



Which are the main challenges social businesses face?

Today, what are the opportunities for social businesses? In theory, most of the population's basic necessities are not satisfied, and social businesses are profiled like a tool that has high potential to increase incomes, access to education, to health, to water, to housing and other basic rights for thousands of people. In this group of particular entrepreneurs, another opportunity is that they have a very specialized knowledge, validated by years of experience, to achieve opportunity equality. The 23 social entrepreneurs gathered in Sao Paulo also talked about the trends of Just Commerce and Responsible Consumption as emerging opportunities.

Now, what are the barriers or challenges, the dilemmas that social businesses face? Here, some of them:

In the first place, many of us believe that we are on the edge of a new culture, a model that is totally new. **Social business is not merely an enterprise with social impact**, but rather, a whole new way of making business, one with a different governance model (as communities participate in the decision making process), an inclusive — and so a more expensive -- productive chain, a new way of redistributing profit, a way of establishing product prices, promoting a healthier and more sustainable consumption culture. This new paradigm implies a strong need for dialogue between existing social businesses, governments, traditional businesses, and other players that can provide strategic inputs.

- **Tension between social and economic goals:** social entrepreneurs seek systemic social change, and in this context a social enterprise is a tool for them to achieve this. They seek profit but not to an extent that this may harm the positive social change they are intending to create. This is a critical point that requires social business managers capable of dealing with the economic-social tension, to measure tradeoffs. Just a very simple but graphic example: A potential client asked [Granja Andar](#), for a pasta catering during a Sunday; Raul's dilemma: "if I make disabled youth work on a Sunday, this will certainly have a negative effect in them -- their bonding time with the family, leisure time, etc -- if I reject the client I will be probably closing an important door for future sales."

- **Break-even will definitely be achieved later than in a traditional business:** This isn't related to the capability of a social organization to initiate a for-profit venture, but rather, to the motivations behind why this business was created. If it employs individuals with disabilities or who have suffered domestic violence, they will use the line of work as a way to be inclusive of marginalized populations, but who will absorb these higher production "costs"? [Greg van Kirk](#) mentioned how expensive it was to be the first business to start a new marketplace where there isn't any competition. [Gustavo Gennuso](#) also mentioned how expensive – but necessary- it was to distribute the water pumps at first, when he used to partner with other organizations, until he finally was able to evolve the model to the most adequate method: micro-consignment. To this point, pricing of products and services plays a key role. How to establish make sure that "the business remains in the black", while ensuring that the products are truly accessible to lower-income populations? How does this all play in the profitability of a social business?

- **Access to funding:** the challenges to access to funding for social business have several causes a) lack of information of social investment funds, angel investors for social business or venture philanthropist, b) the emerging market of social financing still lacks clarity and parameters, c) social businesses with diverse organizational structures need a supply of capital with a wide combination of financial instruments — grants, patient capital, equity, quasi-equity --, and this is not always fully understood yet (neither by the social

entrepreneurs, nor by investors)-, d) different expectations between potential investors and social enterprises regarding the social and economic return on investment.

- **“Holding” management:** Due to the lack of specific legislation in Latin America, social enterprises adopt diverse legal forms. Moreover, the majority of the social enterprises are composed of 2 or more organizations –
- for and not for-profit -- under an umbrella holding ([Ciudad Saludable](#); [Agencia Mandalla](#), [Aliança Empreendedora](#), [El Arca](#), [La Usina](#), among other examples), and this impacts a) the management side –which is the role of the “original organization” as a social controller, how to build a healthy and organic interaction between the different organizations to leverage them, how is the governance of the holding-, and b) on the communication of this to external audiences.

- **HR:** like in any business, the team is critical for the success of the social business. The transition from nonprofit to for-profit brings two main challenges in this area. 1) the team needs to shift into a new “for-profit” culture, to embrace it, and this is something that always brings tensions 2) new skills are needed in the CSO -- finance, marketing, etc -- and many times social entrepreneurs underestimate their importance for the success of the business.

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