



## Social Enterprises: How are they different from traditional businesses?

As we have discussed many times with Ashoka Fellows and other groups, when we speak of social enterprises, or social businesses, many of us believe that we are facing a new paradigm. A social business is neither a CSO using market tools to be sustainable, nor a business with social impact; actually a social business involves a radically new way of operating, with elements that make it essentially different from a traditional business. "We have to try new ways," insists Ashoka Fellow [Pablo Ordóñez](#)

Why is this a new way of doing business? **The difference starts with the mission: in social business or enterprise, the social benefit is the *raison d'être*, and the generation of economic surplus, a means to achieve it.** This fact modifies in essence the entire operation of an enterprise, it affects its governance, its value chain, the way it relates to stakeholders, the pricing process, and even how the economic benefits are distributed. It influences the decision-making process and the distribution of power within the organization. Leadership and team building take on a new dimension. Some go further, and promote a new consumer consciousness.

Often the fact that the company is profitable, but it prioritizes its social objective, can generate considerable tension for its leaders, especially in cases where boosting profits can hurt the pursued social benefits. A simple but graphic example is a dilemma that arose recently in [Granja Andar](#) ([explored in my last blog post](#)) which provides a catering service employing people with intellectual disabilities: Raul Lucero had to choose between accepting to deliver on a Sunday, which would generate revenues for the organization, and making sure that his objective of improving the quality of life of his workers was achieved, and therefore not making them work on a Sunday, which is an important family day for them. These kinds of dilemmas are faced by social business managers, both on a daily basis and also at more strategic levels. Therefore, it is critical that **they have the insight and vision to measure tradeoffs, to make the necessary balance between profitability and positive transformation that the enterprise is seeking.**

In a social enterprise it is likely that economic breakeven is reached later than in a traditional company. This has nothing to do with the degree of a CSO's capacity to manage a business, but with its social mission. If your value chain employs people with disabilities or people who suffer from domestic violence –in fact, you are using employment as a means for social inclusion for these people–, who absorbs these higher “production costs” of training them, empowering them and mentoring them so they can actually be part of the production chain effectively? In another aspect, [Greg van Kirk](#) (picture above), who provides access to critical health and energy products in isolated rural areas through microfranchising, mentions the higher costs that it has to become the first company developing a new market where there is no competition. [Gustavo Gennuso](#), who distributes accessible social technologies to improve rural communities' life quality, shared that in its beginnings, ETV distributed technologies through partnerships with social organizations working in the field. Although this strategy was key for them to get to know the field and thanks to it today the enterprise is ready to shift to a new more efficient distribution model –microfranchising–, anyway the economic cost of the initial model was extremely high. **There is a whole learning curve in the process of refining this new social business paradigm that is critical, but also has high costs.**

Another characteristic is **the governance model of the social business.** In them, the decision-making power is not directly linked to the ownership of capital. Moreover, precisely because among the explicit objectives of many of them is to generate leadership in the communities they are working for, they actively involve the

various groups affected by the business-customers, partners, employees in decision making process. Sergio Arango, from [Naidí](#), is creating a model in which the acai collectors in Pacific Colombia have shares in the social enterprise. "Governance is the backbone of a social business and a critical factor for effective transformation of society," says [Vivianne Naigeborin](#).

Linked to this point, to **define an affordable price of products and services also plays a key role**. How to establish a pricing system that on the one hand makes "the numbers of businesses close", and on the other, products and services truly accessible? How this influences in the profitability of a social business? Who decides the price of a product or service? [El Arca](#), for example, implements an open pricing system, in which both producers and consumers know how the price of each product is composed, and this facilitates dialogue and the possibility of negotiating a fair price for everyone involved. [ASEMBIS](#), meanwhile, drives a multi-tiered pricing system according to the populations they serve and their ability to pay.

As in any business, **the team that implements it is critical to its performance**. Now, which profile is needed to run a company that faces the double challenge of being profitable and generating positive social transformation? People with extensive experience in developing mechanisms of inclusion and participation of vulnerable communities? Yes. People with a business profile, experts in marketing, finance, administration? That too. One of the great challenges of the social enterprises is to find individuals with this "double" profile. Others choose to integrate a business profile team with the social team who is already working in the organization, and this creates considerable tension that must necessarily be resolved. This is the case of [Fundación Solidaridad](#) which seeks to improve the income of small producers providing access to international markets. Winnie Lira, its founder, shares "We have two different profiles in the organization: the "social" team -working in the production area with women producers-, and the "commercial" team, focused in selling the products. There is a constant tension between them: while the former argue that respecting the rhythms and traditional production habits of the women and promoting their inclusion is key to the social impact of the initiative, the commercial group is pushing to comply deadlines and production volumes and quality to meet the client's demands. There was a time when the tension was such that my board suggested me that I created a separate for-profit company with the commercial area. This was unthinkable for me; as I honestly think that the discussions on our Monday team meetings are necessary for both groups to reach an agreement and understand that both aspects are critical to have a healthy social business".

The field of social business is walking a path, many of its forms must still be rethought. Nothing is completely defined. A lot of questions are raised and still need an answer. "Social enterprises are a total change in the conception of something, not just a part of it; new different actors –that we do not even know about- must get involved," says Gustavo Gennuso. What for sure is a fact is that it is complex to manage a business or a traditional CSO, to lead a social enterprise is even more so, due to all we have been discussing, plus other issues we will continue to bring up. And all those entrepreneurs and their teams who are walking this road today are assuming the high cost of being the "spearhead", but they're also testing –and evidencing- that a new model is possible, one that generates new economic opportunities and higher levels of ownership, inclusion, participation and opportunities for the majority

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