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FROM THE EDITOR

Issue 12, SUMMER 2011-12

Social Entrepreneurship: The Revolution Matures

The discourse around social entrepreneurship continues at a pace: more international conferences, research interest, journals and university courses are some of the identifiers. Alongside the continuing emergence of innovative start-up social enterprises and businesses is the reality that the field has matured sufficiently to begin to measure impact: some established social ventures have scaled up and succeeded and some have failed.

Hence I have included the recently published case study of **Better Place** a bold and exciting start-up (the second largest in history), which aims to transform the existing mature automotive industry and drive massive social change by reducing, if not eliminating, our reliance on the internal combustion engine and petroleum. **Too Good to Fail**, by contrast, is the first in-depth look at the failure of the iconic American 37 year old social enterprise, ShoreBank. The lessons extracted thus far make for compelling reading, especially the role of “toxic politics” in its demise.

CSI's ongoing interest and involvement in public policy has us following the UK's *Big Society* experiment with great interest. **The Building a Stronger Civil Society** document sets out the first steps the UK government will take. There is also a reference to the important role the government sees mutuals playing in this “smaller state” future.

Complementary to this is the paper presented to the International Social Innovation Research Conference I attended in September in London, **Legislating for Social Value?** The analysis of the debate on a Conservative MP's Private Member's Bill seeking to enshrine social value and the place of social enterprises provides fascinating evidence of the contradictory discourse between the public policy face of the Big Society initiatives and the ideological beliefs expressed by the Conservative speakers. The very recent amendments to the bill reflect this and call into question the commitment of a large number of Conservatives to the Big Society vision.

Social entrepreneurship in its more mature phase has also attracted its share of myths. The **Illusions of Entrepreneurship** is reviewed with this in mind.

You can get involved in discussing social entrepreneurship by reading and commenting on these related blogs and bringing an Australian perspective to a global discussion:

<https://secure.csi.edu.au/site/Home/Blog.aspx> (see *A Bill to enshrine social value: A Big Society agenda? Sep 23, 2011*)

<http://www.ssireview.org/opinion>

<http://www.socialedge.org/blogs>

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Issue 11, SPRING 2011

GUEST EDITOR: Cheryl Kernot

1. oikos case study on Better Place (Electric Powered Cars)

Better Place: Shifting Paradigms in the Automotive Industry
Dror Etzion and Jeroen Struben (McGill University, Canada)

This paper identifies four key developments in the transformation of the social capital market from an inefficient form, where the funding of services is strongly relationship-driven and centred around grants and fundraising, to a more efficient market which allocates funds according to value (social change and demonstrated impact). It is written by a founder of UBS Philanthropy Advisory Services, Maximilian Martin, who has been an active participant in the development of global philanthropic culture and practices for several decades. UBS Philanthropy Advisory Services was one of the first investment-bank-housed specialist services in this area.

This is the 2011 winner of the oikos Case Study competition in which oikos and Ashoka join forces to promote the creation of high quality teaching cases on Corporate Sustainability (supported by oikos foundation) and Social Entrepreneurship (supported by Ashoka). The competition welcomes entries from all parts of the world. Written feedback is given to each case contributor. The editor (Cheryl Kernot) is a judge for this competition and has chosen this example because of its strong connection with Australia through Evan Thornley, Chief Executive of Better Place Australia and also because it illustrates the capacity of social entrepreneurs to drive huge systemic change.

Case Abstract

“In a bold bid to dramatically reshape the automotive industry, start-up company Better Place is attempting to shift transportation from reliance on the environmentally destructive internal combustion engine to electric power from renewable sources. In order to overcome the limitations of current technology and utilize off-the-shelf hardware, Better Place is rolling out an extensive infrastructure to provide ubiquitous charging opportunities in the hope that this would satisfy virtually all driver requirements.

In pursuing this massive transformation, Better Place is promoting a paradigm shift in the business model for personal transportation, by shifting sales from products (cars and gasoline) to services, by selling its customers “miles”. The end goal is to truly make the world a better place by substantially reducing the environmental and social impacts of the transportation sector’s reliance on petroleum.

The case highlights the challenges of transforming a mature industry which is central to modern society. It includes a brief history of the automotive industry to date, illustrates various unintended consequences of its expansion, as well as provides overviews of various competing automotive technologies (hybrids, hydrogen fuel cells, etc.)

The case surveys the various aspects of the Better Place model, and probes its advantages and shortcomings. It also examines the Better Place rollout strategy, as an upstart entrepreneurial company attempting to grow and expand internationally at a very rapid pace. Besides a complex economic business model specifying large upfront investments in multiple dispersed international locations, key challenges include:

- How to convince established automotive producers (or newcomers) that Electric Vehicles are the way forward?
- Whether and how to coordinate infrastructure and standards? And,
- How to convince consumers to make the leap of faith and switch to an electric car.”

There are thirteen “exhibits” such as those which set the context of the challenge:

- Gasoline and Electric car cost per mile comparison
- Worldwide Petroleum Use by Sector

and the particularly interesting forward thinking components

- Battery Swapping Stations plans
- Graphical Representation of the Better Place concept
- Photos of charge spots and demonstration vehicles

In all, the case study excels in explaining how the business model will attempt to achieve both massive social transformation and financial returns.

Full case available here: <http://www.oikos-international.org/academic/case-collection/inspection-copies/competition-year/2011.html>

2. Shorebank: Too Good to Fail?

Stanford Social Innovation Review Fall 2011

“On Aug. 20, 2010, the Illinois Department of Financial & Professional Regulation closed ShoreBank, the nation’s first and leading community bank, and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver. The closure was not unexpected. Reports of the bank’s problems—and a potential rescue—had been circulating for months. But the closure brought to a bitter end an iconic example of progressive social enterprise.”

ShoreBank was 37 years old. This article takes a first look at why ShoreBank failed recognising that the full answers will take years because various economic, governance and political factors are involved with varying degrees of influence. The article also extracts lessons for the social enterprise community from both ShoreBank’s record of success and its closure.

ShoreBank Corporation was iconic in the States in that it inspired the growth of Community Development Financial Institutions (CDFIs) through the success of its for-profit bank subsidiary which had more than \$4.1 billion in mission investments and more than 59,000 units of affordable housing. It also worked with Muhammad Yunus to capitalise the Grameen Bank. For almost four decades it created social value and modelled innovation. Its dual mission of joining regulated banking activities with traditional economic development activities was radical in the nineteen-seventies.

Interviews with two of the founders and others familiar with its history and activities have informed this first analysis.

3. The UK's Big Society experiment: "the move away from Big Government"

The article examines as factors contributing to its collapse:

- Whether ShoreBank was simply a victim of GFC realities;
- Whether management errors (including ineffective risk management) and misjudgements by regulators made the bank vulnerable;
- Why it was not seen as "too big to fail";
- The "toxic politics": political pressures on the vote against extending specific rescue funding which President Obama had approved as being for CDFI banks which targeted more than 60 percent of their activities to underserved communities as ShoreBank did.

In summary the lessons learnt thus far are:

- Creating social value for the community came at the financial cost of the extended time it took to reach a breakeven point;
- Lower deposit minimums (designed to create greater access) meant smaller account balances than the industry average;
- The loan business had smaller average transaction sizes and therefore smaller fees earned despite requiring the same administration time as larger loans yielding bigger fees;
- Mission remained important throughout with ShoreBank's social investors sharing the commitment that their investments were for social purpose returns not for maximising the return on their capital;
- Nevertheless this small number of mission-aligned investors created long-term structural issues in that none of them had any liquidity for their shares and ShoreBank needed ongoing access to growth capital;
- ShoreBank's growth created internal challenges: heavy travel schedules of the founders and a management structure that required a high level of direct supervision;
- It had proven difficult over ShoreBank's life to attract and hire future leaders who had both top banking skills and a commitment to social values.
- When knowledge of "problems" becomes public "toxic" partisan politics can intrude and work against sensible solutions.

The article concludes with the view that ShoreBank's legacy lives on in the community development banks it inspired and in the acceptance of the notion of dual missions.

Subscribers can access the full article here: <http://www.ssireview.org/>

The UK Conservative-Liberal Democrat coalition government has embraced a vision for a *Big Society*, described by them "as helping people to come together to improve their own lives. It's about putting more power in people's hands – a massive transfer of power from Whitehall to local communities; allowing more diverse providers of public services and greater power for communities to make local decisions, bringing huge opportunities to charities, voluntary groups and social enterprises."

The three key parts to the Big Society agenda are:

- **Community empowerment:** giving local councils and neighbourhoods more power to take decisions and shape their area.
- **Opening up public services:** enabling charities, social enterprises, private companies and employee-owned co-operatives to compete to offer people high quality services.
- **Social action:** encouraging and enabling people to play a more active part in society. National Citizen Service, Community Organisers and Community First will encourage people to get involved in their communities.

Unsurprisingly, critics see in this a sophisticated rationale for the current cost-cutting being applied across the public and social sectors. They anticipate that the government's underlying expectation is that social enterprises, charities, voluntary organisations and community groups will deliver public services at lower costs (to government.) A factor in this is the failure of the social sector to adopt the full cost-recovery practices used by private sector tenderers.

Building a Stronger Civil Society

<http://www.cabinetoffice.gov.uk/resource-library/big-society-strategy-support-charities-voluntary-groups-and-social-enterprises> sets out the first steps the UK government will take. It includes plans to give public sector frontline staff the right to set up their own social enterprise, specifically mentioning co-ops or mutuals, to provide public services.

UK Minister Francis Maude says that "ownership also empowers employees to redesign services around the needs of their users and communities, and can ensure that services are more efficient. This is why employee ownership in public services has the potential to be transformative." <http://www.cabinetoffice.gov.uk/resource-library/francis-maude-speech-unveiling-new-support-mutuals>

The focus on co-ops and employee-led mutuals is an interesting component in this strategy, one that has been missing in recent Australian governments' perspectives. In Australia demutualisation has been very much the accepted orthodoxy. Despite the absence of an enabling environment in Australia, the Big Society agenda can be seen in mutuals delivering health services: the [Girudala Community Co-operative Ltd](#), an indigenous community controlled organisation which provides housing and health services for Aboriginal, Torres Strait & South Sea Islander people in the towns of Bowen, Collinsville & Proserpine in Qld and the [West Belconnen Health Co-operative](#) in Canberra which opened in December 2009. The patient users are its owners.

There is ample room for social enterprises to play a central role in delivering innovative health (and other) services in Australia.

4. Legislating for Social Value

Teasdale, S., Alcock, P., & Smith, G. 2011. Legislating for the Big Society? The Case of the Public Services (Social Enterprise and Social Value) Bill, paper presented at Social Policy Association Conference, University of Lincoln, 4-6 July 2011.

The Public Services (Social Enterprise and Social Value) Bill, a Conservative MP's Private Member's Bill to enshrine the importance of social value creation and social impact is making its way through the UK Parliament. The Bill was formally described as "A BILL TO Require the Secretary of State and local authorities to publish strategies in connection with promoting social enterprise; to enable communities to participate in the formulation and implementation of those strategies; to require that public sector contracts include provisions relating to social outcomes and social value; and for connected purposes" (House of Commons, 2010)

In implementation this means that before a public authority invites bids to provide goods and services it should be compelled to consider how it (the authority) might "promote or improve economic, social or environmental well-being" by means of any contract and that it should consider how to take these matters into account as part of its awarding criteria. (see CSI's Social Procurement research papers which investigate the use of *social clauses* and *creating shared value* procurement practices in Australia at: http://www.csi.edu.au/project/Social_Procurement_in_Australia.aspx)

The Teasdale et al paper uses the Bill's progress to explore "the possible contradictions in political principle made explicit in political practice that lie at the heart of the Big Society discourse and across competing political governing philosophies in the Conservative Party."

The authors' analysis of the parliamentary debate using the Hansard record reveals contradictory discourses around three key issues:

1. Should voluntary and community organisations and social enterprises (VCSEs) be given a fiscal advantage to deliver public services?
2. How should social value be conceptualised?
3. What should be the role of legislation in creating the Big Society?

And further, the authors argue that these contradictory discourses are symbolic of wider unresolved tensions within the Conservative Party, which are played out within the Big Society agenda:

"The support of the government for the principles of the Bill would suggest that the Big Society is in the ascendancy. However closer scrutiny of the position expressed by the Cabinet Office on behalf of the government reveals that the compromise position is likely to favour Market Liberals within the Conservative party."

The Bill's second reading debate, it is argued, exposed the different ideological and policy frameworks underpinning the Big Society and Market Liberal approaches to public service reform, with supporters of market liberalism favouring a traditional *laissez-faire* approach and Big Society protagonists arguing for legislation to tilt the playing field in favour of VCSEs.

According to the authors their analysis of the debate also revealed that there is general consensus among Conservative MPs that the role of the state in the direct delivery of public service should be reduced as part of a reform of public services aimed at a re-balancing of the mixed economy of welfare. But there is considerable disagreement as to which organisations should fill the gap. From a Big Society perspective there is a clear preference for VCSEs delivering publicly funded services, not only because of the additional social value they create, but also because they might reinvest surpluses from delivery these contracts to:

"...innovate and expand their activities, using their funding to further build their capacity and strengthen their community base"
(Chris White who introduced the Bill)

However, Market Liberals, whilst recognising that supporting VCSEs to deliver public services may be a laudable aim, also argue that these organisations may in practice be unsustainable and cost the taxpayer money by virtue of their inefficiency.

On the matter of measuring social value, Big Society proponents see social value in terms of reciprocal links and a cohesive society; that VCSEs delivering public services create additional social value when compared with public and private sector deliverers, for example, through the employment and training of long-term unemployed people, engagement with local communities and engendering public trust.

Market Liberals, however, argue that because all enterprise seeks to create value for other people it is necessarily social and a separate category of social enterprise is unnecessary.

Some MPs appeared to straddle both camps, arguing that social value can equate to financial value that is retained within communities, with one arguing that the term 'social enterprise' should be extended to include locally-owned businesses.

With respect to the third area of contradictory discourse, whether there is a role for legislating the Big Society, Market Liberals were opposed and expressed specific concern about mandatory procurement processes.

Since this paper was published amendments to the Bill have been made: removing the term 'social enterprise' from the title, removing the requirement on government to draw up a national social enterprise strategy, and removing the proposed duty on local authorities to set out how they will engage with local social enterprises.

It seems the tenet of the paper - that the Market Liberals within the Conservative party would succeed in any compromise has been proven.

The paper can be found at:

<http://www.socialpolicy.org.uk/lincoln2011/AlcockandTeasdaleP3.pdf>

5. Book Review: The Illusions of Entrepreneurship

Book by Scott A. Shane, 2008, Yale University.

Reviewed by Cheryl Kernot

UK social entrepreneurship and social innovation pioneer, (currently CEO of NESTA), Geoff Mulgan recommended this book as a useful and interesting read. I wanted to see whether the same "illusions" might apply equally to *social* entrepreneurs.

Specifically written for the diverse audience of entrepreneurs, investors and policy makers Shane's motivation in writing is to challenge the repeated and unhelpful myths surrounding entrepreneurship discourse: how so many "*penniless dropouts become multimillionaires*", how "*entrepreneurs are a rare breed*" "*a kind of genius who is born, not made*". Social entrepreneurship discourse has also often been quick to embrace the notion of the "charismatic hero leader" such as Muhammad Yunus.

Shane also says that the myths that "*start-ups are a magic bullet that will transform depressed economic regions, create a lot of jobs, generate innovation and conduct all sorts of other economic wizardry*" have led to (poor) government policy choices in favour of all sorts of concessions, subsidies and exemptions to people who start businesses. "*Any businesses.*"

He challenges these myths by compiling and analysing data: "good data"! In fact there are thirty-three pages of notes about the data at the end of the book.

Chapters cover such topics as: *Who becomes an Entrepreneur? How Well Does the Typical Entrepreneur Do? Why Don't Women Start More Companies? Why is Black Entrepreneurship So Rare?*

Some interesting findings include:

- The U.S. isn't a very entrepreneurial country; Peruvians and Ugandans are three-and-a-half times as likely as Americans to start their own businesses;
- The typical start-up isn't innovative, has no plans to grow, has one employee and generates less than \$100,000 in revenue;
- The typical start-up is capitalised with \$25,000, taken primarily from the founder's savings; (very similar to social enterprise start-ups.) Studies show though that the size of a business's start-up capital enhances new business survival;
- The outcomes are worse for businesses started by women and blacks;
- Knowing your industry/sector matters; working in an industry/sector before starting a business in it will improve your odds of success.

The chapter on what makes some entrepreneurs more successful than others has great applicability to social entrepreneurs if they are to avoid making decisions that actually reduce their chances of success.

Crucial to that success is the importance of financial controls, of focussing activities on a single product service or market when first starting out, and avoiding the folly of competing on price when it might be better to compete on service or quality, or in the case of social enterprises, unique local knowledge and presence.

The book's conclusions are as challenging as the myths!

Shane argues that rather than believe that we will be better off both as individuals and as a society simply if more people become entrepreneurs, we need to change our basic assumptions: it is naive to believe that all entrepreneurship is good; only a select few entrepreneurs will create the businesses that will take people out of poverty, encourage innovation, create jobs, reduce unemployment and address market failure/competitiveness.

It would be better, he argues, to identify the select few new businesses, out of the multitude of start-ups created each year that are more productive than existing companies and invest in them – as entrepreneurs, as investors, and as a society. I would contend that when we add the measuring of *Social Return on Investment* to the initial selection criteria we will see more public policy support for social entrepreneurs. He's not against entrepreneurship; he wants to create better entrepreneurs and public policy through a better understanding of what needs to be done.

Time to challenge the entrenched orthodoxy of not "picking winners!" [Ed]