Social Entrepreneurship:
Social Businesses in the Fight to Alleviate Poverty

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Introduction

A question often posed asks what is a social business? As corporate social responsibility and social activism are at the forefront of today’s society, businesses with a social mission are all the more appealing to both consumers as well as business founders. Start-up companies in general are positively depicted in the media and are well represented and respected in the culture of United States. This is in part due to this generation having grown up witnessing first hand wildly successful start up technology companies. With those public successes people are looking more ways to create their own businesses and at the same time leverage those businesses to solve pressing social problems. Bill Gates has said, “such a system would have a twin mission: making profits and also improving lives for those who don’t fully benefit from market forces.”

It is very clear, however, through looking at the literature that social entrepreneurship is hard to define. Social entrepreneurship is a wide term and companies can benefit a broad range of issues such as bringing recognition to social justice movements to environmental action companies. The general premise behind social entrepreneurship is to combine innovation and business ventures with the philanthropic sectors to create an entirely new sector recognized in the business world. While this combination is the unique and interesting aspect of the sector it also is what makes it so hard to define and fully understand.

David Green, a serial social entrepreneur calls this “Empathetic Capitalism” and the following quote sums up well the overarching goal of social entrepreneurship. “What

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2 Ibid
we’re really trying to do is create a new kind of values-driven business, where money is the enabler, but not the motive, for business. We’re demonstrating that companies can succeed which seek to maximize distribution, subject to being profitable, rather than maximizing profit for its own sake”.\(^3\) Common across all definitions of social entrepreneurship is the fact that the underlying drive for social entrepreneurship is to “create social value, rather than personal and shareholder wealth and that the activity is characterized by innovation, or the creation of something new rather than simply the replication of existing enterprises or practices”.\(^4\) Although, there is a lot of grey area when it comes to defining social entrepreneurship and if a company is a social business. This is because social entrepreneurship can spread across a variety of disciplines such as nonprofit businesses, charities, for-profit businesses and governmental organizations. The top-down model is defined by charitable giving allowing the money to come from the top and get passed down to those in need. However, the top down model is essentially broken and will not, in the long run, be the most beneficial in solving social problems. In contrast, I will focus on the bottom-up model, which focuses on having customers sustain a business by selling to the bottom and having the resources aid the business. Bottom-up and top-down describe the methodology of a company while there is also the organizational structure to look at as well.

In terms of organizations there is a traditional charity and traditional business and then social enterprises which is somewhere in the middle. Figure 1 below is a visual representation of how these different types of businesses relate to each other. Within


these a traditional charities will be nonprofit while a traditional business will be for-profit. Within the social enterprise sphere there can be both, nonprofits, for-profits and hybrid models.

**Figure 1**

The hybrid is the overlapping centers of these models and within the hybrid model there are various ways to structure, which will be discussed in depth in the hybrid model benefits section of the paper. These types of distinctions in the business are mostly about the organizational structure and how companies are able to gain and distribute their resources. It all comes down to how a business views their consumers, either as customers or as beneficiaries. The model that is most effective because of its hybrid nature, “breaks this traditional customer-beneficiary dichotomy by providing products and services that, when consumed, produce social value”. This is not another consumer business that has taken on a cause. Rather, it’s a cause turned into a business. While of

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course, having exclusively these types of business with no help from strictly nonprofits, philanthropies, or government resources are not the way to solve poverty. However, entrepreneurs have made it a point both to create a profitable business while benefiting the world. Within these types of businesses most times the benefit comes from the product or service that is being sold.

This brings us to the main question: how can social businesses best help in alleviating poverty? I will argue that the hybrid business model, one that combines aspects of both for-profit and nonprofit in their organizational structure, is the best model for alleviating poverty as it allows for the most financial and legal flexibility in using their funds to carry out their mission. It is the future for helping to fight and alleviate poverty in a sustainable way. Within the hybrid business model there are many types of methodologies to go about running a business. This paper goes through the various ways to structure a social business and outlines two major models through case studies, the one-for-one and the “bottom of the pyramid” model, which I will discuss the merits and criticisms of each to best understand how they are able to function and how they can improve within their own model. Each model has its own strengths and weaknesses and my overall conclusion is that companies with a social mission, “social enterprises”, must focus on systematic solutions to help alleviate poverty. Entrepreneurs with ideas for a new business can best do this by harnessing the power of a hybrid business model to both diversify and improve their business to be better able to join the fight against poverty through their company’s mission.
Nonprofit versus For-Profit

The nonprofit model has both strengths and weaknesses. Nonprofit organizations can actually gain a profit but unlike for-profit institutions, they must not distribute these profits between investors and owners but must funnel this money back in to the organization. Many nonprofits social ventures are tax exempt through the Internal Revenue code Section 501(c)(3) which is a clear benefit as it saves them resources. Within these rules nonprofits are able to create earned income up to a certain extent and then are additionally able to receive philanthropic donations. In this way, nonprofits seem to be benefiting in that they can receive money for their ventures in both ways but with money regulations on the earned income. In contrast, for-profits can have many different structures. Many social businesses eventually structure themselves as corporations in which there can be a few different types such as a C type, S type and now a B type which will be discussed later on in this section. An essential positive of for-profit ventures is that owners have more control over what they do and how they do it. The problem, however, in trying to run a purely for-profit social venture is the contrast between the two issues, which sometimes may become a conflict of interest. An example of this is Newman’s Own, Inc. that started out as a for-profit food company giving all their additional after tax dollars to charity. However the intricacies of the two separate missions within the company became difficult to handle and they became a hybrid model by making their giving operations into a nonprofit subsidiary. While Newman’s Own, Inc. has utilized a hybrid business model they are more of an example of top-down giving

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in that their contributions are monetary giving to charities. The case studies of two companies later in this paper discuss bottom-up companies in contrast.\(^7\)

A paper by Yasanthi Perera focuses specifically on for-profit social enterprises (FPSEs). The questions, “How do FPSEs create blended value?” and “How does the co-presence of equally salient social and financial objectives affect FPSEs in their value creation efforts?” are posed. She bases this on five dimensions “Entrepreneur Influence; Initial Identity Formation; Developing the Hybrid Business Model; Balancing Social-Financial Concerns; and Consumer-Partner Development”. There is not much direct research on the matter yet they need to be looked at in a different way than non-profits or typical businesses. Perea provides a framework to look at this.

From Perea’s study comes the questions: how are consumers supposed to know if a company with a social mission are acting ethically and responsibly in terms of their benefactors. There are a few governance nonprofits that look to oversee and essentially grade how companies are doing in this respect. The “B Corporation” (Benefit Corporation) is an emerging system.\(^8\) B Lab is a company that grants certifications to businesses that are both for-profit and doing social good. B Lab was created in July of 2006 and in 2007 started to gain traction and recognition within the business community. They currently include over 950 companies with the certification spanning 30 countries and 60 industries.\(^9\) They have many criteria to get passed and overall the B Corporation certification is regarded well in the business community. On their website they have a section titled “Why B Corp?” explaining the benefits, in their opinion, of becoming a B Corp certified company such as the opportunity to lead a movement, differentiate from

\(^7\) Ibid
\(^8\) Ibid
\(^9\) Bcorp.net
“pretenders” and pass legislation. A study done by Christopher Marquis, Andrew Klaber, Bobbi Thomason on organization development describe the mission of B Lab as the following, “1) building a community of Certified B Corporations (B=Benefit) that legally expand their corporate responsibilities to include consideration of diverse stakeholder interests, 2) advancing the public policies necessary to create a new corporate form called a Benefit Corporation, and 3) creating an investment rating system to help drive institutional investment to the emerging asset class of "impact investments."  

Additionally, there are other ventures that help identify and build up the idea of social entrepreneurship. The Manhattan Institute Award for Social Entrepreneurship is one of these and they, similarly but not exactly like B Lab, give out honors to leaders who they feel have developed solutions to social problems.

One of B Lab’s missions is to get to the root of certain policies through policy changes. It may not be the responsibility of each and every social venture to aim to change policy both in their home country, and even more difficult, in foreign nations such as United States based companies that work with communities in India. In this case we have an emerging umbrella industry that may be able to help various entrepreneurs with similar goals to help in the short term through their business as well as fight for the long term with the help of an umbrella industry and parallel companies. We cannot expect these businesses to do everything. In the United States, for examples, social entrepreneurship in the education sector comes in terms of charter schools. Clearly through this we see entrepreneurs surpassing major policy changes in the public education system in order to create a bubble of improvement through their privatized...

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10 Certo (2008).
schools. Social business governance could help allow for more systematic changes rather than solutions that essentially circumvent the problem.

**Benefits of a Hybrid model**

Hybrid models have many benefits in terms of operations within a company. These distinctions may seem slight to those interested in social justice and alleviating poverty at first but the more efficiently that a company is able to run to better they will be able to help aid in their mission and change the lives of those in need. As noted with Newman’s Own Inc. running a for-profit social can be difficult to manage and hybrids can be the ideal solution. There are many types of the hybrid model. For example, you can have for-profits with nonprofit that are either subsidiaries or partnerships as well as non-profits with for-profit subsidiaries or partnerships.13

Echoing Green, a company that has been supporting early stage entrepreneurship for 25 years, partnered with the Harvard Business School in order conduct a study to better understand hybrid business models. Described as the first large-scale, quantitative research study of social entrepreneurship and the hybrid business model they looked at over 3,500 Echoing Green Fellowship applications and found that in 2006 applications for companies that used a hybrid business models, combining earned and donated revenue to fund their business, was 37 percent. This is in comparison to 2011 where this was closer to 50 percent.14 This trend has a lot to do with the ability to control all aspects of a country, which allows for more flexibility. In this way, William Foster and Jeffrey Bradach describe the internal dilemma of many nonprofits stating, “the impulse that leads

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nonprofits’ leaders to search for earned income is their passionate commitment to their organizations’ missions; they want to help the organizations escape the challenge—and often the enormous frustration—of attracting the necessary philanthropic support.”

Stipulations are often put on grants gained by philanthropies and entire department dedicated toward fundraising allowing for less time and energy put into the allocations of funds. In this same way having earned income allows companies to attract more skilled and talented individuals such as managerial talent that have the possibility to significantly improve effectiveness but many times nonprofit funding through the government or grants do not cover these types of expenses. Hybrid models are expanding within the business world because they allow mission and profit to be integrated in the same strategy. However the model still has a long way to go in terms of governance. Hybrid models, “offer a bold, sustainable infusion of humanitarian principles into modern capitalism. Yet, as with all sweeping social changes, success will require leadership and persistence.” As hybrid models are better understood and implemented social businesses have the opportunity to become more efficient.

**Measuring Success**

The measurement of social good is hard to gauge. When discussing social ventures that are in the nonprofit sector a framework needs to be developed that measures the influence of a program. For example an educational service to children may want to measure an increase in test scores for the children a part of the program. This is a good start but it will be hard to measure any other more vague effects such as student

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16 Ibid

confidence or mindset. Mair and Marti in a paper in 2006 establish that, “developing mechanisms that help to alleviate this issue represents an important task in establishing the legitimacy of social entrepreneurship as an area of academic inquiry”.\(^{18}\)

Although when we shift away from pure nonprofits into the hybrid model sector it may seem that measurement gets easier but in fact, it becomes more complicated. In this case businesses need to address two bottom lines. Profits are important, and also straightforward to measure. However, to combine that with social value becomes the issue. Peredo and McLean (2006) do not necessarily agree with the idea that a business can be for profit and also a social venture. They suggest that some firms that engage in, “cause related marketing as a mechanism to increase sales, profits, and shareholder wealth” rather than “ventures willing to accept a significant reduction in their profits as a consequence of their pursuit of social goals” as social entrepreneurs.\(^{19}\) Of course determining motive is difficult but mission statements can go a long way in helping to understand the point of a business. Others such as Emerson and Twersky (1996) are more inclined to think that both social and profits in a “blended value” are most important and actually what has become the distinguishing factor in the social entrepreneur sector.\(^{20}\) In this way we can take a look at the Social Return on Investment (SROI). This measurement was developed in the 1990s by a non-profit supporting social enterprises. The “SROI calculates the “blended value” of a social venture. Many times the SROI is used to help venture capitalists figure out what ventures to invest in. Blended

\(^{18}\) Certo (2008).
\(^{19}\) Ibid
\(^{20}\) Ibid
value is composed of what is termed enterprise value and social purpose value”.\(^\text{21}\) Within the SROI there are three parameters: enterprise index of return, social purpose index of return and blended index of return.

**Case Study- Toms**

The first case study I will focus on is the shoe company, Toms. Toms has given away over 1 million pairs of shoes since their creation in 2006. Toms mission is started with this statement, “With every pair you purchase Toms will give a pair of new shoes to a child in need. One for one.”\(^\text{22}\) Toms is a hybrid business model in that they are a registered for-profit company, have operated with a non-profit subsidiary, Friends of Toms, and currently operate within non profit partnerships across the globe.\(^\text{23}\)

In order to sustain their company Toms has essentially transferred the cost of the donated shoes on to the consumers by charging double what their shoes would sell for in the market.\(^\text{24}\) Toms has been able to do this based on the high markups prevalent in the fashion industry. It is most important, and what works so well within the Toms model, that consumers can see a direct relationship between their support of the company and the impact they are making. This is one of the reasons the one-for-one model is so successful. It allows consumers to understand concretely what they are doing rather than, for example, a company that just gives a portion of their profits to a charity unrelated to their business.

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\(^\text{22}\) Toms.com

\(^\text{23}\) Toms.com

Despite the success of Toms the company has had their fair share of criticisms. One criticism articulates that giving shoes away does not get to the root of the problem.\textsuperscript{25} Others even go so far as to say a model like Toms actually perpetuates poverty with the idea being that Toms benefits by the more children who need a pair of shoes and that their company continuing on relies on the problem of poverty and poor access to resources continuing on. In response to these types of criticisms Toms Chief Giving Officer at the time, Sebastian Fries at one point defensively stated that Toms is "not in the business of poverty alleviation."\textsuperscript{26} This statement is somewhat bizarre and not necessarily in line with the image that Toms portrays for themselves. Years later Toms has since added aspects of sight, access to water and safer birth as ways in which the company has expanded their mission to aid the lives of those in need. This expansion in their mission has been made possible by the success of their original endeavor. In terms of their eyewear sector the claim is that one pair of Tom’s glasses equals sight for one person through medical treatment, prescription glasses or sight-saving surgery. Effects include employment of nurses and doctors as well as increasing capabilities for those with poor eyesight to become employable and create a sustainable living for themselves. In contrast to giving shoes, which is important in its own right, the shift in their eyewear branch is much more capabilities centered. Toms also has expanded so significantly around the world that the criticism of wanting to keep poverty in order to perpetuate their business model does not hold much water. Toms currently works with over 100 giving partners in

\textsuperscript{25} Ibid
\textsuperscript{26} Ibid
over 70 countries.\textsuperscript{27} Their mass expansion is a way to perpetuate sales in their high
market sector while not perpetuating poverty in the communities that they work with.

**Case Study – Danimal**

Alternatively there is the well-known case study of Danimal, a yogurt product that
was created by the French based company Danone for the market at “the bottom of the
pyramid” in the South African dairy industry. The base of the pyramid is defined as, “the
four to five billion poor who lived on less than $2 per day and who were underserved by
the large organized private sector, including multinational firms”.\textsuperscript{28}

The concept of Danimal was first created in order to assess the needs and
challenges of servicing the market and to find out if there was a chance for profitability.\textsuperscript{29}
Some might criticize the concept of selling to the bottom of the pyramid as simply
creating a cheap brand for the poor. Others would argue that is much more than that as
many important factors went into the creation of this product and business. First, they
took into account the need through the shortcomings in available sources of a balanced
diet for children in the areas they were selling to. They also had to consider the
limitations on electricity and refrigeration to make a yogurt that would be feasible to
store. Additionally, they focused on distribution channels and created the best possible
way through micro-distributers who were a part of the community.\textsuperscript{30} In this way the
Danimal product was important as it thought about the needs of the area. Beyond this the

\textsuperscript{27} Toms.com
\textsuperscript{28} Prahalad, *C.K. The Fortune at the Bottom of the Pyramid: Eradicating Poverty Through

\textsuperscript{29} Hawarden, Verity & Barndard, Helena “Danimal in South Africa: Management
Innovation at the Bottom of the Pyramid” Harvard Business Review.
PDF-ENG

\textsuperscript{30} Ibid
product worked to involve the community and aid the unemployed with jobs in the areas they were selling to in order to create the most social impact possible while still running a successful business.

Criticisms of the Danimal model have to do with many companies that have tried and failed to do the same model. Many times these failures would be based on the mindset of the company going in where they would cheapen their existing brand or try to sell the cheapest part of their line and not account for the actual demand of the product or the needs of the population they were trying to service. This is both ethically not responsible and also is the self-fulfilling reason that they manage to go out of business. The idea is that if they are selling at such low prices that the population they are selling to is able to afford it then the margins are going to be very low. In order to sustain themselves they have to sell a very high volume to keep profits at a reasonable rate. This “low price, low margin, high volume” model is recognized by many but very hard to keep up.  

Products that were not in the best interest of the poor, “Products that had little relevance ultimately did not succeed”. A simple supply and demand model can theoretically solve this ethical dilemma that is posed about making money off of poor people. If the product is not beneficial than people will not waste their scarce resources to purchase the product. However, the problem lies in marketing campaigns and producers of certain products taking advantage of the poor, making people believe they need a product more than they really do. Another way this could be done is by setting higher prices than necessary if they have a monopoly on the market.


32 Ibid
Danimal specifically was able to counteract this type of criticism by focusing in on a problem that that saw and trying to solve it. In many typically underserved markets children nutrition is very important and not something many families easily address. To combat poor nutrition the Danimal product was a way to sell highly nutritious yogurt to communities that would not necessarily be able to gain access to the same type of resources otherwise. Another important aspect that Danimal focused on in order to make their business sustainable was their inclusion of micro-distributers within the community. Creating jobs that pay well is an important aspect of increasing the capabilities of people and allowing them to become self-sustaining. Of course giving access to families for low priced nutritious food is important but allowing people of the community to have a steady income through employment allowed for a greater, more lasting impact to be made.

In comparing a company likes Toms to a company like Danimal there is a clear difference in methodology. Yet, there are additional businesses modeled after both. Toms sells high priced shoes but has made a promise with each pair sold they will give a pair of shoes to someone in need. Other companies have attempted to do similar things to Danimal but in a different industries. Sam Goldman and Jordan Kassalow are selling to the underserved markets rather than donating as well. Their entire business model is based on the needs of people living on $2 a day such as the Danimal model. With this it is important to consider SROI as a widely recognized as a way for companies to measure their success and failures in a quantitative way. Of course the hardest part of companies with for-profit aspects in hybrid business models is to focus on their for-profit factors while still maintaining their social mission and being able to measure the success of their mission.
Criticisms of social businesses

A question posed about social businesses has to do with the cycle of a business and if it should eventually go out of business. Ideally, if the business is working effectively than eventually there is no need for that service. However, within the social business sector, once a business becomes effective they then must ask the question, when and how can the impact of this business be increased? In this way Toms was able to overcome this problem by expanding not just geographically but also in terms of their mission and what types of social issues that contribute to poverty that they are working towards.

There are obvious criticisms to the entire idea of social entrepreneurship as well as the practices of social entrepreneurs. Some believe that social entrepreneurs are not getting to the root of the problem, maybe they are, “bringing solar lamps to villages, teaching women to weave shawls and connecting them to big-city markets” however, the structural issues still persist and they can only be changed in the long run through policy changes.33 In the debate on the cause of poverty we have arguments both for structural failures as well as seeing the problem as market inefficiencies. It seems that both have a part in the poverty that is prevalent all over the world and social entrepreneurs can be a part of solutions that approach in both ways.

Social Business Responsibility

Iris Marion Young discusses the idea of global justice in relation to responsibility.34 She believes that there are varying levels of responsibilities towards aiding the fight against poverty and that how close you are to an issue is one of those

33 Girisharadas (2011).
34 Young’s views on responsibility were suggested to me by a classmate in the other Poverty capstone section during the poster session.
deciding factors. As you become closer, obligation becomes greater. The Liability model outlines the concept of strict liability in that it “holds an agent liable for a harm even if the agent did not intend or was unable to control the outcome”. This is important to note in terms of social businesses because even if the intentions of a business are positive the outcome is what is most important. If Toms actually is perpetuating poverty through their giving of shoes than it would be their responsibility to fix this practice. Young also outlines the social connection model in which she states, “The social connection model of responsibility says that individuals bear responsibility for structural injustice because they contribute by their actions to the processes that produce unjust outcomes”. This is extremely relevant in that if you look at poverty in terms of market failure than business owners are contributing to the unjust outcomes that perpetuate poverty. Based on this case, all businesses should have a socially relevant aspect. While this concept may not be feasible it does allow for a benchmark for businesses that do decide to have a social mission as an integral part of the company. In the terms of social businesses, based on the thoughts of Young, creators of social businesses have a great obligation to do the most they can do in order create justice for those they are trying to benefit. While the ideal is that companies will always act in the interest of those less fortunate it is difficult to always guarantee this.

**Conclusion**

This paper has served to better understand the organizations of social businesses. It seeks to give an idea of what motivates companies to follow a social mission and why

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36 Ibid.
many companies are successful in doing so. I posit that the hybrid business model allows for the most flexibility for a company. A company that starts as a for-profit company with a social mission many times finds that the best course of action to organize their inner workings of their business is to combine it with nonprofit features. That being said the most important thing when analyzing social businesses is intent and how effectively a business is able to follow through on that intent. While analyzing the methodologies of both Toms, one-for-one, and Danimal, the bottom of the pyramid, the unifying concern was companies that somehow were perpetuating poverty through their structure or not having the most ethical intent in their practices and methodologies. Governing structures such as B Lab can help in this process once hybrid business models become used more frequently and accepted. Overall, however, the entrepreneur should select the organizational structure that will allow for maximization of achievement for their mission.
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