors such as Galera and Borzaga (2009) emphasize the importance of introducing collective and participatory forms of decision-making. The involvement of beneficiaries in decision-making is seen as essential in organizations that undertake activities carried out by the public sector, particularly in the education and health fields.

Measuring social impact is no simple task. First, the results must be analyzed over the long-term and not only for their immediate impact. Secondly, there should be a clear definition of what is social value. Sen (2000) argues that poverty is a multidimensional and complex phenomenon expressed through inequality, informality and social exclusion. Portocarrero and Delgado (2010) emphasize the importance of broadening the vision of value creation initiatives aimed at the BoP. The authors argue that value creation must include the removal of barriers to social inclusion. This includes assisting the most marginalized and voiceless population as well as mitigating the negative effects of economic growth. In this sense, initiatives targeting the BoP should be assessed as regards their more tangible aspects (access to goods / services and income generation) and intangible ones (recovery of citizenship and social capital development). According to the authors, there are legal, cultural and symbolic obstacles involved in social exclusion that prevent the satisfaction of basic needs and the exercise of rights among the low income population.

A key aspect is the difficulty of low-income people to build an identity as members of the larger society and the sense of belonging that goes beyond the borders of their own community. Concerning social capital, the authors observe that it is important to identify how the social initiatives enable building a network grounded by principles of trust, reciprocity and mutual cooperation.

This concern is also embedded in the vision of the investment funds that believe that businesses need to be designed to generate a positive effect, such as the impact investment funds. The intent and ability to measure are differential criteria for these kinds of investment funds. From this point of view, the proposition of creating positive social and / or environmental impact must be intentional, part of the business strategy and as such, a variable measured in connection with investment success (JPMORGAN, 2010).

In 2008, a group of investors organized a social business network for the exchange of experiences and definition of standards – the Global Impact Investment Network. In 2009, this group proposed a standardized way to measure and report the social and environmental impact of social businesses (IRIS – Impact Reporting and Investment Standard). In order to create external rating agencies to monitor the social impact of this type of investment, in 2010 the GIIRS (Global Impact Investing Reporting Standards) was structured, and it analyzes how an initiative helps to improve income and/or assets, to improve the basic welfare of people and to mitigate the effects of climate change.

Summarizing the characteristics of a social business, one can identify the main points that differentiate each of the analyzed perspectives, as shown in the Table 2.

More than theoretical perspectives, these propositions have a parallel in the current social business models. As mentioned before, in Brazil we have identified the European, the American and the emerging markets perspectives in three initiatives: *Banco Pérola*, which is compatible with the European perspective; *Coletivo Coca-Cola*, which is lined up with the American perspective; and CDI LAN, which follows the emerging countries perspective. Although the way in which the business model is structured varies, these different initiatives combine in their business models variables that in different ways provide market solutions to alleviating BoP poverty. Drawing a parallel between the characteristics of these initiatives and the three main approaches identified here to define social businesses, one can sum this up as follows (Table 3).

4. CONCLUDING REMARKS

The objective of this article was to present different approaches to social businesses worldwide, also covering some examples of the Brazilian reality. Not only the approaches to

Table 2

Main Approaches to Social Businesses

	European Perspective	American Perspective	Emerging Countries Perspective
Definition	Organizations that are businesses governed by social objectives.	Any entrepreneurial market activity that has social impact within its business activities.	Organizations or enterprises that generate social change through market activities.
Main purpose	To offer services, originally in the sphere of the public sector, at lower costs and to generate employment opportunities for unemployed or marginalized populations.	Access to goods and services previously only available to the most affluent population segment.	Poverty reduction initiatives that must have a social impact that is positive, effective and, especially, long-term.
Who catalyzes the process	Socially driven companies.	MNCs.	Usually SMEs and NGOs, but growing interest of MNCs.
Business format	Social enterprises are distinctive because their social and/or environmental purpose is absolutely central to what they do.	Seek shared value: financial results + social impact.	Social impact is a main target.
Scale	Not relevant.	Extremely relevant.	Desirable.
Profits	Reinvestment of profits within the organization to enhance growth and social impact.	Dividends distribution is part of the market logic.	• Asian view: profits should only be reinvested in the business. • Latin American view: acceptance of dividends distribution.
Governance model	Beneficiaries' participation in decision making.	Corporate and centralized decisions, but with partnerships and a growing idea of co-creation.	• Asian view: more collaborative and with beneficiary participation. • Latin America view: acceptance of both models (participatory or centralized).
Measuring impact	Mainly social impact.	Social and financial impact.	Mainly social impact.

social business differ in their propositions, but the terminology applied also varies considerably. Two main factors explain the lack of a homogeneous view: first, the different ways of defining the social value of the enterprises; and second, the different ways of assessing the social impact and the innovation of this type of organization.

Despite the ambiguity and diversity of terms, the three perspectives analyzed have some common points: the existence of organizations that aim to solve social problems using market mechanisms. The differences in their perspectives is the perception of which is the most effective way to achieve the objective of having a social impact.

Whereas the American Perspective seeks shared value, in which private-sector organizations (mainly large companies) can use their strengths, power and widespread coverage to create innovative market logic solutions to address social problems, the European perspective has a more social and cooperative view, emphasizing the role of civil society organizations in assuming public functions. As for the emerging countries perspective, it lies, in many ways, between the other two, being based on both nonprofit and private-sector companies that pursue social impact as their main objective.

Furthermore, the cases analyzed lead to two relevant conclusions. First, all the cases have as an important ingredient to their success the partnerships and networks created around the business. *Banco Pérola* partnered with *Caixa* (a governmental bank); *Artemisia* (NGO) with Citibank (private-sector bank); *Coca-Cola* partnered with two large NGOs, small local NGOs and other large private companies; and CDI LAN partnered with large private-sector companies and universities. Building partnerships is a strategy that cuts across all points of view and is reflected in the cases studied. These show that creating networks is crucial for the success of social businesses and that the private sector, the third sector and the public sector are natural partners in this.

Second, to achieve its main purpose, all the cases based their initiative on a structural problem of the BoP population: *Banco Pérola* tackled credit, *Coca-Cola*, education and CDI

Table 3

Characteristics of Three Brazilian Social Businesses Models

	Banco Pérola	Coletivo Coca-Cola	CDI LAN
Definition	Social organization governed by social objectives.	Market activity that has social impact within the Coca-Cola business activities.	Enterprise that generates social change through market activities.
Main purpose	To offer microcredit less expensively in order to generate earnings for the young low income generation.	Become closer to the BoP and thereby gain market share. Provide education that can improve the income of the target population.	Provide an income improvement to BoP entrepreneurs as well as access to services that have positive, effective and especially long-term social impact in BoP communities.
Who catalyzes the process	NGOs.	MNCs.	SMEs.
Format of the business	The social purpose is absolutely central to the *Banco Pérola* business model.	*Coletivo* seeks shared value: financial results (gain market share in the region) + social impact (help the young BoP generation to gain access to jobs).	The main target is to have social impact in the BoP community as a whole, with profit: income generation for LAN house owners and access to information and services for low income clients.
Scale	Not relevant: covers market gaps.	Extremely relevant: increasing the scale of the business and social technology are the major effort.	Desirable: uses technology as an enabler to gain scale.
Profits	Reinvestment of profits within the organization to drive growth and social impact.	Dividends distribution is part of the market logic.	Dividends distribution to investors.
Governance model	Structuring an advisory board: beneficiaries do not always sit on it.	Corporate and centralized decisions NGOs work as partners and advisors for the project only.	Participatory: governing board, but without the participation of beneficiaries.
Measuring impact	• Mainly social impact (qualitative and quantitative methods). • Financial results are measured through CRM, but breakeven is yet to be reached.	• Social impact (using case and control methodology). • Financial impact (sales and market share).	• Mainly financial results (revenue and profitability). • Social impact evaluation is being implemented through GIIRS (global impact investing reporting system).

LAN, access to services and information through technology. These organizations were successful in identifying a basic need as a means to accomplish their objective.

Rather than being geographical, the perspectives analyzed in this paper provide an analytical framework for one to understand the field of social business. Besides, as already extensively mentioned in the literature, there is a strong European and American influence, among others, in Brazilian society and culture (BOSI, 2002; FREYRE, 2006). Not surprisingly, the three conceptual influences previously described inspire the way social business initiatives are implemented in an emerging country such as Brazil.

The examples of *Banco Pérola*, CDI LAN and *Coletivo* show that in the Brazilian context, the field of social business is under construction and therefore draws on different conceptual influences to deal with a complex and challenging reality. Rather than discussing the effectiveness of each perspective, we analyze the fact that they are found in the same context and can be adjusted to better interact with the reality that local enterprises must deal with. Additionally, the initiatives described here are non-consolidated enterprises, works in progress, and as such they are undergoing changes and can be adapted according to the circumstances.

Apart from the terminology, what makes this debate fruitful is the fact that the dialog between social organizations and the private sector is not only becoming increasingly common, but also necessary to reach and expand the wish to produce a positive social impact. Two goals previously seen as incompatible – such as the possibility of gaining financial sustainability and simultaneously creating social value – have become inseparable and have turned out to be the linchpin in the operation of such organizations.

Reficco (2010) warns us about the risk of placing the discussion of social business in a new generation of strategies for corporate social responsibility (CSR), particularly in Latin America, since in this region social responsibility initiatives have had a more compensatory and philanthropic nature, historically. According to this author,

> "initiatives arising under the umbrella of corporate social responsibility with shy commercial components have serious problems overcoming the pilot project stage, in which good intentions are more important than the economic results achieved" (REFICCO, 2010, p.22).

We conclude that this type of social enterprise requires a new format. Traditional business models should not be replicated, if they include only the social dimension. Social businesses should think and operate differently. Partnerships between civil society and private companies are a new element in the landscape, and co-creation has become extremely important as a strategy for being more locally relevant (BRUGMANN and PRAHALAD, 2007).

Regardless of the nature of the organization that sets up the social business, there are important assumptions to be considered regarding how to intervene in the complex domain of poverty reduction and social impact. After all, markets are necessary but not yet self-sufficient for solving the social problems of contemporary society.

Finally, it is important not only to go into greater depth in conceptual and theoretical discussions, but also to advance in regional or even local experiences that promote social business. This proposition is particularly relevant in the Brazilian social and economic context, considering the significant changes of the living conditions of the low income segments of the population in recent years.◆

NOTES

(1) At: <www.socialenterpriseeurope.co.uk/pages/what-is-social-enterprise.php>. Retrieved on: July 15, 2011.

(2) At: <www.socialenterprise.org.uk/about/about-social-enterprise>. Retrieved on: Aug. 26, 2012.

(3) At: <www.businesslink.gov.uk/bdotg/action/layer?topicId=1077475650>. Retrieved on: Aug. 26, 2012.

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ABSTRACT

A three-pronged approach to social business: a Brazilian multi-case analysis

Social businesses present a new paradigm to capitalism, in which private companies, non-profit organizations and civil society create a new type of business with the main objective of solving social problems with financial sustainability and efficiency through market mechanisms. As any new phenomenon, different authors conceptualize social businesses with distinct views. This article aims to present and characterize three different perspectives of social business definitions: the European, the American and that of the emerging countries. Each one of these views was illustrated by a different Brazilian case. We conclude with the idea that all the cases have similar characteristics, but also relevant differences that are more than merely geographical. The perspectives analyzed in this paper provide an analytical framework for understanding the field of social businesses. Moreover, the cases demonstrate that in the Brazilian context the field of social business is under construction and that as such it draws on different conceptual influences to deal with a complex and challenging reality.

Keywords: social business, base of the pyramid, social inclusion.

RESUMEN

Tres perspectivas para negocios sociales: un análisis de casos múltiples brasileños

Las empresas sociales presentan un nuevo paradigma para el capitalismo, en el que empresas privadas, organizaciones sin ánimo de lucro y organizaciones de la sociedad civil crean un nuevo tipo de negocio con el objetivo principal de solucionar problemas sociales, con sostenibilidad financiera y eficiencia, por medio de mecanismos de mercado. Como para todos los nuevos fenómenos, diferentes autores conceptualizan negocios y empresas sociales de acuerdo con distintos puntos de vista. El objetivo en este artículo es presentar y caracterizar tres perspectivas diferentes de definiciones de negocios sociales: la europea, la estadounidense y la de los países emergentes. Cada uno de esos puntos de vista fue ilustrado con un caso brasileño. Se concluye el estudio con la idea de que todos los casos tienen características similares, pero también presentan algunas diferencias relevantes que son algo más que sólo geográficas. Las perspectivas analizadas en este trabajo proporcionan un marco analítico para entender el campo de los negocios sociales. Además, los casos demuestran que, en el contexto brasileño, el campo de los negocios sociales está en construcción y, como tal, se basa en distintas influencias conceptuales para hacer frente a una realidad compleja y desafiante.

Palabras clave: negocios sociales, base de la pirámide, inclusión social.