

FUNDAÇÃO GETULIO VARGAS  
ESCOLA DE ADMINISTRAÇÃO DE EMPRESAS DE SAO PAULO

**YASMINA BENCHEKROUN**

**FOR PROFIT SOCIAL ENTREPRENEURSHIP:  
MILESTONES TO DEVELOP AN EFFICIENT SOCIAL VENTURE**

**SAO PAULO  
2013**

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Dissertação apresentada à Escola de Administração de Empresas de São Paulo da Fundação Getulio Vargas, como requisito para obtenção de título de Mestre Profissional em Gestão Internacional

Campo de conhecimento :  
EMPREENDEDORISMO

Orientador: Prof. Dr. TALES ANDREASSI

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## RESUMO

Inúmeras questões terríveis e alarmantes são ainda mal resolvidas, apesar da mobilização de ONGs para aliviá-los. Por muito tempo, o setor privado deu as costas a preocupações tal qual estas. Até que um novo tipo de empreendedor revolucionário apareceu com um novo conceito para combater a pobreza. Mohamed Yunus desbravou empreendedorismo social quando criou a Grameen Bank 36 anos atrás: ele desafiou regras convencionais e estritas alugando dinheiro para Bengalis desmerecidos de crédito, tudo isso obtendo lucro no mesmo tempo. Hoje, empreendedorismo social está um fenômeno mas a maioria dos empreendedores do setor dos e meia ainda enfrentam dificuldades. A pesquisa acadêmica sobre o empreendedorismo social com fins lucrativos ainda está hesitante. O presente trabalho é uma modesta tentativa de analisar quais são os desafios que um empreendedor social com fins lucrativos enfrentará ao longo do caminho para criar seu empreendimento e sustentar os seus objetivos. O exame da literatura mostra que as dificuldades enfrentadas pelos empreendedores são devido a vários fatores, compreendendo questões diretamente relacionadas a incerteza do mercado e o contexto local, questões organizacionais, de financiamento, de ética e questões relacionadas a resistência do modelo de negócio. As proposições derivando do exame da literatura foram confrontadas a casos concretos através de entrevistas com empreendedores sociais, investidores de impacto e instituições de apoio. Resultados da pesquisa corroboram as proposições do início mas enfatizam necessidade de resolver, com consideração cuidadosa, as questões relacionadas a incerteza do mercado e ao desenho dum governança adequada. A respeito da incerteza do mercado, a identificação das partes interessadas no empreendimento social e a adoção dum mentalidade eficaz para ajustar suposições iniciais para a realidade local, são um padrão chave de sucesso para o empreendimento social. No nível organizacional, a constituição dum time perito e comprometido junto com o desenho dum governança certa para equilibrar o desejo de obter lucro e a necessidade de sustentabilidade financeira é uma garantia de sucesso para o empreendedor social..

**Palavras-chave:** Empreendedorismo social, forma jurídica, incerteza do mercado, governança, habilidade de liderança, financiamento, ética, autossuficiência econômica, avaliação do impacto social e financeiro

## **ABSTRACT**

Countless appalling and alarming issues are yet scarcely resolved in spite of the mobilization of NGOs to alleviate them. For long, the private sector turned its back on such concerns. Until a new kind of ground-breaking entrepreneur appeared with a new concept to fight poverty. Mohamed Yunus pioneered social entrepreneurship when he defied conventional and stringent banking rules to lend money to Bengalis unworthy of credit, all of this while generating profits. Today, social entrepreneurship is a growing phenomenon but a majority of social for-profit entrepreneurs still struggle. And yet academic research on profit social ventures is still hesitating. This paper is a modest attempt to analyze what are the challenges a social for-profit entrepreneur will face along the journey to create his venture and sustain his objectives. The literature review relates that difficulties faced by entrepreneurs are due to several factors, comprised of issues related to market uncertainty and local environment, organizational issues, funding, ethical issues and business model resilience issues. The propositions stemming from the literature review have been confronted to real life cases through interviews with social entrepreneurs, impact investors and supporting institutions. Results seem to corroborate the initial propositions but emphasize the need to address market uncertainty issues and a proper governance design. On a market level, the identification of key stakeholders and the adoption of an effectual mindset to adjust initial assumptions to the local reality are likely to be a token of success. On the organizational level, the constitution of a skilled and committed team and the design of the right governance in order to balance between the desire to generate social wealth and the need for financial sustainability is most probably a pledge of success.

**Key words:** Social entrepreneurship, legal structure, uncertainty of the market, funding, governance, leadership skills, funding, ethic, self-sufficiency, measurement of the social and financial impact

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## TABLE OF ABBREVIATIONS AND ACRONYMS

<b>AFD</b>	Agence Française de Développement (French Development Agency)
<b>BOP</b>	Bottom of the Pyramid
<b>CEO</b>	Chief Executive Officer
<b>COO</b>	Chief Operating Officer
<b>DEVUSE</b>	Dispositif d’Evaluation et de Valorisation de l’Utilité Sociale en Environnement : System of Evaluation and Valorization of the Social Usefulness in Environment (in France)
<b>EC</b>	Economic Costs
<b>ESS</b>	Economie Sociale et Solidaire (Social Economy)
<b>ESG</b>	Environmental, Social and corporate Governance
<b>EV</b>	Economic Value
<b>EW</b>	Economic Wealth
<b>FMO</b>	Nederlandse Financierings-Maatschappijvoor Ontwikkelingslanden N.V. (Dutch Development Bank)
<b>FPSE</b>	For Profit Social Enterprise
<b>GIIRS</b>	Global Impact Investing Rating System
<b>GVW</b>	Grameen Veolia Water
<b>HVC</b>	Hybrid Value Chain
<b>L3C</b>	Low-profit Limited Liability
<b>NGO</b>	Non-Governmental Organization
<b>OC</b>	Opportunistic Costs
<b>SARL</b>	Private limited liability corporate entity in France whose liability is limited to the contributions of its members
<b>SCIC</b>	Sociétés Coopératives d’Intérêts Collectifs (Collective Interest Cooperative Societies in France)
<b>SFS</b>	Société à finalité Sociale (Society with a social purpose in France)
<b>SC</b>	Social Costs
<b>SV</b>	Social Value
<b>SW</b>	Social Wealth
<b>TW</b>	Total Wealth

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## **1. Introduction**

The present study focuses on the emerging field of Social Entrepreneurship. The last two decades have witnessed the burgeoning of social entrepreneurs buckling down to tackle worldwide social issues. They were inspired by emblematic figures such as Mohammed Yunus and Bill Drayton who have irreversibly revolutionized mindsets and etched our collective memory with such prominent entities as the Grameen Bank and Ashoka.

Albeit a common purpose, that of bringing social issues at the forefront of their minds, social entrepreneurs however have elected to act from various different or even divergent battle lines. Nonprofit organizations, the ones not generating revenues or profits were far more wide widespread than any other form of vehicle adopted for this kind of concerns.

Grameen Bank was a turning point and opened the door to new innovative forms of organizations digging for golden opportunities to do social good: nonprofit, for profit and hybrid vehicles, all of them generating revenues. The for-profit form has been somehow overlooked as it outwardly gave birth to conflicted interests, colliding financial and social benefits (Scott Marshall, 2011). Many are advocates of a necessary choice between on one side social benefits and on the other side profitability.

Social entrepreneurship organizations indeed focus on value creation wherein commercial for profit organizations only capture a portion of that value created and appropriate it as a means to ensure growth and sustainability for the organization (Santos, 2009). Others simply see market based social organizations as struggling enterprises doomed to fail.

### **1.1. Research Objective**

The objective of the present study is therefore to assess how this type of organization can attempt to answer two, at first sight, contradictory goals. The research question is the following:

*What are the key steps a social entrepreneur, and more particularly a for-profit social entrepreneur, needs to go through in order to be financially viable and to meet its social mission in a sustainable manner?*

In order to be able to answer this question, this paper will try to draw up an inventory of the main barriers a social entrepreneur has to face in order to successfully develop his venture and will attempt to study the means he can use in order to overcome such hurdles. Such impediments cover numerous fields and issues, which are listed below and will be subject to examination in the literature review and during the research process:

- Legal structure:

How can the choice of a legal form impact the venture in terms of competitiveness, of fiscal policy, of governance model, of funding and of transfer of ownership?

- Uncertainty of the market:

How can a social venture navigate in an unpredictable environment and apprehend the uncertainty of the market for a great many attributes such as prices, costs, demand, reliability of infrastructure, availability of resources etc. that have a direct impact on its activity?

- Funding:

What resources are available to the social entrepreneur, and how might the choice of a provider of funds who will attach or not an importance to the creation of social value impact the management of the company and its strategic orientations?

- Implementation

How should the social entrepreneur get prepared to the difficulties to be faced during the implementation phase and how can he consider the scalability of his venture?

- Leadership skills and conflict management

How do tensions arising between competing social and financial demands within the company impact the success of the social venture and how can these tensions be dissipated?

- Financial viability and Ethics

How can the social entrepreneur simultaneously serve financial interests and social objectives and what should he do when the two collide?

- Social impact measurement

How does social impact measurement impact the venture's activity and eventually its attractiveness?

## 1.2. Chapters outline

In order to address the issues presented above, this paper will try to draw up an inventory of the literature about social entrepreneurship and more specifically the impediments to achieve such a venture and develop a comparative study through a list of interviews of professionals of the sector, this in order to highlight the main discrepancies between literature and information collected from real life cases.

In this perspective, and after this introduction, chapter 2 will provide a review of the literature on barriers to successful social ventures and formulate, for each impediment mentioned, the main propositions stemming from the literature review in order to overcome such impediments.

Chapter 3 will explain the methodology followed in this manuscript in order to gather the data used to understand the barriers for a successful social venture. The chapter first begins by reminding the research question and mentioning the main propositions from the literature review. Then, it describes the profile of the people interviewed. Next, it describes the various instruments used for data collection both for social entrepreneurs interviewed and non-social entrepreneurs. The chapter ends with the description of the protocol of interpretation of the data and the limitation of the research.

The fourth chapter explains how this collected data have been used to bring out the outcomes from the analysis and goes on to expose the findings of the research and the conclusions drawn from the cases studied.

Finally, chapter 5 draws the conclusion of the manuscript.

## 2. Literature overview

### 2.1. Definition of social entrepreneurship

Before entering headlong the subject of for profit social entrepreneurship specifically, let us backtrack to a key element of the understanding of the subject: the definition of social entrepreneurship and of social value creation.

Many scholars have defined social value creation. According to Peredo *et al.* (2006), social value creation is the contribution “*to the welfare or well being in a given human community.*” According to the Center of Social Value Creation’s website (university of Maryland – Robert H. Smith Business School), social value creation “*strives to balance profits and public good*”. Social value creation is not the prerogative of specific economic agent (a non-profit for instance, a regular company or a hybrid form between those two can create social value). Social value creation is defined by the process of leveraging “*cross-disciplinary collaboration, market-based problem solving, and sound business principles to co-create economic prosperity and social / environmental well-being.*” For Gregory Dees (1998), social value creation is oriented towards the creation of “*social improvement that cannot be reduced to creating private benefits (financial returns or consumption benefits).*” He however, acknowledges the difficulty to capture or grasp the creation of such social value in comparison to economic value.

Gregory Dees, referee on the matter of social entrepreneurship, known for being one of the first to clarify its meaning, gives the following definition of social entrepreneurs:

*“Social entrepreneurs play the role of change agents in the social sector, by:*

- *Adopting a mission to create and sustain social value (not just private value),*
- *Recognizing and relentlessly pursuing new opportunities to serve that mission,*
- *Engaging in a process of continuous innovation, adaptation, and learning,*
- *Acting boldly without being limited by resources currently in hand, and*
- *Exhibiting heightened accountability to the constituencies served and for the outcomes created.*”

(Dees, 2001, p. 4)

With the booming and lively interest of both the civil society and the scholars to the field, a proliferation of definitions of social entrepreneurship has been observed. Zahra *et al.* (2009) define social entrepreneurship as “*activities and processes undertaken to discover, define, and exploit opportunities in order to enhance social wealth by creating new ventures or managing existing organizations in an innovative manner*”. Based on this definition, three types of social entrepreneurs have been identified based on their search process of social needs, their pursuit of opportunity and the impact they might have on the social system: Social Bricoleurs, Social Constructionists and Social Engineers.

Social Bricoleurs take roots locally, they discover local social needs and exploit local resources to address those targeted needs. Social Constructionists on the other hand act as a hyphen between social structures. They fill in the gap left by institutions (governments, agencies) and businesses through alternative structures to address social needs other structures failed to address. Finally, Social Engineers create newer social systems to replace existing ones when they are ill suited to address significant social needs. They build lasting structures that challenge the existing order (Zahra *et al.*, 2009).

Most definitions available in the literature insist on the exploitation of opportunities for a social good rather than traditional profit making. For that purposes, Masseti (2008) uses the notion of continuum of the social commerce concept: she defines a continuous scale ranging from a “Profit Not required” state to a “Profit required” state. A social enterprise can be placed anywhere along this scale. Its location depends on the extent to which it requires profits to sustain itself.

Masseti (2006) also defines the difference between social and traditional entrepreneurs through the degree of intent of the entrepreneur, i.e. how much mission driven he is. She also illustrates this distinction through a continuum perspective. The entrepreneur can be placed all along the continuous line ranging from a purely “socially oriented mission” to a purely “market oriented mission”. According to its author, this concept helps define entrepreneurs in terms of what they do rather than for what they are as much as it accounts for the possibility of mission transformation over time, tilting on one side or the other. Consolidating those two dimensions,

Masetti (2008) developed a framework, the Social Entrepreneurship Matrix, divided in four quadrants.

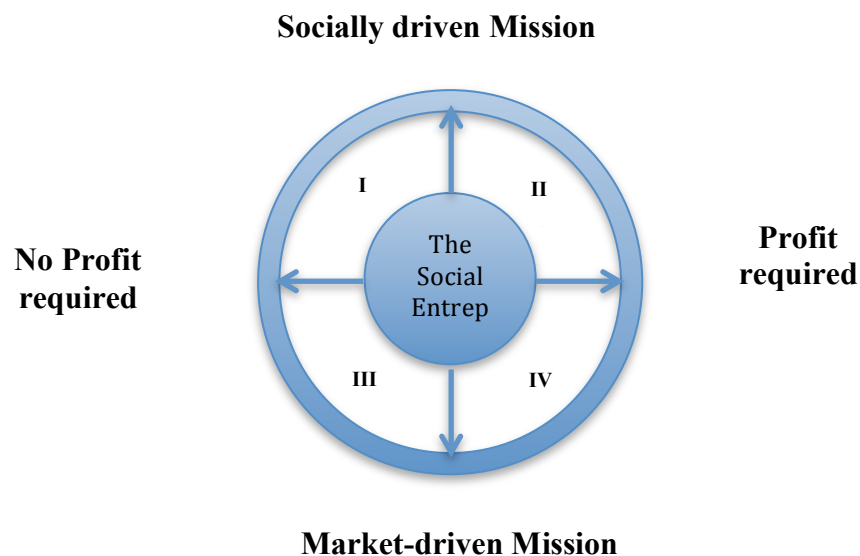


Figure 1: The Social Entrepreneurship Matrix

The quadrant II, the *Tipping Point Quadrant*, defines enterprises driven by both social mission and profits. Research on for-profit social enterprises (FPSE) is not extensive, to say the least. Hitherto, only timid attempts have been made to theorize a yet burgeoning field. FPSE is frequently referred to as a double bottom line organization (Dorado, 2006). Peredo *et al.* (2006) proposed to define a for-profit social venture as an organization driven by prominent social goals but that also consistently pursues profitability.

Marshall (2010), in an attempt to draft a model for an international for profit social enterprise had primarily resolved to outline the major attributes of a social for profit entrepreneur, whether operating domestically or internationally. Hence, the need for a steadfast involvement of the entrepreneur to tackle global social issues in conjunction with a strong belief in market based solutions. Financial sustainability and a direct contribution to serving a social cause are key criteria according to George (2009).

## 2.2. Legal structure



The choice of the legal form of his organization is a significant step for a social entrepreneur ready to embark on such a journey. According to Sabeti (2011), entrepreneurs tend not to devote enough time to administrative details and are usually more rapturous about customers' need and the best ways to address it. However, researchers agree on saying that the choice of the legal form and therefore the architecture of the organization are critical elements to the success of the enterprise.

InnovTerre, a French social enterprise was created in 2006 with the objective of helping local communities in the application for financial aid granted by the European Union for local development. Competitors of InnovTerre, mainly comprised of charities, were not VAT taxable. However founders chose the SARL<sup>1</sup> as a legal form for their company. SARL being VAT taxable, this led to a 20% loss of competitiveness compared to competitors. This choice of legal structure is also highly tied to the institutional environment in which the social entrepreneur operates (Marshall, 2010) and impacts not only the governance structure and the ownership design of the new organization but also the type of resources accessible to the entrepreneur and the types of contracts held with the stakeholders (Sabeti, 2011).

The for-profit legal and tax models have not been designed for the pursuit of a double bottom line. Therefore, choosing such type of legal structure raises many concerns, among which the main issues are the prioritization of social and environmental concerns over the interests of shareholders and the guarantee of the commitment to the social mission by all stakeholders, including the owner. The commitment to the social mission may have to be guaranteed on the long term, even after an ownership transfer. The initial mission of the enterprise may have to be sustainably protected by design of ownership and of governance.

In Denmark, Novo Nordisk has opted for a publicly traded operating company controlled by a foundation to avoid any hostile takeover. Instead of the classical for-profit forms, Sabeti (2011) stresses the various choices available to the social entrepreneur (in the UK and the US): Community interest company, Low profit limited liability company (L3C), Benefit corporation, and Flexible Purpose

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<sup>1</sup>SARL: private limited liability corporate entity in France whose liability is limited to the contributions of its members

Corporation. In Europe also, new legal forms have started to appear yet their success still is mitigated. In France, the SCIC<sup>2</sup> is increasingly popular (there was some 144 social enterprises of that form in France in 2009). Belgium also has developed a social enterprise legal form, the SFS<sup>3</sup> and Italy social cooperatives. Also, fiscal policy is often not adjusted to social enterprises reality or not enough exploited when favorable (Brouard *et al.*, 2012).

After the review of the literature dealing with the legal structure of social ventures, we formulate the following proposition, which will need to be verified or contradicted by the research through a confrontation to real life cases

***Proposition 1: The choice of the legal form and the governance model of the company may be critical to success***

The highlighted issues to be verified that are linked to the choice of a legal form are the following:

- Taxation:

The choice of a legal form is linked to the fiscal policy applied to the company and has a direct impact on the competitiveness of the social entrepreneur

- Adaptation to the activity and the pursuit of a double bottom line
- Access to resources: the choice of a legal form affects the access to funding resources
- Governance to keep focus on the social mission:

The social entrepreneur may need to design the right governance model to ensure that shareholders' interests do not overthrow the social and environmental mission

- Transfer of ownership:

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<sup>2</sup>SCIC Sociétés Coopératives d'Intérêts Collectifs: Collective Interest Cooperative Societies

<sup>3</sup>SFS Société à finalité Sociale: Society with a social purpose

The social entrepreneur may need to design the right governance model to ensure that the social and environmental mission is followed through when the ownership is transferred to a new buyer or investor.

### **2.3. Scope definition, resources identification and mobilization**

The literature browses the steps an entrepreneur may have to commit to in order to create an FPSE. An effectual mindset throughout the creation process is a stimulating boost to initiate the journey. Instead of the classical pattern of primarily identifying an opportunity and thenceforth developing the necessary skills, the entrepreneur may become aware of the means at his disposal (such as a panel of skills, knowledge and expertise, networks etc.) and then identify the opportunity. This effectuation process will challenge the entrepreneur and force him to think in an innovative fashion defying mainstream conventional models (VanSandt *et al.*, 2009).

To make the venture a conclusive success, diverse management challenges have to be faced among which one of the most significant seem to be the uncertainty of market which can be illustrated by imperfect markets, uncertain prices and costs, non existent or unreliable infrastructure, untested applications of technology, unpredictable competitive responses and a lack of reliable data.

After a 9 years research program with groups of local entrepreneurs from the US and Africa trying to launch base of the pyramid ventures, Thompson *et al.* (2009) have gained the following insights on how to make a social venture a conclusive success in uncertain markets

- Define the scope of the venture:  
To do so, Thompson *et al.* (2009) recommend defining “*disqualifying conditions*” that is prohibiting conditions to the launch of the venture such as an inability to scale operations, a rampant corruption environment, the poor quality of necessary equipment, or the lack or shortage of talent. Also, there is a need to define the “*acceptability space*” comprised of the minimum number of people the venture targets to serve, the minimum level of profitability and

the “*business rules of engagement*” such as no payment on bribes or no sales on credit (Thompson *et al.*, 2009).

- Attend to the socio-politics

The social entrepreneur should probably acquire a detailed view of key stakeholders, their roles and the resources they can provide (Thompson *et al.*, 2009). Sabeti (2011) also emphasizes the necessity to clarify the value proposition for each group of stakeholder and increase their engagement with the social mission. For Thompson *et al.* (2009), the novice social entrepreneur should identify the recipients of the venture that are often doubtful and disinclined, as much as he should in all likelihood detect his potential support to the project and his opponents that might be harmed by the project.

- Discovery Driven Planning

Adopting a *Discovery Driven Planning* mindset induces the recognition of an evolving business. Considering the lack of available or reliable data in emerging countries, the entrepreneur should start building the best business model possible based on initial assumptions. In order to build this initial model, the entrepreneur may need to specify both the unit of business (the type of transaction for which the customer is paying) and unit of benefit (the unit measure of the social benefit) concurrently with anticipating forthcoming challenges of growth

After the start of the business model at the lowest cost possible, the entrepreneur may need to get ready to modify his business model when needed. Indeed, assumptions will be tested and updated throughout the creation process of the FPSE thanks to data emerging from the field. *Discovery Driven Planning* converts market uncertainty into a manageable risk and allows for possible outcomes to become probable and therefore more likely to plan. Progress can be followed up and monitored and preliminary results can fuel an effectuation mindset (Thompson *et al.*, 2009).

- Plan disengagement with a minimum impact
- Try to anticipate both negative and positive unplanned consequences (Thompson *et al.*, 2009).

After the review of the literature dealing with the legal structure of social ventures, we formulate the following proposition, which will need to be verified or contradicted by the research through a confrontation to real life cases

***Proposition 2: Overcoming the uncertainty of the market and that of the environment in which the social entrepreneur will evolve may be a key step to make the venture a conclusive success***

The critical matters to address to face the uncertainty of the market are the following:

- Definition of the scope of the venture:  
In order to overcome the uncertainty of the market, the social entrepreneur may need to identify the conditions that prevent the venture from being successful, define what are his business engagement rules and also what is his bottom line in terms of number of people to serve and profitability
- Key stakeholders identification:  
Knowing who are the stakeholders benefiting from, supporting or opposing the venture helps knowing how should each group of stakeholders be mobilized
- Development of Discovery Driven Planning:  
In all likelihood, the adoption of an effectual mindset is needed to bypass the lack of data and gradually adjust initial assumptions based on concrete data collected from the field.
- Disengagement planning with a minimum impact:  
The disengagement phase needs to be planned in an acceptable way
- Anticipation of unplanned consequences:  
Before engaging in the venture, preparing for unplanned consequences will most probably help overcome the uncertainty of the market

## 2.4. Funding

The choice of funding is a milestone for social entrepreneurs. Researchers see resource mobilization as central for social entrepreneurship ventures (Dorado, 2006). The growth of social enterprises is often hampered by the lack of funds or by a difficult access to traditional sources of funding. Moreover, social entrepreneurs find themselves in competition with traditional for-profit companies that have access to capital. Sources of funds of social enterprises depend on various factors comprised of: the degree of maturity of the venture, its reputation, its legal structure and the availability of a not for profit capital market. Examples of sources of funds include subsidies, credits, charity contributions or investments linked to a specific program (Brouard *et al.*, 2012).

For Certo *et al.* (2008), social entrepreneurs need to identify sources of funding predominantly interested in social value creation. Examples include the international Ashoka network or impact investing funds such as Acumen Fund, Venture Philanthropy Partners and Roberts Enterprise Development Fund in the US, Ignia in Mexico or le Comptoir de l'Innovation in France. Created by Bill Drayton some 30 years ago, Ashoka is today an international network supported by a 50 million euros annual budget to support innovative and scalable social enterprises. Never financed by public funds, its financial structure however varies from a country to the other. In the US, it relies on private philanthropists contributions such as Bill Clinton and Bill Gates (Rodier, 2012). Acumen Fund defines itself on its website as “*a non-profit global venture fund that uses entrepreneurial approaches to solve the problems of global poverty*”.

Not choosing the right investor may have a dangerous impact on the venture. InnovTerre, a French social enterprise helping local communities in the application for financial aid granted by the European Union experienced opening its capital to a new source of funds after a severe struggle from too big a working capital. New investors brought with them a financial “coach”. Upon his arrival, the growth strategy of the company changed radically, as well as the governance. Financial pressure, in conjunction with managerial constraints, was regarded by the founding partners as incompatible with the vision of solidarity they had. Eventually, the radical change of

management direction lead to a record turnover but due to the new engagements taken to increase the revenues, the company was quickly caught up by overwhelming financial charges and had to liquidate soon after (Brouard *et al.*, 2012).

According to Choi *et al.* (2008), social entrepreneurs usually are very selective behavior for the choice of funding. They are reluctant to turn to investors exclusively focused on profit maximizing that could hinder the pursuit of their social mission. They dread the impact a purely profit driven investor might have on the management style of the company, its governance and the exit option the investor might choose. Their preference definitely goes to investors that share the same values as theirs and that agree or at least accept the social mission of the company.

This is the case of Honest Tea founders, a beverage company that produces drinks made of organic, fair-trade ingredients. Even if their choice meant a slower growth, they were prepared to accept a \$500,000 funding from Investor's Circle (a social venture capital firm) to a \$5 million offer from another venture capital firm willing to take significant control over the company. Moreover, when time for disengagement has come, social entrepreneurs are unwilling to sell to the wrong buyer who will not commit to the social mission. For the owners of Tom's of Maine (a social venture selling natural personal care products), the decisive factor to sell their company was the commitment to the social mission and dedication to the values of the venture rather than the price (Choi *et al.*, 2008).

Even if availability of funds devoted by impact investors to social entrepreneurship ventures has dramatically increased during the last decade (Kubzansky *et al.* 2011) and is expected to take off even more in the next ten years (Battilana, 2012), the capital needs of social ventures may not be fitted to the private equity model. The seed money social enterprises require for start-up is limited (Kubzansky *et al.* 2011). A group of strategy consultants from Monitor carried out a research on market-based solutions in Africa and realized that the needs of 60% of the ventures they contacted did not exceed US\$1 million. Their assessment is that such ventures may benefit more from other types of funding such as credit or royalty arrangements.

Moreover, social entrepreneurs may lack basic business knowledge. To fail to plan for growth may be a hindrance to reach scale. Investors can provide for such assistance and help them to follow business fundamentals along with establishing a suited governance model, an effective marketing plan and a consistent revenue model (Kubzansky *et al.* 2011).

After the review of the literature dealing with the legal structure of social ventures, we formulate the following proposition, which will need to be verified or contradicted by the research through a confrontation to real life cases:

***Proposition 3: Identifying suitable sources of funding attentive to social value creation may be critical to be able to both reach scale and keep focused on the pursuit of the social mission***

- A social entrepreneur choosing an unsuitable investor is very likely to adopt a management style, a governance and an exit option incompatible with the vision of solidarity of the social entrepreneur
- Selling to the wrong buyer is very likely to drift the venture away from its initial social mission
- The choice of the appropriate type of funding (capital, credit, etc.) may be critical to help the social enterprise grow sustainably
- Lacking the fundamental business knowledge and therefore failing to plan for growth may be a hindrance to achieve self-sufficiency and meaningful social impact

## **2.5. Implementation**

A successful social venture is defined as financially self-sufficient (if not profitable), scalable and one that provides a tangible social impact to impoverished populations.



To be self-sustained and to reach scale, such a company probably needs to adjust to the behaviors of the populations in need (Kubzansky *et al.*, 2011). Depending on the business model selected, social enterprises may face different challenges. Kubzansky *et al.* (2011) divides in three the possible business models providing indigent populations with solutions to meet their needs: *the Poor as Customers*, *the Poor as Suppliers* and *the Poor as Agents, Distributors and Economic Agents*.

### 2.5.1. The Poor as Customers

Monitor study shows that entrepreneurs determined to serve low-income populations in African countries may have to face several hurdles among which irregular cash flows of the population served. To adjust to such constraint, Monitor experts recommend delivering products and services in small sizes and to the lowest cost possible. An illustrative example is the Omega schools in Ghana. Its operating mode is to allow parents to pay on a day-by-day basis (US\$0.70) to accommodate for any cash shortage (in which case, the student does not drop out of school but skips it until daily payment is resumed). Other challenges include an uncertainty about willingness to pay of such customers and access to dispersed customers through informal and somehow chaotic channels of distribution.

For Olsen *et al.* (2009), social enterprises active in BoP markets can exploit new market opportunities in low-income segments in the developing world in conjunction with contributing to the resolution of significant social problems. Along the way, they may be confronted to as many problems as a lack of infrastructure, corruption of local governments, inaccessible markets, low educational levels, or lack of buying powers. Kubzansky *et al.* (2011) also mentions the competition with the government or NGOs offering similar products for free. Operating with such constraints allows for very low and volatile margins. Internally, social entrepreneurs may struggle with the organizational implementation of the BoP projects. Evolving in BoP markets therefore entails a large organizational change to design completely new solutions related to all business processes: buying, manufacturing, packaging, marketing, distributing and advertising products (Olsen *et al.*, 2009).

### 2.5.2. The Poor as Suppliers

Kubzansky *et al.* (2011) have noted that low-income suppliers in Africa are isolated and consequently unaware of market needs or market changes.

### 2.5.3. The Poor as Distributors and Economic Agents

The main concerns that appear when hiring low-income people as distributors or agents are the variability of their performance directly linked to the inconsistency of their cash flows and their needs. They may struggle to maintain their activity as they lack the necessary working capital. Also their low level of knowledge might require an investment to train them (Kubzansky *et al.* 2011).

To create and expand markets on an outstanding scale, Drayton *et al.* (2010) recommend the use of a *Hybrid value chain* as a means of collaboration between social entrepreneurs and large corporations. They would be able to make the most of their complementary strengths. Corporations could bring about scale, expertise in manufacturing, operations and financing, while social entrepreneurs could establish strong social networks, in addition to an extensive knowledge on how to lower costs and a deep insight into customers and communities.

Drayton *et al.* (2010) advocate the use of the *Hybrid Value Chain* for three types of opportunities. Large and growing citizen sectors constitute a huge opportunity as evidenced by such markets as the low-income health care market (US\$ 202 billion as of 2010) and the low-income food market (US\$ 3.6 trillion as of 2010). The second opportunity materializes when market values change dramatically as is the case in the Indian energy sector with the development of a solution of biofuel for stoves (instead of kerosene or wood) to reduce costs and exposure to indoor smoke. The third opportunity emerges when charitable funding and “free services” are replaced by genuine markets (an example often mentioned is microcredit).

To build a *Hybrid Value Chain*, Drayton *et al.* (2010) advocate following several landmarks briefly described in what follows. Designers of the Hybrid Value Chain need to understand the current business and the characteristics of the market they are

interested in, in particular regarding the price and how customer demand relates to it. Also, they may need to rethink how to create value for those in needs by taking into account multiple dimensions.

In India, E Health Points recognized the difficulty for rural Indians to have access to health care services (transport and long working hours being the issue) and uses telemedicine to meet their needs. Looking for innovative pricing and financing solutions seems also to be a critical milestone. Drayton *et al.* (2010) also advice to keep an eye on emerging markets, from which the future social enterprises will rise. GE has already a reverse innovation process to deploy products designed for emerging markets in developed countries. HVCs also call for the nomination of a leader that will have to be patient and persistent to work across both sectors with unfamiliar customers and suppliers and earn the trust of all stakeholders. Finally, the team should probably be given time and permission to fail. What does not work will most probably bring people closer and will bring progress.

#### **2.5.4. Growth issues: scaling or replicating**

Finally, to enable the FPSE to grow, and positively impact a larger population, the organization will in all likelihood have to choose between growth through scaling or through replicating (franchising). Either way, several challenges might be faced. Through the scaling process for instance, the for profit social enterprise may have to face a limited growth explained by the need in a social venture for greater knowledge of the land, the community characteristics and also by more difficulty to monitor wage labors that vary in function of needs.

In addition, social venture usually are less profitable than other vehicles as they externalize benefits and internalize all costs. Choosing wisely between replication and scaling will depend on various factors. Besides the creation of more social value, the entrepreneur may also have to assess the availability of resources, the possibility to replicate the model and the partnerships that may need to be developed (VanSandt *et al.*, 2009). Another huge challenge to growth might be the scarcity of human capital

and the lack of expertise that the entrepreneur is likely to face in emerging countries (Thompson *et al.*, 2009).

After the review of the literature dealing with the legal structure of social ventures, we formulate the following proposition, which will need to be verified or contradicted by the research through a confrontation to real life cases

***Proposition 4: Depending on the type of business model followed, the social enterprise will likely have to adjust to the behaviors of the populations in need***

- The social entrepreneur may have to design and implement completely new organizational models in order to get beyond strong and resilient contextual impediments such lack of infrastructure, corruption of local governments, inaccessible markets, low educational levels, cash shortage or unwillingness to pay.
- Partnering with large corporation and collaborating to design a *Hybrid Value Chain* might help create and dramatically develop markets that serve the poor.

## **2.6. Leadership Skills**

According to Certo (2008) social entrepreneurs' actions are oriented towards the improvement of their organization performance. They share common characteristics, namely, a passion to meet the needs of a population, charisma and leadership skills.

Social leaders also have in common a prominent social network. For Leadbeater (1997), social venturing begins as an individual mobilizes others toward social goal using his social network.

Social and commercial sides of the social entrepreneurial challenge are often associated with competing value systems, identities, and norms. As tensions arise within the organization, managing social ventures may demand a unique set of skills that goes beyond those needed to achieve commercial goals of a traditional venture (Smith *et al.*, 2012).

Social leaders might have to face the risk of losing dual focus and be either fully focused on the social mission or the commercial goal as much as they might have to escape being caught up in the conflict between advocates of the social side and advocates of the commercial side within the organization. In order to manage such competing social and financial demands, social leaders may need to commit to both sides and embrace their competing demands. The competing demands can be a source of success. New and creative solutions can stem from them to ensure the sustainability of the venture in the long run. Commercial viability entails efficiency, performance, growth and innovation whilst committing to the social mission arouses passion, motivation and commitment. Fair trade associations are a case in point in the matter as they succeeded in creating local farming cooperatives to ensure fair prices to farmers and extended credit (Smith *et al.*, 2012).

Smith *et al.* (2012) state that social leaders may need three interrelated leadership skills to respond to these challenges in an effective manner.

Acceptance may help them view both competing demands as possible together and learn to live with them. It might reduce their anxiety, minimize conflict within the organization, and help both opposing sides to consciously seek alternatives to their competing demands. Differentiation is likely to give to social leaders the capacity to recognize the unique contribution of each side and maintain focus on both sides without prioritizing existing capabilities over new ones. Ultimately, following an effective differentiation stage, an integration mindset may allow them to address both alternatives and seek synergies between them, unlocking the potential of new creative solutions to integrate the two opposite demands.

For Smith *et al.* (2012), such a journey may necessitate the adoption of what they call a paradoxical model of leadership, from an “either / or” approach to a “both / and” approach. Digital Dive Data, a global social for profit IT company headquartered in Cambodia, has followed such a model, teaching social entrepreneurship on the job. DDD endeavors to teach to manager and employees to accept that while there are conflicting interests between social and business goals, it will allow a positive sustainable impact on the long run. DDD also encourages experimentation in

decision-making. Instead of hiring either unskilled disadvantaged people or not disadvantaged skilled graduates, DDD hires disadvantaged people that can be trained to learn the skills required to answer customers' needs (Smith *et al.*, 2012).

After the review of the literature dealing with the legal structure of social ventures, we formulate the following proposition, which will need to be verified or contradicted by the research through a confrontation to real life cases

***Proposition 5: Managing a social venture may require to commit to and embrace both competing social and financial demand to manage tensions that arise within the social venture and ensure the sustainability of the venture in the long term.***

- The social entrepreneur will likely need to learn to accept to view both demands as possible together and help opposing sides look for alternatives to their opposing views
- The social entrepreneur may have to recognize the unique contribution of each cluster and keep focused on both sides
- The entrepreneur will likely have to look for synergies between both alternatives and release the potential of innovative and integrative solutions.

## **2.7. Financial viability and ethics**

Along the way, the entrepreneur will, in all likelihood have to face a determining challenge, that of designing a structure that simultaneously serves financial interests and social objectives (Sabeti, 2011). One crucial question remains: what would happen when the two collide? Consultants from Monitor Group have noted in their market-based solutions report in Sub Saharan Africa that business imperatives usually gain the upper hand.

Indeed, financial sustainability is fundamental to the survival of the company. Therefore, giving priority to social impact to the detriment of a sound financial health

would likely not only be a hindrance to the growth of the social enterprise, but most probably the herald of a certain collapse. Any company may need to consistently invest in the long term to be able to grow, reach scale and expand its social impact. Eventually, if the social venture cannot be self-sufficient, it might fail to provide a sustainable solution to its initial mission (Kubzansky *et al.*, 2011).

The financial sustainability sought by entrepreneurs could be achieved simultaneously through a premium pricing strategy and a severe cutting and monitoring of costs. A higher cost structure, due to a focus on quality of raw material used, usually forces the social venture to find a niche market to avoid large competitors with economies of scale. Furthermore, enhancing profitability may require maintaining cost structure as low as possible (Choi *et al.*, 2008).

When uniting economic thinking with the desire to generate social wealth, ethical challenges also arise. Indeed, social for profit entrepreneurs will likely need to balance the desire to generate social wealth with the need for profits and economic efficiency. Also they are accountable as they apply new and untested organizational models what is more within unsupervised models. These challenges may be overcome depending on the social entrepreneurs' motives, the resources required to operate the venture and the governance and control mechanisms in place to regulate the entrepreneurs' behaviors.

According to Zahra *et al.* (2009), ethical challenges may differ depending on the type of social entrepreneur studied (Social Bricoleur, Constructionist and Engineer). For the Social Bricoleur, the main ethical concern is tied to the allocation process used by the entrepreneur to create social wealth, and how efficient this process can be considering the lack of a price system to calculate the value of the social good created. Zahra *et al.* (2008), also underlines the lack of financial reporting and cost accounting. Moreover, the small scale of Social Bricoleurs' venture entails an absence of formal controls that might lead to agency problems, excessive compensation, or concentration of power. Social constructionists, in their surge to introduce social change, may behave in an opportunistic and egoistic way and undertake coercive and manipulative actions to go forth with their reform.

As for Social Engineers, even if they are possessed by a determination to serve their causes, they could create or intensify social tensions and conflicts. For that regard, Zahra *et al* (2009) encourage the creation of external advisory boards in conjunction with the consideration of ethical concerns to design effective governance mechanisms (Zahra *et al.* 2009).

After the review of the literature dealing with the legal structure of social ventures, we formulate the following propositions, which will need to be verified or contradicted by the research through a confrontation to real life cases

***Proposition 6: Should the social mission and the financial health collide, the priority may need to be given to sustaining the company financially to ensure the survival of the company***

- The financial sustainability may have to be driven by an efficient pricing strategy in conjunction with a severe cost control, and this applies all the more for high volatility margin BoP markets.

***Proposition 7: Ethical challenges may have to be attended depending on the social entrepreneurs' motives, the resources required to operate the venture and the governance and control mechanisms in place to regulate the entrepreneurs' behaviors***

## **2.8. Measuring social impact**

Evaluation of the outcomes of the FPSE is critical to its success. Social entrepreneurs are accountable. They need to adopt the best-suited metrics to measure and monitor their financial as well as social performance as a means to evaluate their social impact on the underserved population (Brouard *et al.* 2012). This may enable them to assess the efficiency of their organization and to better deploy their resources accordingly (VanSandt *et al.*, 2009). This assessment is also tied to an ethical concern. It raises the question of the social gain from the initial investment and of the real input of such initiatives (Brouard *et al.*, 2012).



In addition to a better allocation of resources, adopting the proper performance tools is also likely to ease the access to funding sources (VanSandt *et al.*, 2009) and can be a strong argument to convince potential or existing investors. Hence the criticality to develop such assessment tools as the *Social Return on Investment* (Brouard *et al.*, 2012).

To evaluate opportunities and organizational processes related to social entrepreneurship, Zahra *et al.* (2009) introduce the standard of Total Wealth. In their analysis, they consider tangible as well as intangible outcomes (such as happiness, general well-being, etc.)

The concept of Total Wealth is defined as follows:

$TW = \text{Economic Wealth (EW)} + \text{Social Wealth (SW)}$

$EW = \text{Economic Value (EV)} - \text{Economic Costs (EC)} - \text{Opportunity Costs (OC)}$

$SW = \text{Social Value (SV)} - \text{Social Costs (SC)}$

$TW = EV + SV - (EC + OC + SC)$

Total wealth illustrates how entrepreneurial organizations can have various degrees or combinations of both economic and social wealth generation. The Total Wealth can be of use to evaluate economic and social opportunities and ventures, and to evaluate the performance of ventures. Moreover, it can also be used to identify the value of opportunities social entrepreneurs decide to pursue and to monitor and help them focus on achieving better outcomes for their ventures.

Social wealth however, still is an inaccurate concept. What is more the subjective and intangible nature of the social value makes it difficult to measure: many products and services provided by social entrepreneurs are not quantifiable. Clean water in remote villages, adoption of orphans from war-torn nations, empowerment of women entrepreneurs in oppressive societies are non-exhaustive examples of the challenge to find the right metric to measure the Social Wealth created (Zahra *et al.* 2009).

After the review of the literature dealing with the legal structure of social ventures, we formulate the following proposition, which will need to be verified or contradicted by the research through a confrontation to real life cases

***Proposition 8: A social venture may have to adopt the proper measurement metrics in order to assess and monitor its financial and its social performance***

- The social entrepreneur is accountable and may have to define the proper metrics to be able to assess the social gain from the initial investment
- The social entrepreneur might need to adopt the proper metrics to optimize his allocation of resources and monitor his financial health
- In all likelihood, the social entrepreneur will need to adopt the proper metrics to convince potential or existing investors

## 3. Methodology

### 3.1. Research Question and propositions reminded

The research question was chosen in consistence with the objective of the present study, as exposed in the first section of the manuscript. The research question is the following:

*What are the key steps a social entrepreneur, and more particularly a for-profit social entrepreneur, needs to go through in order to be financially viable and to meet its social mission in a sustainable manner?*

Thanks to the literature review, we formulate the following propositions to answer the research question. These propositions will need to be verified in the research.

***Proposition 1:*** *The choice of the legal form and the governance model of the company may be critical to success*

***Proposition 2:*** *Overcoming the uncertainty of the market and that of the environment in which the social entrepreneur will evolve may be a key step to make the venture a conclusive success*

***Proposition 3:*** *Identifying suitable sources of funding attentive to social value creation may be critical to be able to both reach scale and keep focused on the pursuit of the social mission*

***Proposition 4:*** *Depending on the type of business model followed, the social enterprise will likely have to adjust to the behaviors of the populations in need and overcome*

***Proposition 5:*** *Managing a social venture may require to commit to and embrace both competing social and financial demand to manage tensions that arise within the social venture and ensure the sustainability of the venture in the long term.*

***Proposition 6:*** *Should the social mission and the financial health collide, the priority may need to be given to sustaining the company financially to ensure the survival of the company*

***Proposition 7:*** *Ethical challenges may have to be attended depending on the social entrepreneurs' motives, the resources required to operate the venture and the*

*governance and control mechanisms in place to regulate the entrepreneurs' behaviors*

**Proposition 8:** *A social venture may have to adopt the proper measurement metrics in order to assess and monitor its financial and its social performance*

### 3.2. Description of Interviewees

Sources of the literature review are diverse and scrutinize social entrepreneurs coming from different backgrounds, culturally speaking but also sector wise.

In order to be consistent with such parameters and also in view of studying the common milestones social entrepreneurs will have to go through regardless of fluctuating parameters (country, culture and sector included), the methodology followed to test the relevance of the propositions developed is mainly based on a series of interviews of social entrepreneurs, but also of social venture funds, social business project manager within large multinational corporations and other relevant stakeholders of the field of social entrepreneurship that can look at the issues to be studied with a different angle and can bring a complementary insight to the testimonial of social entrepreneurs.

#### 3.2.1. Type of organization interviewed

In total ten interviews have been carried out, of which

- Nine social enterprises: Ôkhra, CDI Lan, Spear, Selco, Reconnect, Revi +, Envie 2E, Eifa (the last three enterprises share the same CEO which was interviewed)
- One social business venture: Grameen Veolia Water
- One network supporting social entrepreneurship: Artemisia
- Two impact investing funds: Le Comptoir de l'Innovation, Investisseurs & Partenaires

The nine social enterprises have been selected from different sectors and from different countries in order to analyze challenges social entrepreneurs may face

irrespectively of the specificities of their sectors and countries of origin. This will help identify the common steps social entrepreneurs may have to go through to fulfill both social and financial missions.

Other organizations (impact investing funds, social businesses and organizations supporting social entrepreneurs) have been contacted and interviewed in order to collect the view of social entrepreneurs' partners that can give their opinion with hindsight on the challenges faced by social enterprises and may have an objective feedback.

Impact-investing fund are experts on funding issues and can give a relevant feedback on their collaboration with social entrepreneurs. On the other hand, social businesses may have faced the same challenges as social entrepreneurs for instance regarding market uncertainty, implementation or impact measurement. Finally, organizations supporting social entrepreneurs follow them through different stages of development and are likely to know the key challenges they face at each stage of development.

### **3.2.2. Profile of interviewees**

For four social enterprises, the CEO was interviewed (of those four social enterprises, three shared the same CEO). For 2 social enterprises, the person interviewed was founder and CEO. For two social enterprises, a manager within the company was interviewed (for one, it was the COO and for the other the Manager of innovation). For the social business venture (Grameen Veolia Water), the person interviewed was the Project Manager in charge of the Grameen Veolia Water project implementation. The two interviewees from impact investing funds were account managers. Finally, the interviewee from the network supporting social entrepreneurship was in charge of the relations with universities and also played the role of promoter of new social business models.

### 3.2.3. Form of contact

Three interviews have been carried during face-to-face meetings: for a social entrepreneur, for an impact investor and for the social business project manager. It lasted about one hour each time and was carried out at the office of the interviewee.

Two interviews have been carried out only by phone, one for an impact investor, and the second for a social entrepreneur. It lasted about an hour with the impact investor. It lasted around 40 minutes for the social entrepreneur. For two social enterprises, only a questionnaire was used. For three social enterprises, a questionnaire and a phone call meeting were used. The phone call lasted around 30 minutes. For one social entrepreneur, a questionnaire and email exchanges were used. Finally, for the network supporting social entrepreneurs, only a Skype meeting was used and lasted less than 20 minutes.

### 3.2.4. Country of origin of interviewees

Eight organizations included in the interview were from French origin, two were Brazilian, one was Indian and one was jointly from Bangladesh and France.

The following table sums up the different organizations interviewed and in particular gives information on the name of the organization, the country of origin, the type of organization (social enterprise, impact investing fund etc.), the sector in which the organization evolves and the legal form of the organization.

Table 1: Interviewees' description summary

Name	Country	Type of interviewee	Sector	Legal form
CDI Lan	Brazil	Social entrepreneur	Information & communication technology	For profit
Selco	India	Social entrepreneur	Sustainable energy services	For profit
Revi+	France	Social entrepreneur	Recycling	Hybrid
Eifa Demantèlements	France	Social entrepreneur	Recycling	For Profit

Envi2	France	Social entrepreneur	Recycling	Hybrid
Ôkhra	France	Social entrepreneur	Art promotion	Hybrid
Investisseurs & Partenaires	France	Impact investing fund in Africa	Finance	Not relevant
Grameen Veolia Water	Bangladesh	Social Business	Water treatment	Hybrid
Artemisia	Brazil	Organization for the promotion of social entrepreneurship	Social Business	Not relevant
Spear	France	Social entrepreneur	Brokerage	Hybrid
Comptoir de l'Innovation	France	Impact investing fund	Finance	Not relevant
Reconnect	France	Social entrepreneur	Information & communication technology	

### 3.3. Instrument for data collection

#### 3.3.1. Means used to contact social entrepreneurs

In order to reach the different interviewees, various means have been used. They are described below:

- Ashoka website: global organization that invests in social entrepreneurial ventures
- Social entrepreneurship events attended
  - Convergence 2015 fair and Ashoka events in Paris,
  - Entrepreneurship day at FGV in Sao Paulo
- Artemisia: Brazilian organization promoting and investing in social businesses in Brazil
- HEC and FGV Alumni network: through contacts with persons involved in the field of social entrepreneurship
- Personal contacts involved in the field of entrepreneurship or social entrepreneurship
- Avise, society dedicated to helping the growth of social enterprises in France
- Internet search

### 3.3.2. Instrument for data collection specific to social entrepreneurs

In order to confront the results stemming from the literature to real life cases, an interview outline was developed. Some questions asked were open-ended questions in view of giving the possibility to the interviewee to be as thorough as possible and ensure the comprehensiveness of the data collected. Other questions were closed-ended questions and allowed to give more structure to the interview and collect more accurate answers to fuel a quantitative analysis.

All questions were based on the propositions formulated in the chapter. These questions are presented below:

Table 2: Social entrepreneur questionnaire sample

Propositions	Questions
<i>P1: The choice of the legal form and the governance model of the company may be critical to success</i>	Which legal form did you choose? How has the choice of the legal form of your company impacted your taxation? Has it impacted your competitiveness?
	How adapted is the legal form you chose to the pursuit of both a social impact and a financial objective?
	How has the choice of a legal form affected your access to funding resources?
	Have you adopted a governance model to ensure that shareholders' interests do not overrun the focus on the social and environmental mission? How has this decision impacted you activity?
	How do you prepare for the transfer of ownership? How do you ensure that the social mission is followed through when the ownership is transferred to a new buyer or investor?
<i>P2: Overcoming the uncertainty of the market and that of the environment in which the social entrepreneur will evolve may be a key step to make the venture a conclusive success</i>	Before starting the venture: <ul style="list-style-type: none"> <li>• Have you identified the conditions that would prevent the venture from being successful? How has it impacted your activity?</li> <li>• Have you defined the business engagement rules (ex: no credit, no bribes, etc.)? How has it impacted your activity?</li> <li>• Have you defined the bottom line in terms of number of people to serve and profitability? How has it impacted your activity?</li> </ul>
	Who are your key stakeholders? Have you identified them before starting the venture? How has this decision impacted your activity?
	Before starting the venture, did you face a lack of data? Have you undertaken any actions to overcome the lack of available data? How has that impacted the success of your activity?
	Do you plan for disengagement? How?



	Have you anticipated unplanned positive or negative consequences of your activity? How has it impacted the success of your undertaking?
<i>P3: Identifying suitable sources of funding attentive to social value creation may be critical to be able to both reach scale and keep focused on the pursuit of the social mission</i>	How have you chosen your investor or source of funding? Is the investor in line with the social mission you envision for your venture? What impact does he have on your management style? On the governance structure of your venture? On the exit option you have considered for your venture?
	Have you considered a disengagement plan? Who would you consider/have you considered selling your venture to? How has it impacted (or how do you think it will impact) the resilience of the vision of solidarity you had for the company?
	How has the choice of the type of funding (capital, credit, etc.) impacted the sustainable growth of your company?
	Do you have a business background? How has it impacted your activity? When starting the company, have you developed a financial plan? How has it impacted your activity?
<i>P4: Depending on the type of business model followed, the social enterprise will likely have to adjust to the behaviors of the populations in need and overcome</i>	What actions have you undertaken to get beyond strong and resilient contextual impediments (such as lack of infrastructure, lack of talent, corruption of local governments, inaccessible markets, low educational levels, cash shortage or unwillingness to pay)?
	Have you had the chance to partner with a large corporation in order to serve your social mission? What impact has it had on your activity? What were the strong and weak points of the collaboration?
<i>P5: Managing a social venture may require to commit to and embrace both competing social and financial demand to manage tensions that arise within the social venture and ensure the sustainability of the venture in the long term.</i>	When tensions arise within the company, how do you manage conflict between competing social and financial demands?
	How do you make sure you will not lose focus on either side?
	Do you view both demands as possible together? How do you help opposing sides look for alternatives to their opposing views?
	How do you do to recognize the contribution of each cluster?
	Do you look for synergies between both alternatives? How? How do you favor the development of innovative and integrative solutions?
<i>P6: Should the social mission and the</i>	What is your objective of profitability? What drives your profitability? What is your strategy in terms of pricing? How do you manage your costs? How do you handle the volatility of your market (if it applies)?

<i>financial health collide, the priority may need to be given to sustaining the company financially to ensure the survival of the company</i>	How do you balance the desire to generate social wealth with the need for profits and economic efficiency
	When social mission and financial sustainability are at jeopardy, do you prioritize one side over the other?
	What other ethical challenges have you faced? What have you done to overcome them?
<i>P8: A social venture may need to to adopt the proper measurement metrics in order to assess and monitor its financial and its social performance</i>	How do you assess your financial performance? What indicators did you choose? Do you follow financial reporting? What impact does it have on your activity?
	Do you assess your social impact? What indicators do you use? How did you define them? What impact does it have on your activity?

### 3.3.3. Instrument for data collection other than social entrepreneurs

An interview outline was also developed for the consultation of other than social entrepreneur interviewees. A preparation of the interviews was needed prior to the interview. The protocol followed for both face-to-face and for phone interviews was split in two phases. A first very quick phase included preliminary questions to the interview:

- Presentation of the objectives of the interview
- Confidentiality
- Format of the interview
- Length of the interview
- Contact information in case of need after the interview
- Other questions to be addressed

The second phase of the interview was specific to the type of interviewee met.

An example of questionnaire for impact investing fund (for Le Comptoir de l'innovation) is given below:

- Could you describe the mission of *Le Comptoir de l'Innovation*, its activity as well as your team and your role within your team?
- How do you look for opportunities in which to invest?
- What are your criteria to invest in a social enterprise?
- What are the key success factors of a social enterprise in your opinion?
- What is the profile of a social entrepreneur?
- Are there business models that work better than others? Are they scalable and how can they change scale?
- What type of technical assistance do you provide to social entrepreneurs? What follow up do you do?
- Is there a particular legal form that is most adapted to social entrepreneurship (for example like the L3C (Low-profit Limited Liability))?
- What are the financial objectives of a social entrepreneur and do you think there is a risk that its financial objective restrains its social objective?
- What are the expectations and demands of investors? What return on investment are they expecting? In how many years?
- Do social entrepreneurs request other types of funding such as debt, royalties, etc.?
- How do you manage risks of investment in emerging countries where commercial, legal and financial conditions are not optimum to develop a viable business?
- How do you measure social impact?

As for the interview with the person from the network supporting social entrepreneurship, the short duration of the interview forced to restrain the questions only to the following ones:

- What are the most important problems encountered by the social entrepreneur?
- What is the profile of the social entrepreneur?
- What happens when social and financial interests collide?
- How do you assess the performance of the social entrepreneur?

### 3.4. Data Interpretation

Data collected is of a qualitative nature. Therefore, in order to understand the correlation between the choices of the social entrepreneur and its impact on his social venture's activity, answers of the interviewees have been confronted to the initial assumptions using an interpretive framework for each proposition.

In order to detect discrepancies or similarities between interviewees, their answers have been measured against each other. In view of this analysis, answers collected from each interviewee have been reorganized and assigned to the relevant subcategory of the relevant proposition.

Each subcategory of each proposition is a parameter and a potential milestone that can have an impact on the success or the struggle of the social entrepreneur. The objective was to determine to which extent such parameter had an important or an insignificant impact on the activity of the social entrepreneur. In order to assess the importance of the parameter with regards to the success or struggle of the social venture, construed answers for each interviewee helped grade the impact of each parameter studied on the activity of the social enterprise.

Grading of the impact was as follows:

- 1: Significant positive impact
- 2: Positive impact
- 3: No impact
- 4: Struggle
- 5: Failure

This process allowed establishing the positive or negative relationship of each parameter with the activity of the social venture.

## 4. Data Analysis & Findings

The objective of this chapter is to link the findings based on the interviews to the propositions we formulated, in order to validate, invalidate or change each of these propositions.

### 4.1. Legal form and Governance model

*Proposition 1: The choice of the legal form and the governance model of the company may be critical to success*

On the total number of people interviewed who answered, 3 opted for the legal form of the for-profit venture, 5 chose to adopt a hybrid form and one had taken the form of an association. One of the French funds only invested in for-profit social venture. The second fund and the Brazilian organization supporting social entrepreneurs did not invest in one specific type of legal vehicle. It is worthy to notice that hybrid forms differ nonetheless from a country to the other (for example social business in Bangladesh, SCIC<sup>4</sup> in France) yet the comparison between the countries is not our focus in this study.

The for-profit form of a social enterprise seems indeed to have an impact on the taxation of the social entrepreneur: CDI Lan is a Brazilian social enterprise that fosters the digital inclusion of BoP population through LAN house networks all over Brazil. His COO asserted that a government regulation law was lacking for the social business market. Indeed he added that CDI Lan was a “regular company” and that did not benefit from any “tax deduction.” On the contrary NGO are granted tax deductions by the government.

It seems interesting to highlight that among the social enterprises adopting a hybrid form, the CEO of Revi +, Eifa and Envie 2, of which 2 companies are hybrid form and one a regular for-profit, said that the hybrid form he had adopted had a dramatic

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<sup>4</sup> SCIC (Sociétés Coopératives d'intérêt Collectif): Collective Interest Cooperative Societies established in France in 2002, is a type of multi-stakeholder enterprise

impact on the pursuit of ambitious financial objectives: “the legal form of the SCIC company is not adapted to the pursuit of ambitious financial goals”.

It stems from the above affirmations that the choice of a for-profit form or a hybrid form for a social enterprise does not seem to jeopardize its competitiveness towards competitors. Organizing in a specific legal form is seemingly not the main issue. However the social mission should in all likelihood be carefully considered and defined within the Article of Association. Le Comptoir de l’Innovation, a French impact-investing fund highlighted that in fact, “*the main issue was the objective that the organization gave itself*”, whatever its legal form was.

Moreover, organizations choosing to organize under a for-profit venture had not necessarily a prime focus on economic goals over social goals. However, organizations choosing to organize under a non-profit or adopting a hybrid form did somehow tilt the balance in favor of their social objective.

Most interestingly, hazardous consequences can most likely be triggered by a lack of a good governance model, whether in a social for profit venture or in a hybrid social enterprise. For that matter, the CEO of Revi +, Envie 2 and Eifa who struggled dramatically before leaving the company after his disagreement with his employees said that he “*did not design any particular governance ... When I felt that certain employees of the company slowed down the progress {of the companies}, I preferred to leave the companies*”.

This seem to confirm that the most critical element in terms of legal form and exercise of power within the organization actually is likely to be the design of the right governance model on which the social entrepreneur may need to focus on to ensure a viable pursuit of the social enterprise’s objectives. For that matter, the interviewee from Investisseurs & Partenaires, a social impact investing fund, asserted the need for a limited liability company in their portfolio to switch to an incorporated company legal form after a while, this in order to allow collaborators from the fund to participate to the board of directors to have a say in the governance of the company.

As for the transfer of ownership, it does not appear to be as critical an element as governance. Indeed, in many cases for hybrid social enterprises, because of the specific governance design, the transfer of ownership cannot be carried out. As for profit companies, the subject is news topic.

So, based on the interviews, the proposition 1 changed to proposition 1a, as described below:

*Proposition 1a: there likely is a positive relationship between the right governance model and the successful and viable pursuit of the social enterprise's objectives. However, the choice of a specific legal form does not appear to be as critical an element.*

#### **4.2. Uncertainty of the market**

*Proposition 2: Overcoming the uncertainty of the market and that of the environment in which the social entrepreneur will evolve may be a key step to make the venture a conclusive success*

The identification of the conditions that may hinder the success of the venture from the start seems to have quite an important impact on the activity of the venture. Half of social entrepreneurs interviewed said that they did this type of exercise and it has shown a very positive return. CDI Lan is a case in point in the matter. They considered from the launch of the venture how critical the identification of the background of the population served was to understand their needs, how to speak to and work with them.

For that matter, they carried out two researches with a consulting firm, Plano Solar to draw a detailed profile of Lan House owners. The COO of CDI Lan underlined that it is crucial to know *"who they are, where they are, what type of technology they use, do they have a minimum wage increase and where they would invest it"*. The second research concerned the population they served. They investigated to know how old was the population they served, *"what kind of education they needed, how much time*

*they needed, would they do it through e-learning through Lan Houses because printing is possible”.*

On the other hand, those that did not identify from the start the conditions that could possibly hinder their activity apparently struggled from it, leading in some cases to consequential outcomes for the survival of the company.

A first interesting example is that of Grameen Veolia Water in Bangladesh (Grameen Veolia Water does not aim for the generation of profits but has faced difficulties that social for profit entrepreneurs are likely to face as well). In order to prevent Bengali villagers from being affected by arsenicosis, Grameen Veolia Water treats water with naturally occurring arsenic and sells arsenic free water to villagers in Bangladesh. Personals of the social enterprise failed to reach the objectives they first settled for the social business, as they did not take into consideration some conditions that would hinder the sales of treated water. They eventually worked with an anthropologist in order to understand the population served and identified after all social rules by which the population abides and that ought to be taken into account should the venture want to successfully implement its social business idea. Cultural and psychological barriers were pointed out.

The villagers were reluctant to buy the treated water: they feared that neighbors might think that they were affected by the arsenicosis. And in case they were ill, *“they would hide the symptoms because illness is perceived as a shame. The villagers would think: if I am sick, that means I have done something wrong and God is punishing me”*. With the valuable help of Thérèse Blanchet, the anthropologist, they also realized that women would follow the “Purdah rule” and could not show themselves to a group they did not belong to.

The opinion of the CEO of Revi +, Eifa and Envie2 is somehow more caustic. He engaged in a forceful speech to single out the inflexibility of the administration but also a the lack of talent and the unwillingness of the actors of the sector to fully dive in the rationale of the market as major impediments he however did not foresee at first: *“social entrepreneurship is hampered by its refusal to fully enter the market rationale, by its practice of wage and social dumping, by proficiency and know-how*



*rejection for the benefit of socio-cultural revolving doors, and by maintaining the guardianship of the administrative authorities. This different “chapels” of ESS<sup>5</sup> are as many impediments to the emergence of a serious and competitive offer in the field of social entrepreneurship {...}. The three companies had set the insertion of populations in need as a social mission. This insertion was limited, slowed-down by the inflexibility of the Administration”.*

A key finding of the research may be the criticality of stakeholder identification. For instance, CDI Lan management realized that 45% of the low income population in Brazil had access to Internet via Lan Houses. They saw in leveraging the Lan House networks a unique opportunity to access BoP clients and to create hubs for social and economic development within local communities. CDI Lan now counts 6,200 affiliated establishments that act as a keystone to give access to affordable educational products and financial services. CDI Lan then saw in a few identified large multinational corporations essential partners that would allow them to develop such products for the population served.

On that matter, the project leader of the Grameen Veolia Water initiative said: *“the identification of local water needs was easy. What was the most difficult was the absence of persons accountable from the local community in Goaluari and Padua. They did not have local elected representatives. {We/ Veolia realized} that Grameen was not a real Community structure. It was a Community banking service.”* Not doing this exercise is therefore likely to have a serious impact on the viability of the social venture.

In conjunction with the identification of key stakeholders, the effectual mindset in the case of a lack of data appears to be a critical landmark to success. Indeed, fueling initial assumptions by concrete data pulled out from the field can help to learn to adjust the business model to the reality of the situation. Grameen Veolia Water’s project leader defines it as the *“principle of Research Action”*. The Business Unit developed is seen as a laboratory which outcomes are most likely applied for other projects. This principle is illustrated for example by the decision of Veolia project

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<sup>5</sup>ESS (Economie Sociale et Solidaire) : Social Economy

leader to extend the network of water taps bringing drinking water to villagers without the assistance of Grameen after Veolia realized that Grameen was more a banking service community provider rather than a community structure.

Also according to the very same principle of Research Action, the phase of test implemented with the anthropologist has allowed Grameen Veolia Water personals to draw an action plan to break cultural barriers. Finally, to face the unexpected low consumption rate of water, Grameen Veolia Water decided to engage (under the impulse of Mohamed Yunus) in the diversification of its activities to manufacture jars of 20L of water to be sold in urban areas. The CEO of Ôkhra, a French social enterprise has also adopted a similar mindset. He says market studies have been undertaken gradually, adopting a “construction site operating mode” during the first years and since the venture’s opening to the public.

To put the results into perspective, it is also interesting to point out that even if at first, this proposition seems to apply more to emerging countries such as Brazil or Bangladesh, outcomes from the interviews have in most of cases contradicted this idea. French social entrepreneur from Reconnect also declared that uncertainty of the market was among the most important issues he had to face and that identifying the stakeholders were a key step for the success of his venture. They also had to adjust to unexpected competition from foundations.

So, based on the interviews, the proposition 2 changed to proposition 2a, as described below:

*Proposition 2a: In order to ensure a viable pursuit of the social enterprise’s objectives, identifying key stakeholders and adopting an effectual mindset to overcome the lack of data and adjust initial assumptions to the reality appear to be the most critical steps.*

### **4.3. Funding**

*Proposition 3: Identifying suitable sources of funding attentive to social value creation may be critical to be able to both reach scale and keep focused on the pursuit of the social mission*

The type of funds chosen by interviewees was mainly equity, credit or money from foundations. Overall, the choice of type of credit did not seem to have hampered the sustainable growth of the social venture.

It stems from interviews that most investors with which interviewed social entrepreneurs were dealing with were in line with their social mission. In the case of equity investors, this statement is also supported by the observation that equity investor cited by social entrepreneurs are positioned as impact investing funds most of the time. CDI Lan deals with Vox capital, a Brazilian impact investing fund focused on helping ventures dedicated to helping BoP population. Okhra, a French social venture promoting art stated that its sources of funds exclusively came from the Social Economy.

In addition, impact-investing funds appear to have an extensive impact on the governance and the management of the organizations they invest in. Vox Capital helped CDI Lan for the development of the business model. I&P<sup>6</sup> helped one social venture of their portfolio hire a CEO for the restructuring of the company and for their budget stabilization. The account manager interviewed declared: “*{We} take a minor position in the capital of the social enterprise. {We} support the entrepreneur but he is the one in charge. {We} provide him with management tools. Social entrepreneurs {in Africa} are isolated. Therefore, they are fond of counsel, network extensions, support on accounting, finance and HR.*”

Le Comptoir de l’Innovation is also a French impact investing fund but it has the specificity to be part of the group SOS, an NGO which with 28 years in the social field. Therefore, Le Comptoir de l’Innovation provides all its affiliated social ventures with experience in a great many areas of expertise such as a financial know-how, an

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<sup>6</sup> I&P (Investisseurs&Partenaires): French impact investing fund investing in social enterprises in Africa

extensive network of relations or knowledge of a specific field. This help is seen by the professionals of the sector as a blunt necessity.

Indeed, one account manager of Le Comptoir de l'Innovation asserted: *“Applications presented to impact investing funds often lack an accurate definition of the economic model they base the generation of their revenues on. There is a need for a real business plan, for a real business model. Therefore, there is a real need for support on the definition of the strategy, the budgets, the cash flows, etc. The social enterprise has to answer to the same constraints as any regular enterprise.”*

The technical assistance (as diverse as budget planning, business model development, market studies, competitive studies, sector expertise, growth perspectives, network) is provided to social entrepreneurs by impact investing funds as a support service, whether they have or do not have a business background. Indeed, most of the social entrepreneurs questioned had a business background and all developed a financial plan. Therefore the importance of such a background is alleviated to a certain extent by the support provided by impact investing funds.

Le Comptoir de l'Innovation also works very closely with social enterprises on the design of their model of governance. In the shareholders' agreement, the impact-investing fund makes sure all shareholders agree with the social goal of the venture. On such matter, the account manager interviewed underlined that *“{Le Comptoir de l'Innovation works very closely with the social entrepreneur on the governance. The basis is the social impact. We use status and governance tools.”*

On the other hand, a risk might appear if the social entrepreneur opens its capital to different types of investors. If all investors are not in line, the social entrepreneur may not be able to guaranty each of the outcomes expected by investors. Such an issue could for example be underlined during the interview with the impact-investing fund I&P. Investors included, for half, institutional investors such as the AFD<sup>7</sup>, the FMO<sup>8</sup> or the European Bank. The other half is comprised of private investors and private

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<sup>7</sup>AFD (Agence Française de Développement) : French Development Agency

<sup>8</sup>FMO (Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.): Dutch Development Bank

companies (such as Danone). The latter “*come to form their investment experience in Africa. They are less demanding.*”

As for the disengagement issue, it was observed that a certain type of hybrid social ventures such as the SCIC in France were forced, by governance design, to sell within the company or within the social economy sector. The establishment of such a rule seems to be the bedrock to ensure the preservation of the social mission of the social venture.

So, based on the interviews, the proposition 3 changed to proposition 3a, as described below:

*Proposition 3a: Overall, there appears to be a positive but limited relation between the choice by a social entrepreneur of an investor and the management and governance style adopted by the social entrepreneur and therefore the pursuit of his objectives.*

#### **4.4. Implementation**

*Proposition 4: Depending on the type of business model followed, the social enterprise will likely have to adjust to the behaviors of the populations in need and overcome*

It stems from the interviews that all social entrepreneurs interviewed take action to bypass impediments for the implementation of their business model. CDI Lan undertook actions typically illustrating how a social venture can bypass contextual impediments. Indeed, to overcome digital exclusion of BoP population, they chose to use LAN house channels to act as intermediaries, break BoP population from their isolation and give them access to Internet and educational content.

Besides, when CDI Lan management observed that Lan house owners, supposed to bridge the gap between the BoP population and the digital world, were not qualified for such task, CDI Lan engaged in training of Lan House owners. Many social

entrepreneurs interviewed have particularly put emphasis on the team, which might explain why actions addressing a lack of talent can have a positive impact on the success of the social venture.

The CEO of Revi +, Envie 2E and Eifa also emphasized the challenge of talent within the social enterprise, but he analyzed it through the prism of a manager in a developed country. In his opinion, it is necessary to “*attract talent: {we} should know how to pay the. Well-educated people should be correctly paid. It is necessary to pay reward the talent.*” Whether in a developed country or in a developing country, it seems obvious that social entrepreneurs should carefully address the challenge of talent.

Another finding of the interviews is that social enterprises may gain more from starting small and getting scale later on, once the business model has been adjusted with new data from the field. Grameen Veolia Water decided to start small to be able to fall on their feet after adjusting to local hurdles. This is what Grameen Veolia Water set about doing during the implementation phase.

The team realized that sales did not evolve as expected due, among other things, to the unwillingness of the local population to buy water at too high prices for them (although it was in absolute value near to the ground prices), and to the unfamiliar act for villagers of paying for water. They learned directly from the field and could take actions to overcome the hurdles identified. One strategy the team adopted was to use the remaining capacity in the plant to sell treated water to institutional buyers and therefore reduce the price for local villagers. GVW project leader stated that the replication of the system required “*the capitalization of experience and of local knowledge acquired thanks to Grameen and to the anthropologist Thérèse Blanchet to industrialize the process.*”

The account manager of Le Comptoir de l’Innovation also considers that social entrepreneurs should start small: “*Projects are initially local. It is important to start small to prove the viability {of the business model of the social enterprise}. Such ventures are scalable because we can find the same challenges in other regions.*”

On the other hand, not undertaking actions to get beyond contextual impediments may lead to major struggle. Reconnect, a French social venture, which had developed a mobile telephony offer for low-income population in France, faced two major problems to which they failed to adjust to. First, the remoteness of the population served made it difficult for the social venture to have access to them and sell their products (3 euros per month for one hour and a half of communication). The new CEO of Reconnect declared that: *“the sales of mobile telephony services to underserved population was more an impediment as this population was insolvent”*. Secondly, they did not have enough funds to finance the project. Therefore, they could not reach the bottom line and finally had to abandon the project.

The extent to which social entrepreneurs will have to deploy their efforts greatly does not seem to merely depend on the environment within which they evolve but also on inner factors, namely the business model of the social venture.

As for the collaboration with large multinational corporations, results from interviews show that such type of collaboration between social entrepreneurs and large corporation seems to be a common practice, whether as clients or partners and co-developers as is clearly the case with Grameen and Veolia Water. The involvement of Veolia, an international company, has added even more legitimacy to the project as much as it has given the possibility to access funds and provided with very qualified and knowledgeable teams. Partnership with other types of actors might also considerably influence the activity of a social enterprise.

Grameen Veolia Water got into a partnership with the French business school ESSEC under the IIES program. Through this program, *“ESSEC provides support and benchmark, and helps GVW in the understanding of mechanisms {business models and conditions for success}.”* In particular, the business school has advised on the use of a participative approach as much as they helped build a performance assessment. A peculiar yet interesting example of an efficient hybrid partnership is that of Reconnect. Once they abandoned the development of the mobile telephony service, decided to redirect the activity of the organization towards the provision of “digital safes” for underserved population.

The product basically consists of digital archiving of the data of an endlessly moving population in need. This archiving will help social workers in their daily tasks. Reconnect had identified a competitor, the Abbé Pierre Foundation, which had the same type of activity even though they did not have the same business model. Reconnect decided to take an unusual position towards this competitor and partner with them to operate as co-actors and mutually help and inform each other.

So, based on the interviews, the proposition 4 changed to propositions 4a and 4b, as described below:

*Proposition 4a: There likely is a positive relationship between the success of the social venture and the design and implementation of new organizational models to overcome local impediments*

*Proposition 4b: There likely is a positive relationship between the development of hybrid partnership, not restricted to large corporations, and the success of a venture.*

#### **4.5. Leadership skills**

*Proposition 5: Managing a social venture may require to commit to and embrace both competing social and financial demand to manage tensions that arise within the social venture and ensure the sustainability of the venture in the long term.*

Questions in this chapter revolved mainly around the research of skills a social entrepreneur might use or not in case of conflict within its company and how this impacted the activity of his social enterprise.

Results from the interviews show that if the social entrepreneur does not know to handle tensions arising within the company, it may have a disastrous impact on the success of the social venture. In some cases it even led to the departure of the CEO of the company.



Selco provides solar energy solutions (cook stoves, water heater, solar lighting) to impoverished and remote population of India. According to its manager, the resolution of such tensions within the company passes by *“Collective management decision with different perspectives to reign in conflicts. Resolution happens at multiple levels within the organization.”*

In different situations, the social entrepreneur was able to use such tensions to exacerbate the creativity of his teams. What is more, tensions arising are not necessarily of the nature assumed in the initial proposition. Indeed, the CEO of Revi+ has also reported tensions between personal interests of some employees of the organization, private interests of some partners and the management of the ventures. The impact is still appalling. In order to avoid such competing situations between social and financial demands, some social entrepreneurs have made sure that each activity contemplates both the social dimension and the economic dimension. Ôkhra for instance has organized its General Assembly (of shareholders) in four colleges that ensure a transverse vision rather than a compartmentalization in specific incongruous interests. On such matter, the CEO of Ôkhra said that *“the college G&DEC which holds 40% of the votes ensures the economical development and the general ethics of the company”*. This way, they make sure to focus on the economic development in conjunction with the social impact.

All interviewees view both concurring demands possible together. For the CEO of Ôkhra, *“it’s the two faces of the same coin: there is interdependence.”* Nonetheless, there appears to be an inevitable phase to go through to satisfy those seemingly competing demands. Such demands may have to be clearly expressed. Otherwise the search for any compromise is most likely impeded. Indeed, the CEO of Revi+ underlined that *“if competing demands within the company are clearly expressed where it is planned that they would be expressed, it is possible to satisfy both (a priori) competing demands by the search for a compromise {...}. I insist, it is necessary that they should be clearly expressed. If they are deaf and hypocrite, there is no existing solution”*.

Some interviewees however have declared not recognizing the contribution of each cluster, which may have led to the rise of tensions within the company. Still,

innovative and integrative synergies appear to be unequivocally looked for, for example through dialogue and meetings with all stakeholders, or in the case of REVI+<sup>9</sup>, through the development and implementation of detailed procedures adapted to new unskilled recruits. Spear, a social enterprise that collects money for high impact projects through savers sensitive to such concerns also commented this topic: *“The profitability of a project allows us to find innovative solutions to answer a social need.”*

Interestingly, when asked about the optimum profile for a social entrepreneur, impact-investing fund emphasized the necessity of a previous entrepreneurship experience, a demonstration of energy and dynamism.

So, based on the interviews, the proposition 5 changed to proposition 5a, as described below:

*Proposition 5a: There likely is a strong positive relationship between the success of the social venture and the capacity of the social entrepreneur to view both demands as possible together, recognize the contribution of each demand and keep focus on both, manage tensions that might arise, and create synergies between those seemingly contradictory demands.*

#### **4.6. Financial viability and ethics**

*Proposition 6: Should the social mission and the financial health collide, the priority may need to be given to sustaining the company financially to ensure the survival of the company*

*Proposition 7: Ethical challenges may have to be attended depending on the social entrepreneurs' motives, the resources required to operate the venture and the governance and control mechanisms in place to regulate the entrepreneurs' behaviors*

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<sup>9</sup>Revi +: French social venture in the waste management sector

Few interviewees answered the question of profitability. Results show an expected financial return between 3% and 5% in average. It can be drawn from interviews that a compelling majority appears to be sensitive to profitability issues and how to optimize the financial viability of the venture. However, one must mitigate the results, as the objective of profitability is not the unique preoccupation for social entrepreneurs. It seems to merely be a way to reach a healthy financial situation and ensure the long-term viability of their operations.

Social entrepreneurs insisted on pointing out that high social impact projects were the driver of their activity. This was the case of the CEO of Revi+, Eifa and Envie 2A who stated that *“the objective of profitability is not an obsession. It was more a matter of self-sufficiency. Making sure to keep the number one position of the market with a similar method {as other actors of the market}. Only commercial efforts, a drastic purchasing policy and a labor strictly kept low allow containing the volatility of the market.”*

In order to reach their financial objective, social entrepreneurs may compete with other players of the market with similar methods. They engage in activities such as pricing, commercial strategy, product development, purchasing and supply chain strategy, etc. Each strategy developed might also directly be challenged by the local context. Therefore, the financial viability of the venture is likely to be related to the capacity of the social entrepreneur and his team to adjust the business model in order to be at least self-sustained and reach the (financial) bottom line.

Grameen Veolia Water's business model was based on a network of 30 franchisees (of which only a single man) selling water and receiving commissions in exchange. They were compensated on a pro-rata basis of the volumes of water sold (one fifth of the market price) and would receive bonuses when reaching a certain threshold of volume sold.

Seeing that revenues from the sales of water to villagers in Goalhari were not enough to sustain the water treatment plant costs, and that the plant was under-used, Grameen Veolia Water developed a new activity in parallel to sell arsenic free water to

institutional buyers in higher quantities and at higher prices. Profits earned through this activity sustain and subsidize for the moment the initial activity and allow keeping up with providing to villagers arsenic free water at low prices. The objective is to reach the bottom line for sales to institutional buyers in 2014 and in 2015 for all sales including Goalhari sales branch.

Selco seems to have done the same type of reasoning. In order to ensure the self-sustainability of the venture, commercial activities dedicated to the underserved population was subsidized with more regular activities. The manager asserted the following: *“There is a process of balancing this out with high impact projects and some commercial (larger scale) projects. There are times when we have suffered setbacks. SELCO broke even only a few years ago but this is the essence of what we consider being a social enterprise. The for-profit angle is a vehicle to ensure long term sustainability of our operations but our objective is to have reasonable profits with social impact projects being the driver not the other way around.”*

A key finding of the research appears to be the necessity for the social entrepreneur to be able to balance the desire to generate social wealth and economic wealth by keeping the focus on both demands at the same time and looking for synergies. Selco in India is a vivid example of how the ideal social entrepreneur skillfully maneuvers between two outwardly adverse streams. The interviewee asserted that if in a project Selco had a choice to equip ten very remote households that would require follow up with financial institutions in order to get them financing or a hundred households in closer proximity but which are not very poor yet more accessible, the choice would go for the former despite the fact that the latter would be more profitable (and easier to implement).

The ten remote underprivileged households are more in line with Selco’s social mission despite the low profitability. The decision will be oriented towards the solution with the highest social impact rather than the highest profit. In case of conflict between social and financial interests (and not just financial sustainability!), CDI Lan has defined business engagement rules from the beginning to guide its activity towards the primacy of an ethical concern. The COO of CDI Lan said: *“we have very clear criteria to establish partnerships and to get new clients. For example,*

*{we have} no partnership with companies selling cigarettes. It is not in line {with our policy}.”*

However, when social mission and financial sustainability collide, the social entrepreneur is seemingly compelled to maintain a financially viable organization should he want his organization to endure and eventually achieve the social mission the entrepreneur is driven by. The statement of the CEO of Revi+, Eifa and Envie 2E might confirm such rule: “*{The priority should be given to} the financial viability, it’s obvious, there no other way! Without earnings, the venture disappears: it’s a legal pre-requisite that cannot be overlooked.*” This statement is also illustrated by the situation of Reconnect, which ended the project of mobile telephony offer, as they could not reach the bottom line. Ôkhra, on the other hand looked for an accommodating way to reduce its costs and improve its financial viability: when 2008 crisis stroke, not replacing the contingent of employees gone and resorting more regularly to external collaborators allowed them to reduce their costs without reducing the ambitions of their project.

So, based on the interviews, the proposition 6 changed to proposition 6a, as described below:

*Proposition 6a: There likely is a positive relationship between the financial sustainability of the social venture and its capacity to achieve its social mission. Therefore, should social mission and financial health collide, the priority may have to be given to sustaining the financial health of the company in particular through an efficient pricing strategy and an efficient cost management and control.*

Based on the interviews, the proposition 7 changed to proposition 7a, as described below:

*Proposition 7a: In order to ensure a viable pursuit of the social enterprise’s objectives, balancing between the desire to generate social wealth and the need for financial sustainability may be of the most critical steps.*

## 4.7. Measuring impact

*Proposition 8: A social venture may have to adopt the proper measurement metrics in order to assess its financial and its social performance.*

It can be construed from the interviews that there is no apparent homogeneous measurement metrics for social impact, this not only because the types of activities in which interviewed social entrepreneurs are engaged in are quite different businesses but also because it may depend on the maturity of the social venture. For instance, CDI Lan uses international standards to measure its impact. The social venture is assessed by the international audit company Deloitte. Impact investing funds also assess the social ventures they invest in at a financial and a social level. Investisseurs&Partenaires collaborates with an association, Planète Entrepreneurs, in order to assess very thoroughly the social impact of the ventures the fund invested. Recommendations are then submitted to improve the social impact of the social venture. Recently, Investisseurs&Partenaires has engaged in an ESG<sup>10</sup> approach to assess social, environmental and governance related risks, opportunities and impacts. A case in point is their incentive towards a venture of their portfolio in Senegal to set up an insurance system for their employees.

So, based on the interviews, the proposition 8 changed to proposition 8a, as described below:

*Proposition 8a: There likely is a positive relationship between the success of the social venture and the use of measurement metrics to assess the performance of the venture, both social and financial. The main objectives are seemingly traceability and monitoring of the activity.*

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<sup>10</sup> ESG: Environmental, Social and corporate Governance

## 5. Conclusions, limitations and directions for future research

### 5.1. Conclusions

The objective of the present manuscript was to determine the major steps a social entrepreneur needs to embark on to overcome impediments preventing him from both achieving its social mission and reaching financial self-sustainability.

The following table sums up the initial research question propositions formulated and the ones changed based on the findings from the research.

Table 3: Research question propositions before and after the research was held

Initial Propositions	New Propositions
<b>Legal Structure</b>	
<i>Proposition 1: The choice of the legal form and the governance model of the company may be critical to success</i>	<i>Proposition 1a: there likely is a positive relationship between the right governance model and the successful and viable pursuit of the social enterprise's objectives. However, the choice of a specific legal form does not appear to be as critical an element.</i>
<b>Uncertainty of the market</b>	
<i>Proposition 2: Overcoming the uncertainty of the market and that of the environment in which the social entrepreneur will evolve may be a key step to make the venture a conclusive success</i>	<i>Proposition 2a: In order to ensure a viable pursuit of the social enterprise's objectives, identifying key stakeholders and adopting an effectual mindset to overcome the lack of data and adjust initial assumptions to the reality appear to be the most critical steps.</i>
<b>Funding</b>	

<p><i>Proposition 3: Identifying suitable sources of funding attentive to social value creation may be critical to be able to both reach scale and keep focused on the pursuit of the social mission</i></p>	<p><i>Proposition 3a: Overall, there appears to be a positive but limited relation between the choice by a social entrepreneur of an investor and the management and governance style adopted by the social entrepreneur and therefore the pursuit of his objectives.</i></p>
<p><b>Implementation</b></p>	
<p><i>Proposition 4: Depending on the type of business model followed, the social enterprise will likely have to adjust to the behaviors of the populations in need and overcome</i></p>	<p><i>Proposition 4a: There likely is a positive relationship between the success of the social venture and the design and implementation of new organizational models to overcome local impediments</i></p> <p><i>Proposition 4b: There likely is a positive relationship between the development of hybrid partnership, not restricted to large corporations, and the success of a venture.</i></p>
<p><b>Leadership skills and conflict management</b></p>	
<p><i>P5: Managing a social venture may require to commit to and embrace both competing social and financial demand to manage tensions that arise within the social venture and ensure the sustainability of the venture in the long term.</i></p>	<p><i>Proposition 5a: There likely is a strong positive relationship between the success of the social venture and the capacity of the social entrepreneur to view both demands as possible together, recognize the contribution of each demand and keep focus on both, manage tensions that might arise, and create synergies between those seemingly contradictory demands.</i></p>
<p><b>Financial viability and ethics</b></p>	



<p><i>Proposition 6: Should the social mission and the financial health collide, the priority may need to be given to sustaining the company financially to ensure the survival of the company</i></p> <p><i>Proposition 7: Ethical challenges may have to be attended depending on the social entrepreneurs' motives, the resources required to operate the venture and the governance and control mechanisms in place to regulate the entrepreneurs' behaviors</i></p>	<p><i>Proposition 6a: There likely is a positive relationship between the financial sustainability of the social venture and its capacity to achieve its social mission. Therefore, should social mission and financial health collide, the priority may have to be given to sustaining the financial health of the company in particular through an efficient pricing strategy and an efficient cost management and control.</i></p> <p><i>Proposition 7a: In order to ensure a viable pursuit of the social enterprise's objectives, balancing between the desire to generate social wealth and the need for financial sustainability may be of the most critical steps.</i></p>
<p><b>Measuring impact</b></p>	
<p><i>Proposition 8: A social venture may have to adopt the proper measurement metrics in order to assess and monitor its financial and its social performance</i></p>	<p><i>Proposition 8a: There likely is a positive relationship between the success of the social venture and the use of measurement metrics to assess the performance of the venture, both social and financial. The main objectives are seemingly traceability and monitoring of the activity.</i></p>

In order to be able to be financially viable and to meet his social mission in a sustainable manner, a social entrepreneur, and in particular a for-profit social entrepreneur may have to be careful to deal with each of the fields enunciated above by following the newly formulated propositions. Findings reveal that, except for the importance of the legal structure of the social venture, the new propositions do not

appear to contest the validity of the first formulated propositions but may answer the research question with more accuracy.

However, specific steps seem to stand out as acutely critical for the realization of the venture's pledge for social value creation and its vital financial self-sufficiency. On a market level, findings have corroborated that the identification of key stakeholders and the adoption of an effectual mindset to overcome the lack of data and adjust initial assumptions to the local reality may be a token of success for the social venture. On the organizational level, the constitution of a skilled and committed team in conjunction with the design of the right governance in order to balance between the desire to generate social wealth and the need for financial sustainability is likely to be a pledge of success for the social entrepreneur.

## **5.2. Limitations**

There is a significant limit to the present paper. Results are based on a limited number of people and this lack of diversity restricts the application of the findings to all social entrepreneurs. For this same reason, even if the sample includes social enterprises from Brazil, France, Bangladesh and India, a comparison based on the country of origin cannot be carried out, as the sample is too small.

Other limitations include data collection based on qualitative insights and subjective return of experience from people involved in the field. Indeed, many of the questions of the interviews are open-ended questions. Being qualitative, the transcription of such data may give room to mistaken interpretations and can therefore introduce a bias in the data analysis.

## **5.3. Direction for future research**

The present study, although aiming at analyzing the main attributes of a successful social for-profit venture, does not address the issues in a comprehensive manner.

It might be interesting for future research to develop an understanding of each of the propositions confirmed on a wider level using a quantitative research methodology. It

would also be quite interesting to carry out a comparison of social entrepreneurs based on their country of origin, for example between two emerging countries such as India and Brazil. As it has been noticed that the context in which social entrepreneurs evolve is quite different between an emerging country and a developed country such as Brazil and France respectively, it would also be quite interesting to compare these two different environments and understand acutely how should a social entrepreneur act in each case. It would also be a noteworthy study to research for which steps of the development of his venture can the social entrepreneur pull out of such local environment to benefit from international institutions (for funding issues for example).

Ultimately, as social entrepreneurship puts down its roots in the minds and souls of an increasingly alarmed population driven by a groundswell desire to generate social change around the world, researchers and field practitioners will deepen their understanding of a never ending groundbreaking and pioneering field that still offers incalculable potentialities.

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