

Planting the seed FOR A NEW PHILANTHROPY

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Social entrepreneurs are going out on a limb, blending business and big-heartedness in a bid to generate benefits for shareholders and community members alike.

They're dubbed a cross between Richard Branson and Mother Teresa. They combine the business brain of a corporate executive and the heart of a good Samaritan. And they're carving out a niche for themselves somewhere between the business and charity worlds. They're social entrepreneurs, and they're mostly in it for the mission, not just the money.

But profit is not a dirty word. This new breed of young (and not-so-young) people is tackling society's problems by setting up social businesses with the aim of covering the costs of trading; any surplus cash is often reinvested in the cause.

Social entrepreneurs spot a gap where a social need is not being met, then aim to meet that need by harnessing aspects of traditional business. But their primary goal is not to make shareholders wealthy.

"A social enterprise runs like a business — it's a hybrid of a business and a civil society organisation," explains Vivian Gee of the Schwab Foundation for Social Entrepreneurship. "The social mission is the number-one goal, whether the business is for profit or not for profit. The organisation aims to have income generation, so it's not totally dependent on donations. However, definitions and standards are still evolving as the social enterprise sector has not yet matured."

For many, the beauty is in the blending of business practices with doing good — and while you'll probably never get rich, you can aim to pay yourself a reasonable salary once the business is established. The idea is becoming so popular that Australia is now following the lead of other countries and offering study courses in social enterprise.

HUMBLE BEGINNINGS

Streat is one of Australia's most exciting new social enterprises. Started in Melbourne in 2008, it's the brainchild of Rebecca Scott and Kate Barrelle. After working with a restaurant and training program for street youth in Vietnam, the pair decided to launch food and coffee carts in Melbourne's CBD. The carts are staffed by young homeless people recruited from social support and welfare agencies, such as Melbourne Citymission and the Salvation Army. The goal is to empower them to get back into the workforce by way of a six-month training program during which time they receive a Certificate II in Hospitality. And although Streat is a registered charity, it is run using a business model.

At present, Streat operates three carts. It aims to add another to its fleet every six months until the business is financially sustainable. It was started on more than ▶





a \$500,000 donation and Scott says they were lucky enough to secure funding during the global financial crisis. Her hope is that by the end of 2014 the business operations will be covering all of their costs.

Scott was mentored by Cheryl Kernot, associate professor and director of social business at the Centre for Social Impact at the University of NSW, which has run a postgraduate certificate in Social Impact for the last two years. According to Kernot, social enterprise is pressing all the right buttons at the moment.

"There is an increasing number of business students who don't want to work in the for-profit world, and also corporate refugees and intrapreneurs (those who harness innovative practices typical of an entrepreneur to bring about change within their existing corporate organisation)," Kernot explains.

This 'mushrooming' interest is fuelled by a number of factors. "One driver is the internet, which gives businesses, such as non-profit micro-lending organisation Kiva (www.kiva.org), a platform," says Kernot. "Another is an emerging critical mass of educated, youngish people with some business skills who ask questions like: 'How come millions of people without electricity can't get clean, bright light after dark?' and then they do something about it. In addition, there's a real belief that we can no longer look to governments and big institutions to solve social problems — that government is an enabler rather than a provider."

TOMORROW'S LEADERS

As head of Asia at the Schwab Foundation, Gee is responsible for selecting leading social entrepreneurs. She says the current economic climate has also had a marked impact on the rise of social enterprise. "After seeing the dark side of capitalism, young people are perhaps wondering, 'How could it have gone so wrong?' and are thinking about how to blend social purpose and business for a more meaningful career. Inevitably, this means the trade-off is that they won't necessarily earn as high a salary, but it's not dampening their curiosity," says Gee.

"We're seeing more social entrepreneurs from the private sector, and more women," Gee adds. "In the 1990s, when the term became a buzzword and there was an explosion of interest, there were perhaps

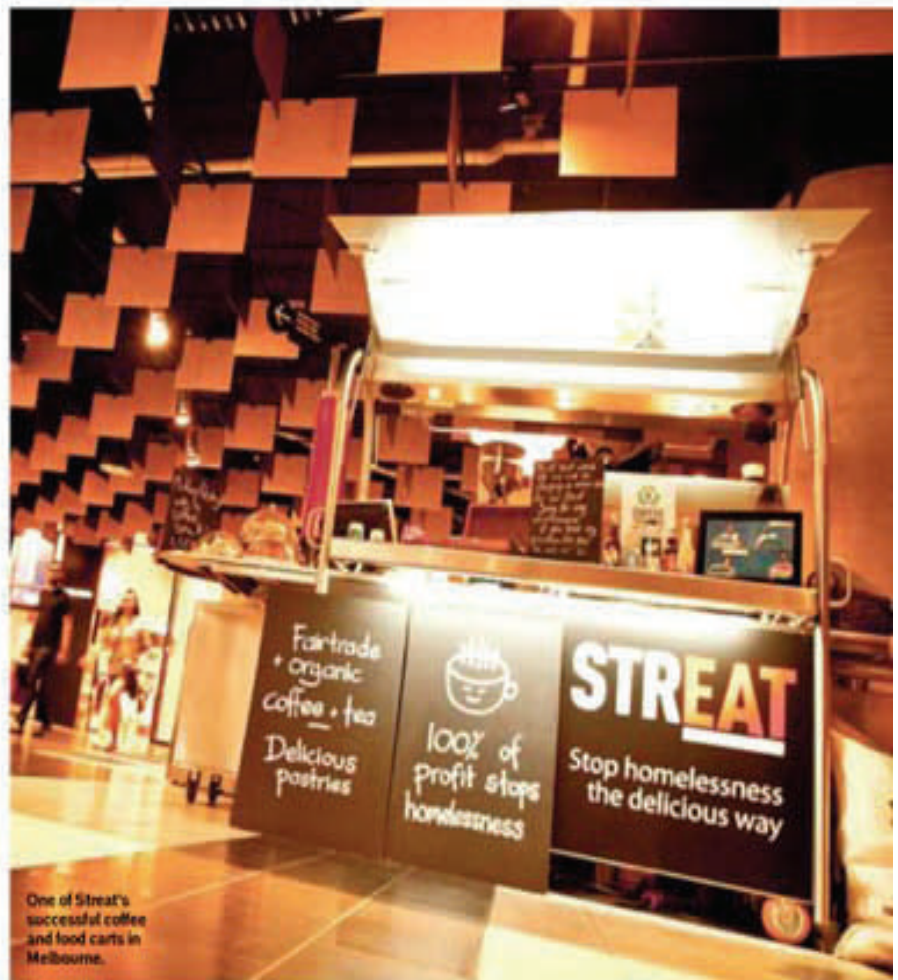
more self-identified social entrepreneurs from the United States and the United Kingdom. Now, however, hotbeds for social entrepreneurship also include Brazil, Kenya, Indonesia, India and Egypt. Another thing we're noticing is that social entrepreneurs are becoming serial entrepreneurs — starting a social enterprise, bringing it to maturity, then moving on to start another one. And we're increasingly seeing other supporting players come into the picture, such as consultants, incubators, venture philanthropists, social investors, think tanks and universities."

Funding is an area in which early-stage social entrepreneurs face challenges. "The funding market is not mature and

there is a need to be highly creative — for instance by exploring options such as crowd-funding," says Benny Callaghan, the Australian CEO of the not-for-profit organisation School for Social Entrepreneurs (SSE). "Social entrepreneurs need more flexible financial terms than commercial business start-ups, such as loans with low interest, no interest or holiday periods, or even a grant that's only repayable if the business goes on to make a profit."

The landscape is changing, not just for these entrepreneurs but for their funders. "Venture philanthropists don't just want to donate money and go away," says Kernot. "They want to be on the board, bring their business discipline to the ▶

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One of Street's successful coffee and food carts in Melbourne.



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“There is an increasing trend for philanthropists to demand greater accountability and transparency,” adds Callaghan. “They want to see their investment decrease as the sustainability increases and they want to see revenue from other sources as well. They want a bigger bang for their buck. It’s all about leverage. The not-for-profit world is going through a shake-up.”

THE GROUND-BREAKERS

It may sound innovative, but social enterprise isn’t new. Florence Nightingale is often cited as one of the pioneers for her work in establishing nursing in the 19th

century. One of the best-known modern social entrepreneurs is Muhammad Yunus, who started the Grameen Bank in Bangladesh in 1970s. By lending US\$27 to 42 families, he pioneered the concept of microcredit (small loans to the poor to encourage entrepreneurship).

Another is John Bird, who started the not-for-profit UK street magazine *The Big Issue* with Gordon Roddick in 1991. It gave its homeless vendors a chance to earn an income by taking a percentage of each magazine sold. *The Big Issue* is now published here in Australia as well as in seven other countries.

“Those of us building social enterprises today are standing on the shoulders of these giants,” says Scott. “They made us

realise we could solve social issues through the marketplace and have helped educate us about what it means to be an ethical consumer. People like Yunus have also shown us that scale is possible, and that solving large issues needs grassroots solutions.”

Another of these ‘original’ social entrepreneurs is Nic Frances, founder and executive chairman of Cool Nrg, a for-profit company whose purpose is a mass reduction in global carbon dioxide emissions using energy efficiency, with a bias towards the poor.

“We help business and government reduce CO2 emissions by generating and trading carbon credits from our activities,” says Frances, who founded the company in 2007. Originally a stockbroker from the UK, he left his job at the height of the 1980s economic boom (“a very corrupt time — it depressed me”) to start a social business called the Furniture Resource Centre in one of the poorest areas in the UK. Because of its success, he was first labelled a social entrepreneur in the late 1980s during a TV interview. “I’d never heard the phrase before but thought it perfectly fitted what I do,” he recalls.

Frances moved to Australia, and in 2001 was invited to be one of the Schwab Foundation’s first social entrepreneurs. He’s also the author of *The End of Charity: Time for Social Enterprise* (Allen & Unwin, \$26.95). Despite the title, he says, “Charity has a role in terms of influence; it lets us know what the problem is. But if you want to change anything significantly, you have to get the market to engage with it.”

Frances remembers that when he first started out, people thought he was crazy, but what has changed since the 1970s is that there’s now a lot more momentum — and it’s gone global. “Yunus was basically isolated,” says Callaghan. “Now there is a whole movement around social entrepreneurship. It supports and speeds up the process, so people can fail early and fast, then succeed faster.”

Started in the UK 14 years ago and now in Australia for more than two years, the SSE offers an ‘action learning’ course in social entrepreneurship. Former student Julian Lee now runs the Sydney franchise of Food Connect, an organisation that links city folk to organic farmers by selling boxes of fresh produce set at a fair price for farmers, who are typically short-changed. Lee felt similar to Frances ▶



Nic Frances (left) spreads Cool Nrg's message at a supermarket.

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until he realised he was not alone. "Until you hook up with a network, everyone thinks you're crazy," he says. "You feel isolated — the business world thinks you're a hippie and the charity world thinks you're an evil money-grabber."

"It's no easier or harder than it ever was," says Frances. "It's never easy starting a business or a charity; the only difference now is all the books, the courses, the resources and articles available."

THE PRICE OF SUCCESS

Frances reinvested the \$5 million Cool Nrg made in its first two years into a project in Mexico, where he was paid a salary by his board and is currently a shareholder. Meanwhile, it took two years of working pro bono for Scott and Barrelle to finally be paid a salary.

Setting a salary is a tricky issue as a social enterprise CEO. No-one wants to be called a fat cat, but why should you undersell yourself? At Food Connect Sydney, there's a four-to-one gap between the highest and lowest paid employees, so in effect senior managers can't give themselves a pay rise without everyone getting a piece of the action. Kernot reflects: "There has not yet been a case study of a social entrepreneur profiting at an exorbitant rate. Given your stakeholders are generally the community, you have to be accountable to them. Most are happy to take a fair salary and see their social purpose grow."

Once upon a time you might have concentrated on your core business and done a bit of philanthropy on the side. Nowadays, though, people don't want to leave what they love to the weekend. "Social entrepreneurship is the changing nature of philanthropy," says Callaghan. "In the 20th century, welfare was a way to help those less fortunate. We are moving towards empowering communities rather than giving them money."

For every \$1 that's given to Streat, Scott says it generates \$4 in social return on investment. She estimates they save the government \$2 million a year by taking people out of homelessness — and its associated welfare, justice and healthcare costs — and getting them into employment, which means they start paying tax back into the system.

Scott welcomes professionalisation of the sector, to give social enterprise its own niche and to put it on the radar with governments and investors. "Australia is



Food Connect Sydney family eat out the middle man and link local organic farmers with customers.

lagging behind the US, which recognises community-interest companies and taxes them at a reduced rate," she notes. "We and other social enterprises are doing the work of welfare agencies but far more efficiently. It makes sense for government to provide incentives for social enterprises."

Streat is truly at the forefront of Australian social enterprise in that it's now looking to take on social investment in the next couple of years.

"It's an enormous leap for us," says Scott. "It'll be a commercial arrangement like a bank loan. The difference will be that the investor is trying to build up their portfolio and is happy to make a blended return — a mix of financial and social — on their capital. They're enlightened investors and they're putting their money where they want to see capitalism going in the future."

What's also exciting about the future is the prospect of franchising individual carts for Streat's graduates, to encourage micro-enterprise ownership. "I really wish that everyone could watch their transformations up close the way we can," says Scott of the homeless young people they take on. "They inspire us with their determination and resilience."

If only we could all feel that good after a hard day's work. ☺

Social entrepreneurship IN NUMBERS



*Source: Big Volunteer Challenge survey 2007. Based on: Judith Downes at www.socialentrepreneurs.com.au