

AN ANALYSIS ON THE INTEGRATED SOCIAL ENTERPRISE IN INDIA

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ABSTRACT

Social programs overlap with business activities, often shares costs and assets. Organizations create integrated social enterprises as a funding mechanism to support the nonprofit's operations and mission activities. In many cases integrated social enterprises expand or enhance the organization's mission enabling it to achieve greater social impact. Mission expansion may be achieved by commercializing the organization's social services and selling them to a new fee-paying market; or by providing new services to existing clients. Integrated social enterprises leverage tangible and intangible assets, such as expertise, program methodology, relationships, brand, and infrastructure, as the basis from which to create their businesses. This may be structured as a profit center or enterprise department within the nonprofit or as separate entity. The relationship between the business activities and the social programs are synergistic, adding value--financial and social--to one another. Thus this paper will bring out the operational models to form Integrated Social Enterprises which are often mission-related and creates sustainability to them and to the society at large.

INTRODUCTION

HISTORY IN BRIEF

Social enterprise has a lengthy private history, but a short public one. Nonprofit organizations have long engaged in income generation and businesses to either supplement or complement their mission activities¹. In the United Kingdom, cooperatives functioned as a means to fund socioeconomic agendas as early as the mid-1800s. Beginning in the 1960s, US nonprofits experimented with enterprises to create jobs for disadvantaged populations. Micro-credit organizations made their appearance in developing countries by the 1970s, at about the same time Community Development Corporations (CDCs) were gaining popularity in the United States. Yet it is only in the last 15 or 20 years that academics, practitioners, and donors have been studying and recording cases of nonprofits adopting market-based approaches to achieve their missions.

The growing practice of social enterprise is fueled by nonprofit organizations' quest for sustainability, particularly in current times when support from traditional, philanthropic, and government sources is declining and competition for available funds is increasing. Social enterprise enables nonprofits to expand vital services to their constituents while moving the organization toward self-sufficiency. Nonprofit organization leaders understand that only by establishing an independent means of financing can they become a going concern.

THE PIONEERS

John Durand began working with seven mentally retarded people in 1964, today **Minnesota Diversified Industries** is a for-profit social enterprise which employs over 500 disabled people. In 2000 the company reported \$54 million dollars in annual revenues with only half a million coming from grants.

In 1971 with a \$1,000 loan from a moneylender, **Mimi Silbert** began a program for recovering drug addicts and ex-convicts. Since its inception **Delancy Street** has successfully mainstreamed over 15,000 former clients on self-generated resources from its numerous businesses: restaurant, moving company and construction, which accumulatively net revenues of over \$6 million a year (2001).

¹ Adapted from Sealey, Sealey, Boschee and Emerson, A Reader in Social Enterprise, 2000.

In 1963, **Jack Dalton** opened Pioneer Fellowship House as a residence for recovering alcoholics, he required each resident to pay \$25 per week for room and board, perform house chores and attend nightly meetings². Today, through its employment, training, and behavioral health and community corrections programs, **Pioneer Human Services** (PHS) serves over 5,000 clients a year, 1,300 at any given time. PHS employs a staff of approximately 900, and has an annual budget of roughly \$55 million, 99.6 percent of which is earned through sales of its products and services from its eight businesses which run the gamut from manufacturing, food service, distribution and logistics, real estate asset management, and printing

Professor Muhammad Yunus, Head of the Rural Economics Program at the University of Chittagong, Bangladesh, began a research project in 1976 to explore the possibility of providing banking services to the rural poor. The Grameen Bank Project (Grameen means "village" in Bangla language) was piloted in three villages neighboring the University with the following objectives: to extend banking facilities to poor men and women; to eliminate the exploitation of the poor by money lenders; to create opportunities for self-employment for the multitude of unemployed people in rural Bangladesh; and to enable disadvantaged (mostly women from the poorest households) to self-manage money and business. Based on its success, the project expanded in 1979 to several locations throughout Bangladesh including Dhaka, the capital. By October 1983, the Grameen Bank Project was transformed into an independent bank by government legislation.

Today **Grameen Bank** serves over 2.4 million borrowers and has over 20 businesses including:

- *Grameen Shakti (GS)*, a not-for-profit rural power company whose purpose is to supply renewable energy to unelectrified villages in Bangladesh as well as create employment and income-generation opportunities in rural Bangladesh;
- *Grameen Telecom* whose objective is to provide mobile phone service to 100 million inhabitants in rural Bangladesh by financing members of Grameen Bank to provide village pay phone service and by providing direct phones to potential subscribers;
- *Grameen Knitwear Limited*, a 100% export-oriented composite knitwear factory.

DEFINITIONS OF SOCIAL ENTERPRISE

As early as 1996 The Roberts Foundation Homeless Economic Development Fund³ defined social enterprise as "a revenue generating venture founded to create economic opportunities for very low income individuals, while simultaneously operating with reference to the financial bottom-line."⁴

The Nonprofit Good Practice Guide offers a holistic definition: "A nonprofit venture that combines the passion of a social mission with the discipline, innovation and determination commonly associated with for-profit businesses"

The UK-based Social Enterprise Coalition reminds us that the simplest definition of social enterprise - as business trading for a social purpose - allows for a wide range of interpretations and there is still an ongoing debate among practitioners and academics over the exact definition of social enterprise. The Coalition invites us to consider some of the common characteristics that social enterprises display

1. **Enterprise Orientation** - they are directly involved in producing goods or providing services to a market.
2. **Social Aims** - they have explicit social and/or environmental aims such as job creation, training or the provision of local services. Their ethical values may include a commitment to building skills in local communities. Their profits are principally reinvested to achieve their social objectives.

² Powering Social Change: Lessons on Community Wealth Generation for Nonprofit Sustainability, Community Wealth Ventures, 2003.

³ The name was changed from The Roberts Foundation Homeless Economic Development Fund (HEDF) to The Roberts Enterprise Development Fund (REDF) in 1997.

⁴ Jed Emerson and Fay Twersky, *New Social Entrepreneurs: The Success, Challenge and Lessons of Nonprofit Enterprise Creation*, The Roberts Foundation Homeless Economic Development Fund, 1996

3. **Social Ownership** - Many social enterprises are also characterised by their social ownership. They are autonomous organisations whose governance and ownership structures are normally based on participation by stakeholder groups (eg employees, users, clients, local community groups and social investors) or by trustees or directors who control the enterprise on behalf of a wider group of stakeholders. They are accountable to their stakeholders and the wider community for their social, environmental and economic impact. Profits can be distributed as profit sharing to stakeholders or used for the benefit of the community.

In its widespread usage, "social entrepreneur" is the individual and "social enterprise" is the organization. Therefore, social enterprise is an institutional expression of the term social entrepreneur.

SOCIAL ENTERPRISE CLASSIFICATION

Social enterprises can be classified based on their mission orientation.



Mission-Centric Social Enterprise

The enterprise is central to the organization's social mission. These social enterprises are created for the express purpose of advancing the mission using a self-financing model. Organizations created to employ disadvantaged populations (employment development) and microfinance institutions are examples of this type of social enterprise. Mission-centric social enterprises often take the form of **embedded** social enterprises.

Mission-Related Social Enterprise

The enterprise is related to the organization's mission or core social services. Mission-related social enterprises have synergistic properties, creating social value for programs and generating economic value to subsidize the organization's social programs and/or operating expenses.

Commercialization of social services is a common form of the mission-related social enterprise. One example is a family services organization that provides free meals to the children of low income families enrolled in the organization's day care programs. Utilizing its industrial kitchen, staff dietitian and cooks, the organization starts a catering business serving the "social institutional" market segment--schools, day care centers, hospitals willing and able to pay for this service.

Mission expansion is another type of mission-related social enterprise. An example is a women's economic development organization that supports self-employed single mothers through small business consulting services; and then *expands* its mission by opening a sliding-scale fee-based childcare social enterprise to permit its clients more time to focus on their business.

Mission-related social enterprises often take the form of **integrated** social enterprises.

Social Enterprise Unrelated to Mission

The enterprise is not related to the organization's mission, or intended to advance the mission other than by generating income for its social programs and operating costs. Business activities may have a social bent, add marketing or branding value, operate in an industry related to the nonprofit parent organization's services or sector, however, profit potential is the motivation for creating a social enterprise unrelated to mission. Social enterprises unrelated to mission usually take the form of **external** social enterprises.

EMBEDDED SOCIAL ENTERPRISES

Social programs and business activities are one and the same. Nonprofits create Embedded Social Enterprises expressly for programmatic purposes. The enterprise activities are "embedded" within the organization's

operations and social programs, and are central to its mission. Social programs are self-financed through enterprise activities and thus, the embedded social enterprise also functions as a sustainable program strategy.

Due to their mission focus, most embedded social enterprises are usually structured as nonprofits to protect against mission drift, but may also be registered as for-profits depending on the legal environment.

The relationship between the business activities and the social programs are comprehensive: financial and social benefits are achieved simultaneously.

Embedded social enterprises are usually **mission-centric**; the business activities are central to the organization's mission.

Embedded social enterprises are evident in operational models where:

1. social and economic activities are unified;
2. social mission is the central purpose to the business; and
3. the target population (clients) is integral to the model as direct recipients of social services (beneficiaries) and either the market (customers), employees or owners of the enterprise.

The following operational models often take the form of embedded social enterprise:

- Entrepreneur Support Model
- Market Intermediary Model
- Employment Model
- Fee-for-Service Model
- Low-Income Client as Market Model
- Cooperative Model
- Market Linkage Model

INTEGRATED SOCIAL ENTERPRISES

Social programs overlap with business activities, often sharing costs and assets. Organizations create integrated social enterprises as a funding mechanism to support the nonprofit's operations and mission activities.

In many cases integrated social enterprises expand or enhance the organization's mission enabling it to achieve greater social impact. Mission expansion may be achieved by commercializing the organization's social services and selling them to a new fee-paying market; or by providing new services to existing clients. Integrated social enterprises **leverage tangible and intangible assets**, such as expertise, program methodology, relationships, brand, and infrastructure, as the basis from which to create their businesses.

The integrated social enterprise may be structured as a profit center or enterprise department within the nonprofit, or as separate entity.

The relationship between the business activities and the social programs are *synergistic*, adding value--financial and social--to one another.

Integrated social enterprises are often **mission-related**; their business activities are connected to the organization's mission.

Integrated social enterprises are evident in operational models where:

1. social and economic activities overlap;
2. synergies exist between the social activities and the economic activities, such as cost-sharing, asset leveraging, enhancing systems and expanding or strengthening the mission;
3. the target population (clients) is a direct beneficiary of income earned from the social enterprise vis-à-vis the financing it provides to the social programs; clients may or may not be involved in the enterprise's operations as employees or customers.

The following operational models often take the form of integrated social enterprise:

- Market Linkage Model
- Service Subsidization Model

EXTERNAL SOCIAL ENTERPRISES

Social programs are distinct from business activities. Nonprofits create external social enterprises to fund their social services and/or operating costs.

The enterprise's activities are "external" from the organization's operations, but support its social programs through supplementary financing. External social enterprises generally do not benefit from leveraging, cost sharing or program synergies, therefore to serve their purpose, they must be profitable.

External social enterprise may be structured within the parent organization as a profit center, or separately as a nonprofit or for-profit subsidiary. Legal status is often a function of the regulatory environment in which the external social enterprise operates, or a requirement to access capital, (i.e. loans or equity investments). External social enterprises registered as for-profit entities are subject to local tax laws.

The relationship between the business activities and social programs is *supportive*, providing unrestricted funding to the nonprofit parent organization. External social enterprises are often **unrelated to mission**; their business activities are not required to advance the organization's mission other than by generating income for its social programs or overhead.

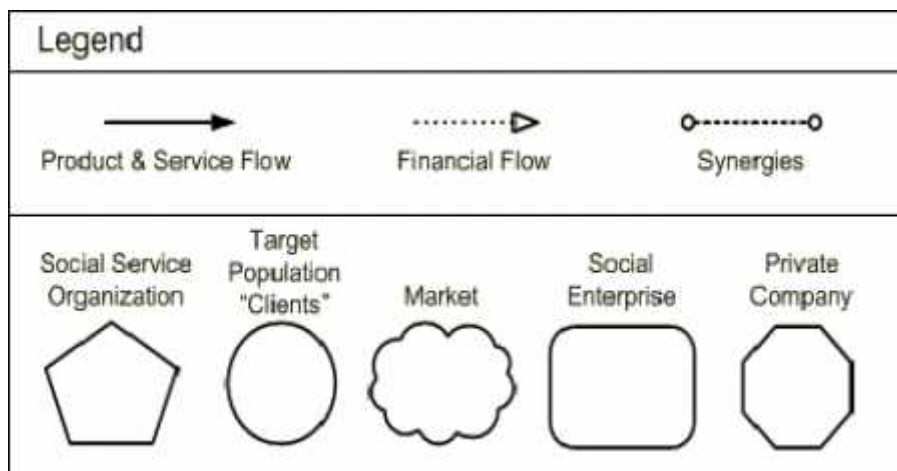
An external social enterprise generates economic value to support social value creation.

External social enterprises are evident in operational models where:

1. Economic and social activities are linked via their nonprofit ownership and funding relationship;
2. Motivation for economic activities is as a funding mechanism for social activities;
3. The target population (clients) is a direct beneficiary of income earned from the social enterprise vis-a-vis financing the parent organization, but are infrequently involved in enterprise operations.

The **ORGANIZATIONAL SUPPORT MODEL** often takes the form of external social enterprise

Let's have a detailed look on all nine models



The legend shows how the symbols can be used to interpret the diagrams' financial and product flows in relation to the social enterprise, the market, and the clients

ENTREPRENEUR SUPPORT MODEL



The entrepreneur support model of social enterprise sells business support and financial services to its target population or "clients," self-employed individuals or firms. Social enterprise clients then sell their products and services in the open market.

The entrepreneur support model is usually **embedded: the social program is the business**, its mission centers on facilitating the financial security of its clients by supporting their entrepreneurial activities. The social enterprise achieves financial self-sufficiency through the sales of its services to clients, and uses this income to cover costs associated with delivering entrepreneur support services as well as the business' operating expenses.

Economic development organizations, including microfinance institutions, small and medium enterprise (SME) and business development service (BDS) programs use the entrepreneur support model. Common types of businesses that apply this model are: financial institutions, management consulting, professional services (accounting, legal, and market information), technology and products that support entrepreneurs.

MARKET INTERMEDIARY MODEL

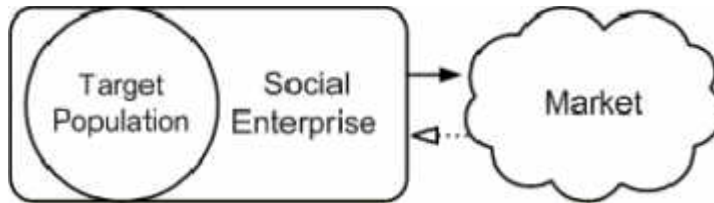


The market intermediary model of social enterprise provides services to its target population or "clients," small producers (individuals, firm or cooperatives), to help them access markets. Social enterprise services add value to client-made products, typically these services include: product development; production and marketing assistance; and credit. The market intermediary either purchases the client-made products outright or takes them on consignment, and then sells the products in high margin markets at a mark-up.

The market intermediary model is usually **embedded: the social program is the business**; its mission centers on strengthening markets and facilitating clients' financial security by helping them develop and sell their products. The social enterprise achieves financial self-sufficiency through the sale of its client-made products. Income is used to pay the business' operating expenses and to cover program costs of rendering product development, marketing and credit services to clients.

Marketing supply cooperatives, as well as fair trade, agriculture, and handicraft organizations frequently use the market intermediary model of social enterprise. Common types of business that apply this model are: marketing organizations, consumer product firms, or those selling processed foods or agricultural products.

EMPLOYMENT MODEL

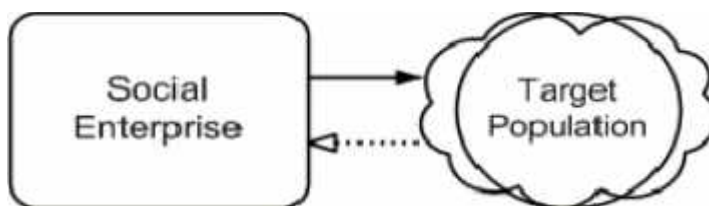


The employment model of social enterprise provides employment opportunities and job training to its target populations or "clients," people with high barriers to employment such as disabled, homeless, at-risk youth, and ex-offenders. The organization operates an enterprise employing its clients, and sells its products or services in the open market. The type of business is predicated on the appropriateness of jobs it creates for its clients, regarding skills development, and consistency with clients' capabilities and limitations, *as well as* its commercial viability.

The employment model is usually **embedded: the social program is the business**, its mission centers on creating employment opportunities for clients. Social support services for employees such as "job coaches," soft skill training, physical therapy, mental health counseling, or transitional housing are built into the enterprise model and create an enabling work environment for clients. The social enterprise achieves financial self-sufficiency through the sales of its products and services. Income is used to pay standard operating expenses associated with the business and additional social costs incurred by employing its clients.

The employment model is widely used by disabilities and youth organizations, as well as social service organizations serving low-income women, recovering addicts, formerly homeless people, and welfare to work recipients. Popular types of employment businesses are janitorial and landscape companies, cafes, bookstores, thrift shops, messenger services, bakeries, woodworking, and mechanical repair.

FEE-FOR-SERVICE MODEL

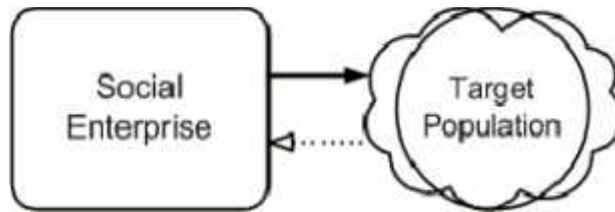


The fee-for-service model of social enterprise commercializes its social services, and then sells them directly to the target populations or "clients," individuals, firms, communities, or to a third party payer.

The fee-for-service model is usually **embedded: the social program is the business**, its mission centers on rendering social services in the sector it works in, such as health or education. The social enterprise achieves financial self-sufficiency through fees charged for services. This income is used as a cost-recovery mechanism for the organization to pay the expenses to deliver the service and business expenses such as marketing associated with commercializing the social service. Surpluses (net revenue) may be used to subsidize social programs that do not have a built-in cost-recovery component.

Fee-for-service is one of the most commonly used social enterprise models among nonprofits. Membership organizations and trade associations, schools, museums, hospitals, and clinics are typical examples of fee-for-service social enterprises.

LOW-INCOME CLIENT AS MARKET MODEL

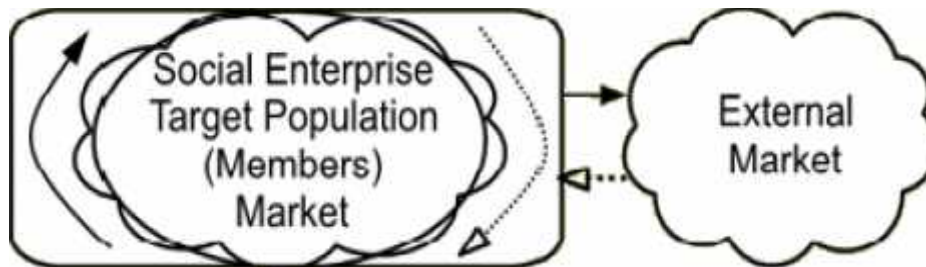


The Low Income Client as Market model of social enterprise is a variation on the **Fee-for-Service model**, which recognizes the target population or "clients" a market to sell goods or services. The emphasis of this model is providing poor and low-income clients access to products and services whereby price, distribution, product features, etc. bar access for this market. Examples of products and services may include: healthcare (vaccinations, prescription drugs, eye surgery) and health and hygiene products (iodize salt, soap, eyeglasses, earring aids, sanitary napkins), utility services, (electricity, biomass, and water), etc. for which they pay.

The Low Income Client as Market Model target population has also been described as those living at the "base of the pyramid." This is a socioeconomic designation of the 4 billion people who live primarily in developing countries and whose annual per capita income fall below \$1500 purchasing power parity (PPP)⁵; and earn less than \$5 a day⁶. People in this income bracket cannot realize economies of bulk purchase, and ironically may pay up to 30% more for products and services than middle income consumers.

The social program is **embedded** in the activity by providing access to products and services that increase clients' health, education, quality of life, and opportunities. Income is earned from product sales and is used to cover operating costs and marketing and distribution costs. However, due to the low incomes of target population in the "low income client as market model" achieving financial viability can be challenging. The social enterprise must relies on developing creative distribution systems, lowering production and marketing costs, achieving high operating efficiencies, cross-subsidizing creative revenue markets to markets that require subsidy. Health, education, technology, utility frequently uses this.

COOPERATIVE MODEL



The cooperative model of social enterprise provides direct benefit to its target population or "clients," cooperative members, through member services: market information, technical assistance/extension services, collective bargaining power, economies of bulk purchase, access to products and services, access to external markets for member-produced products and services, etc. The cooperative membership is often comprised of small-scale producers in the same product group or a community with common needs--i.e. access to capital or healthcare.

⁵ Purchasing power parity (PPP) equates the price of a basket of identical goods and services in two countries. PPP provides a standard comparison of real prices between countries

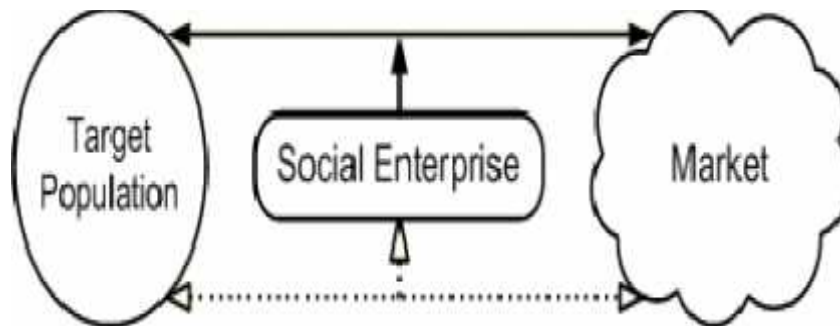
⁶ Prahalad and Hart 2002

Cooperative members are the primary stakeholders in the cooperative, reaping benefits of income, employment, or services, as well as investing in the cooperative with their own resources of time, money, products, labor, etc.

The cooperative model is **embedded: the social program is the business**. The cooperative's mission centers on providing members services. Financial self sufficiency is achieved through the sales of its products and services to its members (clients) as well as in commercial markets. Cooperatives use revenues to cover costs associated with rendering services to its members and surpluses may be used to subsidize member services.

Cooperatives social enterprises include agricultural marketing cooperatives, which market and sell its members' products, while agricultural supply cooperatives, provide inputs into the agricultural process. Fair trade organizations frequently work with agriculture and commodity producer-owned cooperatives--i.e. coffee, cocoa, wine tea, as well as nonagricultural products--i.e. handicrafts. Self-Help Groups (SHGs) comprised of low income-women, and popular in South Asia, are frequently organized into cooperatives to support a variety of their members' interests related to commerce, health and education. Credit Unions are another example of a cooperative tied to economic development and financial service programs, popular across West Africa, Latin America, and Balkans. In the UK a slight variation on the cooperative, called "mutuals" or "societies" are commonly associated with social enterprise. Unlike a true cooperative, mutual members usually do not contribute to the capital of the social enterprise company by direct investment, instead mutuals are frequently funded by philanthropic sources or the government.

MARKET LINKAGE MODEL

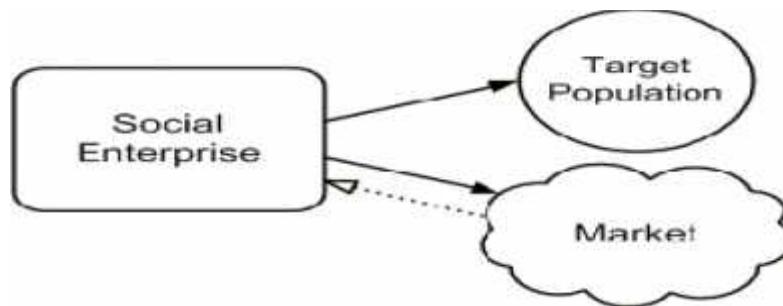


The market linkage model of social enterprise facilitates trade relationships between the target population or “clients,” small producers, local firms and cooperatives, and the external market. The social enterprise functions as a broker connecting buyers to producers and vice versa, and charging fees for this service. Selling market information and research services is a second type of business common in the market linkage model. Unlike the **market intermediary model**, this type of social enterprise does not sell or market clients' products; rather it connects clients to markets.

The market linkage model can be either **embedded** or **integrated**. If the enterprise is stand-alone; its mission revolving around linking markets, and its social programs support this objective, the model is **embedded**. In this case, the **social program is the business** income generated from enterprise activities is used as a self-financing mechanism for its social programs. Market linkage social enterprises are also created by commercializing an organization's social services or leveraging its **intangible assets**, such as trade relationships, and income is used to subsidize its other client services. In this second example, **social program and business activities overlap**, hence follows the **integrated model**.

Many trade associations, cooperatives, private sector partnership and business development programs use the market linkage model of social enterprise. Types of social enterprises include, import-export, market research and broker service.

SERVICE SUBSIDIZATION MODEL



The service subsidization model of social enterprise sells products or services to an external market and uses the income it generates to fund its social programs.

The service subsidization model is usually **integrated: business activities and social programs overlap**, sharing costs, assets, operations, income and often program attributes. Although the service subsidization model is employed primarily as a financing mechanism--*the business mandate is separate from its social mission*--the business activities may enlarge or enhance the organization's mission.

Nonprofits that implement service subsidization social enterprises operate many different types of businesses, however, most leverage their **tangible assets** (building, land, or equipment) or **intangible assets** (methodology, know-how, relationships, or brand) as the basis of their enterprise activities. Commercialization of core social services leads to enterprise activities that are close in nature to the organization's social programs and may enhance the mission; whereas leveraging physical assets to sell to the public may result in an enterprise that is very different from the organization's social programs. In financial terms the business benefits from leveraging and cost sharing relationships, and provides a stream of unrestricted revenue to "subsidize" or wholly fund one or more social services. Service subsidization is one of the most common types of social enterprises because it can be applied to virtually any nonprofit. The service subsidization model may conceivably grow into an **organizational support model** if it becomes profitable enough to throw off revenue to the parent organization.

Service subsidization model social enterprises can be any type of business. Those that leverage **intangible assets** such as expertise, propriety content or methodologies, or exclusive relationships tend toward service businesses that commercialize these assets: consulting, counseling, logistics, employment training or marketing. Those that leverage **tangible assets** such as buildings, equipment, land, employees, computers, etc. may launch any number of enterprises that utilize infrastructure and capital assets: leasing, property management, product-based retail businesses; copying, transportation or printing services, etc.

ORGANIZATIONAL SUPPORT MODEL





The organizational support model of social enterprise sells products and services to an external market, businesses or general public. In some cases the target population or "client" is the customer.

The organizational support model is usually **external: Business activities are separate from social programs**, net revenues from the social enterprise provide a funding stream to cover social program costs and operating expenses of the nonprofit parent organization. Although organizational support models may have social attributes, profit not social impact is the prerequisite for this type of social enterprise. This model of social enterprise is created as a funding mechanism for the organization and is often structured as a subsidiary business (a nonprofit or for-profit entity) **owned** by the nonprofit parent. Successful examples of this model cover all or a major portion of the parent organization's budget.

Similar to **service subsidization model**, the organizational support model may implement virtually any type of business that **leverages its assets**. This model is commonplace among western nonprofit organizations across sectors.

DISCUSSION

Thus the paper summarizes the operational models to form Integrated Social Enterprises which are often mission-related and creates sustainability to them and to the society at large. The choice of the model depends on the rationale and the objective of the enterprise. The paper gives us a clear picture on the different types of models and its utility in various services.