

Social Entrepreneurship and Social Innovation: Reclaiming Sustainable Development in South Africa

REGENT BUSINESS SCHOOL

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Throughout the world, small business entrepreneurship is a mantra touted as a panacea for economic development, employment and poverty reduction. To some extent this is true. In South Africa, though, there is something amiss. Despite the fact that both the government and private sectors have made concerted efforts to encourage and stimulate the small business sector, results have been dismal. Numerous programmes, public and private, have been set up to help entrepreneurs. The Global Entrepreneurship Monitor (Gem) 2012 annual survey confirms this predicament. Yet, we are informed that in other emerging economies such as China, India, Malaysia, Indonesia, Brazil, Mexico, Indonesia and Russia intervention strategies to promote the small business sector have been very successful.

Several reasons have been proffered as to the cause of poor performance in the small business sector in South Africa. Amongst these reasons, issues such as poor skills development, lack of finance, poor synergies between larger business and small business and bureaucratic hold-delays are prominent.

In this paper it is proposed that as much as the above mentioned factors are correctly attributed to the poor performance of small business development, they are not the most important ones. Instead, we argue that there is a serious disconnect between government, big business and the small business sector. There is no opportunity for small business to grow organically – for the greater good of sustainable community development. To remedy the situation, it is hypothesised that there is dire need for the introduction of ‘social entrepreneurship’ and ‘social innovation’ couched within a ‘basic needs’ development paradigm.

What then do we mean by *social entrepreneurship*, *social innovation* and a *basic needs approach*?

Social entrepreneurship and *social innovation* have, in the past decade, garnered specific attention from policy makers, academics, practitioners, and the general public.

Both are important tools to tackle social challenges and to respond to them when the market and the public sector do not.

The unparalleled challenges at global, national and local levels demand new strategies and tools to successfully address them. Seemingly, the market and the state cannot, on their own, regulate and solve all problems. New approaches are needed to tackle major social issues, especially in the presence of the systematic retreat of the governments from the provision of public goods in the face of new political ideologies that stress citizens' self-sufficiency and give primacy to market-driven models of welfare.

If economic globalisation offers opportunities to improve living conditions, it also implies substantial and continuous restructuring and change (particularly in a time of economic crisis) and a renewed or new approach, not only to the new social challenges but also to the old ones that have not yet been met successfully. Competition keeps increasing and as a consequence, most emerging economies have to engage more strongly in innovation. Consequently, this requires engagement in both technological and social, and in entrepreneurship, i.e. both commercial (for-profit businesses pursuing as a primary objective economic value and its appropriation) and social (primarily aiming at addressing and satisfying unmet social needs, and therefore creating social value).

The most urgent challenge for national governments, local authorities, policy makers and economic stakeholders is to assist the less well-off to adapt to new and changing situations and to promote sustainable economic and social development so that once the economy has recovered the benefits can be widely diffused.

In most emerging economies *social entrepreneurship* and *social innovation* are part of the solution, as they both explicitly aim to provide innovative solutions to unsolved social problems, putting social value creation at the heart of their overall strategy in order to improve individuals' and communities' lives and increase their well-being. This goes far beyond our current conceptions of entrepreneurship and small business development in South Africa. Besides bearing the basic tenets of a *basic needs* paradigm, the concepts also exemplify 'organic growth' or 'bottom up growth' and deal with the overall social development of a collective rather than an individual. It is, in a sense, holistic development.

Although *social entrepreneurship* and *social innovation* are developing rapidly around the world, both these concepts are relatively recent fields of research and practice and the epistemologies are still ill-defined. A concept like *social entrepreneurship*, for example, tends to overlap with terms such as 'social economy', 'third sector', 'non-profit sector', 'social enterprise' and 'social entrepreneur', some of which are also ill-defined

and overlapping. Moreover, definitions are context-sensitive, in the sense that the geographical and cultural contexts matter. Yet, on other occasions the terms are used liberally to mean almost the same thing.

Social Entrepreneurship

Basically, a social enterprise is defined by its purpose and mission. It is a business operation commonly run by a charity or not-for-profit organization and revenues raised by the business operation is reinvested into the non-governmental organisation to support its programmes and operations. In addition to revenue generation, the social enterprise will often engage the services of the clients that their organisation is supporting. The skills that the clients develop in sales, business operations and administration are crucial to accessing job opportunities outside the enterprise.

Generally, social enterprises encourage greater resiliency and independence within the non-governmental sector by helping organisations to stabilise and diversify their funding base while enhancing their programmes or services. A direct consequence of this is that there is emergence of a stronger non-governmental sector and healthier communities. A good example of a social venture is a profit-making enterprise that has a positive 'blended value'. The 'blend' is the combination of profit, social and environmental return on investment.

In its most basic sense, *social entrepreneurship* is the work of a social entrepreneur. According to Ashoka, a change-maker organisation, the most effective way to promote positive social change is to invest in social entrepreneurs with innovative solutions that are sustainable and replicable, both nationally and globally.

Social entrepreneurship is the practice of responding to market failures with transformative and financially sustainable innovations aimed at solving social problems. A social entrepreneur is someone who recognises a social problem and uses entrepreneurial principles to organise, create, and manage a venture to make social change. Whereas a business entrepreneur typically measures performance in profit and return, a social entrepreneur assesses success in terms of the impact one has on society as well as in profit and return. The social entrepreneur aims for value in the form of transformational change that will benefit disadvantaged communities and, ultimately, society at large.

Social entrepreneurs pioneer innovative and systemic approaches for meeting the needs of the marginalised, the disadvantaged and the disenfranchised – populations that lack the financial means or political clout to achieve lasting benefit on their own. As David Bornstein (author of "How to Change the World: Social Entrepreneurs and the Power of

New Ideas”) affirms, “Social entrepreneurs identify resources where people only see problems. They view the villagers as the solution, not the passive beneficiary. They begin with the assumption of competence and unleash resources in the communities they’re serving”.

In order for social enterprise to take root, enablers, network organisations, individuals and institutions are required. They may be government departments, foundations, corporations, non-profit organisations or social capital investors and their prime function in terms of investment is to benefit the collective and not an individual. They can be referred to as the new ‘social venture capitalists’. A thriving social economy that includes for-profit and non-profit blended value enterprises need to work together with government, community programmes, academic institutions, and investors to open, operate and scale revenue generating enterprises that provide a social and environmental benefit as part of their core operations.

The Global Impact Investing Network (GIIN), for example, is a global group of investors and intermediaries who put capital to work at scale to generate social and environmental value in addition to financial return. The GIIN is a platform for leaders of the emerging impact investing industry to incubate the activities and institutions that can accelerate the impact investing industry’s maturation, and ultimately drive substantial capital to solve previously intractable social and environmental problems. Muhammed Yunus’s Grameen Bank is another such microfinance institution which serves about 160 million people in developing countries. These were people who under ‘normal’ circumstances could not access finance for their micro enterprises. The concept of the ‘Grameen Bank’ is a social enterprise and a social innovation of the people, by the people, for the people.

Social Innovation

Social innovation is about new ideas that work to address pressing unmet needs such as poverty, homelessness, violence. This phenomenon addresses these challenges by applying new learning and strategies to solve these problems. For *social innovations* to be successful and have sustainability, the innovation should have a measurable impact on the broader social, political and economic context that created the problem in the first place.

To a large extent, *social innovations* are innovations that are both social in their ends and in their means. Specifically, social innovations are new ideas (products and services) that simultaneously meet social needs (more effectively than alternatives) and create new social relationships or collaborations. In short, they are innovations that are both good for society and enhance society’s capacity to act.

A *social innovation*, therefore, can be defined as a novel solution to a social problem that is more effective, efficient, and sustainable. The value thus created accrues to society as a whole rather than an individual. A true *social innovation* is transformational. It permanently changes the perceptions, behaviours and structures that previously gave rise to these challenges. It is an initiative, product or process or programme that profoundly changes the basic routines, resource and authority flows or beliefs of any social system (e.g. individuals, organisations, neighbourhoods, communities, villages, whole societies). Consequently, the capacity of any society to create a steady flow of social innovations, particularly those which re-engage vulnerable populations, is an important contributor to overall social and ecological resilience.

A Basic Needs Approach

The meeting of the basic needs of people, particularly the poor, has come to be an important focus of development efforts in the emerging economies. This is largely due to the realisation that the benefits of previous development efforts have not reached the poor. The *basic needs approach* of development places the focus on the ends of development. This means a direct attack on poverty through meeting the basic human requirements of the neediest segment of society, the poor.

In the *basic needs approach* the prime aim is developing a sustainable project based on the community so that it can continue to meet its basic needs. The purpose of this thesis is to identify those elements in the planning process that contribute to the success of efforts to meet basic needs in developing countries. It is a 'bottom up' approach. In this situation the community concerned in the development process identifies its basic needs and takes control of the development process.

Within the context of a *basic needs approach*, *social entrepreneurship* and *social innovation* can contribute significantly towards meeting immediate and long term needs. For example, if the immediate need of a community is to secure water as a social service, then *social entrepreneurship* and *social innovation* can not only contribute towards meeting that short term need, but also direct improvements in health, economic and social conditions of that community, thus, contributing to sustainable development. As a consequence, the basic need of the community, i.e. water, becomes the focal point of sustainable development - not an individual but the collective.

An Alternate Model of Entrepreneurship

In order to address the question of small business development and entrepreneurship in South Africa, we need to add a perspective to the global conversation already under way

about how we move existing paradigms in crafting responses to social, economic, and environmental challenges.

Fundamentally, it is about leveraging government funding, private enterprise and capital for public benefit. This is referred to as *social entrepreneurship* and *social innovation* which can be defined as the application of innovative, practical, sustainable, business-like approaches that achieve positive social and environmental change, with an emphasis on indigent populations. Moreover, our current economic system is designed to stimulate growth through a market mechanism that historically channels investment capital based only on financial results, while government seeks to address market failure through spending and aid. As neither conventional businesses nor traditional charities, social enterprises blur existing boundaries and “fall through the cracks” of existing policy frameworks, forcing them to navigate a multitude of challenges along their path to scale.

What sort of challenges do social enterprises face and why is its application difficult in South Africa? Generally, corporate legal structures do not recognise dual-purpose business models and tax systems rarely distinguish between companies that benefit society and the environment and those that damage it. Regulation is designed to protect investors from excessive financial risks but never recognises that their decisions may be influenced by a desire to seek positive social or environmental impact.

Overcoming these challenges is vital to moving beyond the goodwill of individuals and delivering on social entrepreneurship’s promise as a sector, and well-designed policy tools and incentives clearly serve as the foundation. The ecosystem that will support and stimulate the growth and development of social enterprises and the financial infrastructure that will fund their replication will not just happen without catalytic government and private sector support.

Both government and private sector need to realise that global research suggests that social entrepreneurs tend to be more positive and tenacious about their enterprises. They provide an alternative business model for firms to trade commercially in an environmentally and socially sustainable way.

These businesses are formally constituted companies with a revenue stream from trade in goods and services. They are businesses with “primarily social objectives, whose surpluses are reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners. The essence of this definition means that any surplus or profit is recycled for the benefits of the activity, rather than for shareholders or directors. As a result of their structure and

constitution, they are able to serve a triple bottom line achieving profitability, societal impact and environmental sustainability, simultaneously.

Finally and without question, the balance of power lies in the hands of government and business. If a values-driven approach to government and business can begin to redirect this vast power towards more constructive social ends than the simple accumulation of wealth, then social enterprise and social innovation have a major role to play in the overall development of South Africa. As indicated in the GEM report of 2013, the current approach of promoting and sustaining entrepreneurship and small business development is simply not working as planned. We need a major transformation in our thinking and planning for entrepreneurship.

The proposed new embedded entrepreneurship curriculum for MBA programme and the new Entrepreneurship Hub under the aegis of the Directorate of Research, Innovation and Outreach at REGENT Business School plans to use this new social value-driven concept of entrepreneurship as its habitus for outreach in small business development.

We welcome any suggestions, comments or critique.

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