Social enterprises: challenges, constraints and operating conditions regarding moderation of social injustice

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Abstract
No matter what the guiding mission, social entrepreneurs face a host of challenges and limitations regarding their stated objectives. This paper examines some of issues and provides an analytical framework for the clarification of those engaging or evaluating the performances of such organizational units. It reviews current developments with the aim of presenting a limited research agenda going into the future.

1. Introduction
No matter what the nature or their implied individual guiding mission, social enterprises (SEs) face a host of challenges and limitations regarding the implementation of their stated or implied objectives. This study examines the expanding but fragmented state of social enterprises (SEs) (see Milway, 2014), with a view to getting a better grasp, of the challenges associated with their contributions to the moderation of what are generally perceived and accepted as social injustices.

A social enterprise, for the purpose of this discussion therefore, may be defined as a for-profit or non-profit business that employs people, and earns income in order to help address perceived social or environmental imbalances (adapted from Business Dictionary.com). Three key issues emerge from this definition: a) a social enterprise is a for-profit or a non-profit organization; b) it employs people and earns income; and c) it uses people and income to tackle perceived social and environmental ills. Alternatively, SEs may be defined as “… entrepreneurial organizations that innovate to solve problems” (Bugg-Lavine, Kogut, & Kulatilaka, 2012).

Social entrepreneurs working through social enterprises, on the other hand, may be defined as independent business individuals, who act as change agents for society, working towards innovative approaches to existing systems or conditions, by seizing opportunities others may have missed, in order to develop positive sustainable solutions for society (adapted from Business Dictionary.com). From this, three key issues may be highlighted: 1) social entrepreneurs are business individuals; 2) these individuals are involved in innovative approaches aimed at missed opportunities; and 3) those opportunities are associated with sustainable solutions for societal improvement or betterment.

Drawing heavily on the themes identified above, and for the purposes of this paper, social entrepreneurship may be defined as the activities of independent business individuals working to provide innovative changes to existing systems, developing sustainable solutions for societal improvement and larger mega outcomes (see Kaufman, 2014). As such, it is the is the behavior and coming together of people with business-like methods, applying innovative solutions to social problems (see K@W, 2003).

Social injustice, on the other hand, is a recurring phenomenon which presents itself with variability in many social circumstances, entrenched by law and custom, and in many cases, that has become buttressed into broad normalized societal, passive acceptance and tolerance. As such, social injustice may be defined as the unfair and improper administration of laws, such that persons, of particular ethnic origins, gender types, levels of wealth, racial types, or religion, are treated unequally, and with varying degrees of bias and prejudice (compare with “social justice” in BusinessDictionary.com).

Having set the parameters for this discussion, the remainder of this paper is organized in this way: The following section examines social enterprises, in terms of the challenges facing those units.
The next section focuses on the constraints and limitations facing social enterprises, in terms of “the delivery of the goods.” This is followed by a discussion of the ideas presented. The paper then concludes with some recommendations for future research.

2.0 Social Entrepreneurship in Action Today.

Social ventures can be regarded as hybrids of government intervention in the economy, and in the operations of business enterprises. Sometimes, as will be discussed later, the regulatory environment warrants strict adherence to their social goals and financial reporting requirements. One enduring characteristic of such organizations is the concern to address the needs of disadvantaged and marginalized groups, by effecting changes in the status quo or “equilibrium” (see Osberg & Martin, 2015), regarding the moderating the severity of those, for quality of life improvements. Sometimes, the benefits of the entity’s output may be extended to other groups, and to the wider society as with environmental issues. Besides, some ventures may be operating in a hybrid form, as for-profits and non-profits entities, conditions that would be difficult for governments and businesses, in their search for viability, and moderation of the dependence on government aid and charitable donations (see TKacz, 2016; Martin & Osberg, 2015; Osberg & Martin, 2015). Some SEs might provide goods and services to some groups of customers, who, for a social good, may be willing to pay a premium. Here, those ventures might have market offerings that are necessary services, sold at more affordable prices than other providers, while making a profit (see Bugg-Lavine, Kogut, & Kulatilaka, 2012). An element of this can be seen in SE adoption and adaptations of the Freemium model (see Businessdictionary.com). This, a business model, permits free basic services provision, with the requirement to pay for any service deemed to be of premium quality.

Social entrepreneurial enterprises also convert the uncertainties found in their respective environments (the status quo and the existing economic “equilibrium”), into manageable risks. Thompson & MacMillan (2010) posit that the entrepreneurs behind those ventures, create models that go through iterations that test their operating assumptions. These models are altered continually, by what is termed “discovery-driven planning,” thereby lowering the costs of SEs. Here, too, the entrepreneurs within those ventures envision the uncertainties of what has not yet perceived by would-be competitors (see McGrath & MacMillan, 1995).

2.1 Funding

A constant in the organizational life of SE ventures is the need for sustainable cash flows. And as will be discussed later, an SE that delivers social returns can gain access to seed capital from donor groups—without having to sacrifice claims on its assets in exchange. Such seed capital, too, can be increased with equity capital, that can create residual claims on assets and debt capital, with claims on assets and cash flow. Note also, that this is in addition to government-provided subsidization from taxpayers or donors, whether or not the entity is operating as a for-profit or a non-profit (see Bugg-Levine et al., 2012; Osberg & Martin, 2015). Some tax-reform initiatives may moderate some existing relationships. However, the largest group of beneficiaries are potentially, those who suffer most from the disadvantages being experienced under the status quo, or the accepted economic “equilibrium” as a societal norm (see Martin & Osberg, 2015).

Crowdsourcing. Two general approaches used to finance SEs today, especially during the startup phase, are crowdsourcing and crowdfunding. One notable and enduring feature of SEs, especially those in the startup phase, is the challenge of time management. It can play a very significant role in finding financial resources. This challenge also relates, in part, to positioning the SE to take advantage of available resources on the internet. The crowdsourcing funding model is regarded as a quick way of finding interested investors, by using available websites dedicated to this purpose. As startups, SEs can organize around the benefits that can be gained from these websites, which, among other things, include:
1. Providing a virtual marketplace for investors, addressing needs associated with a variety of budget requirements in different economic sectors.
2. Giving SE founders a place to showcase their businesses, such that this makes them more attractive to would-be investors.
3. Bringing investors and founders together, harmonizing their common business interests, their deadlines, and their finances.
4. Sharing communication, and thus providing founders and investors with positive, effective, and easy-to-use fora, to discuss projects in which they have a common interest.
5. Assisting founders and investors throughout the critical negotiation phase, offering advice and consultation, with the goal of ensuring that all parties are satisfied, before investments are finally secured (Cremades, 2016).

**Crowdfunding.** SEs also have available to them the crowdfunding model. Here, social entrepreneurs can avail themselves of another funding method, but one which requires financial discipline and organization, by tapping into the traditional crowdfunding phenomenon that has been taking place online since 2003 (see Rose, 2016). Crowdfunding is about individuals coming together to finance a business startup. It is important to note that crowdfunding can take place both online and off-line, falling into two subcategories: a) donation crowdfunding, and b) equity crowdfunding.

With donation-based crowdfunding, donors do not have any ownership or partnership related to the launching of the business. This is encouraged where money can be had, without giving any equity. Among the organizational benefits are: a) access to capital, b) availability of a great marketing tool to gain more exposure, and c) free PR or public relations. Addressing SE capital deficits by way of equity crowdfunding is a matter for individual angel investors (funding capital investment in amounts of about $150,000). Among the SE benefits would be: a) the use of web platforms to get funding from a broader online group; b) greater visibility and credibility; and c) being able to generate buzz (see Cremades, 2016).

An interesting phenomenon regarding donation-based funding has been the donor interest of hedge-fund managers. Constable (2017) in a report in the *Wall Street Journal* suggests that hedge fund managers’ donations to SEs stem, in part, from a motivation to survive. Accordingly, donations are less a reflection of benevolence, and are much more an issue associated with company survival. This is especially so, when those businesses are facing financial difficulties. This sentiment was supported by McCambridge (2017b), who adds that SEs must come to expect, therefore, only one-time donations from such entities facing financial distress.

Nonetheless, more recent innovations in SE financing have provided a fillip to the sector in terms of positioning then for greater effectiveness. Regarding these innovations, some initiatives, such as loan guarantee programs, are of special import. Such guarantees allow for commercial debt with low interest payments, saving the ventures and their donors from significant outflows in terms of interest payments. Quasi-debt securities, straddling some of the characteristics of: a) a form of debt, and b) as an equity investment for those registered as non-profits, represent another financing option. As such, they provide financial resources for entities registered as nonprofits, which debar them from obtaining equity capital. Such instruments are linked to the financial performance of the organization, while the holder of the security does not have direct claim on, and ownership of the venture. Terms and conditions of loan disbursements are calibrated such that, they incentivize managers to operate efficiently. The institutions making a loan, may seek a sharing of revenues, thus participating in the risk and returns. Since the loan is tied to the top revenue line, with covenants to contain organizational mission drift, this provides an incentive for efficient management (see Bugg-Levine et al., 2012).

The growing sophistication of the pooling of funds offers another channel of capital funding for today’s social enterprise (SE). Here, financial intermediaries match their liabilities to investor
needs. For example, the pooling intermediary keeping an investment share, may bundle portfolios from many micro lenders, separating them into lots, with varying gradations of risk: lower or safe returns for lower risk, purchased by normal or more conventional investors; and with the highest returns (which come with greatest potential for loss), and those with lower expected returns are attended by lower risk, similar to a convertible bond. Social impact bonds (SIBs) represent another dimension of innovative financing to assist SE ventures. Bonds are sold to private investors, who get a return, only if ventures succeed. The risk of failure is thus shifted from ordinary taxpayers to investors, taking calculated risks (see Bug-Levine et al., 2012). Some observers argue, however that social impact bonds (SIBs) are not bonds. In the United States, they are not considered to be present in sufficiently large enough numbers to dominate the economic space occupied by social enterprises (Cohen, 2014).

2.2 Some Institutional Challenges

The need for a compelling and clear vision of the future enables SE effectiveness. The strategic vision required must: a) provide direction; b) serve to mobilize followers; c) rationalize and align activities; and d) bring into being, the will required by actors as individuals or as teams, to achieve desired ends (that is, the effectiveness in changing the status quo or economic “equilibrium”). Yet, while all of this is necessary, it not sufficient for effectiveness. Another critical component is the necessity to have in place, clarity in terms of concrete measures to achieve the SE’s vision. This strategic vision must also be aspirational. In terms of SE effectiveness, winning (the achievement of mission goals) must be given full meaning for actors within the various executing organizations (see Martin & Osberg, 2015).

In order to deliver the societal goods and the perceived necessary mega outcomes (see Kaufman, 2011), SEs must target customers and clients, as would pure for-profit, single bottom line ventures (see Martin & Osberg 2015). To achieve this end too, social entrepreneurship ventures, to be effective forces for social change, must mobilize capital for investment, to generate greater opportunities to finance projects that result in economic change, resulting in enhanced social conditions for people. This however, presupposes engagement of financial innovation, to enable access to larger amounts and suppliers of capital than before, for the benefit of those in greatest need of help (Bugg-Levine et al., 2012).

A very important determination, therefore, is the choice of business model. In this regard, SE ventures have available to them new possibilities as: a) for-profit models; b) Certified B Corps and B Corps; and c) L3Cs (Low-profit Limited Liability Companies) (See Leimsider, 2014; Honeyman, 2014). The B Corps are social enterprises verified by B Lab, a nonprofit organization certifying that those entities have attained high standards of transparency, accountability, and social and environmental performance. With the letter “B” standing for “benefit,” the certification is open to corporations worldwide, and not just the legal entity called the “benefit corporation,” found in the United States. Benefit corporations are pro-business, pro-market, pro-environment and pro-community corporations. B Lab certification is based on how companies create value for non-shareholding stakeholders, such as their employees, the local community, and the environment.

Going past performance standards based on the afore-mentioned dimensions, a firm would have to make amendments to its corporate charter, and to incorporate the interests of all stakeholders into the fiduciary duties of its directors and officers. Taking such steps means that firms are guided by fundamentally different governance philosophies than would traditional shareholder-centered corporations (see About B Lab, n.d.; What are B Corps? n.d.). Structurally speaking, too, however, McCambridge (2017a) reports that a recent study concluded, that in terms of perception, the public favors nonprofit SEs over for-profit social enterprises.
3.0 Some Growth Constraints: The Operationalization of Scaling

Some social Enterprises (SEs) face daunting challenges regarding efficiency and effectiveness (see Thompson & MacMillan, 2010). Collectively, their ability to supply products and services, and to secure mega outcomes (see Kaufman, 2014), remains a function of capital availability. Beyond institutional and structural constraints, associated with this, too, are those issues related to fundraising. A number of social venture goals are stymied by the inability to use the balance sheet and the business plan to present various combinations of risk and return to certain investor types. Among these would be equity investors, banks, Bond funds, venture capitalists, and the like. However, Bugg-Levine et al. (2012) posit that, properly enabled, they could be offering different risks and returns to different investors, instead of a blended return that holds for all, but would really be acceptable to just a few. Increasingly, those in SEs and some investors have concluded that all types of social enterprises can deliver returns that will make them attractive, given the right investors.

Some businesses intending to use their ventures as forces for good, can use an assessment tool, which translates into a series of concrete actionable steps to assess, compare and improve social entrepreneurial impacts (Honeyman, 2014).

3.1 Scaling

Sustainability is a key factor for focusing efforts regarding nonprofits and for-profits (see Weerawardena, McDonald, & Mort, 2010). Social enterprises, especially those at the micro-enterprise level, face huge difficulties in their attempts to grow and scale. Beyond the need to have sustainable cash flows and sustainable business models, such ventures scale quite differently. In this regard, Gilkey (2014) posits that businesses have unique lifecycles. At the micro-level, many businesses start off with little or no upfront capital. At this stage, issues relating to capital may be tied to dealing with resource needs. Surpluses, if any, may go to more strategic uses for people, processes, and systems. Gilkey (2014, p.5) traces a five-stage transition process regarding business growth and scaling:

a) **Stage 0** — the Aspirational stage. Here, individuals, desirous of starting a business are in love with the notion of having a business, but also have an entrepreneurial commitment deficit.

b) **Stage 1** — the Early stage. Here, entrepreneurs, having made a decision to start, are in the process of establishing their market offerings.

c) **Stage 2** — the Growth stage. At this stage, entrepreneurs having a business plan would be growing revenue streams, new customers and new clients. At this stage too, entrepreneurs have an effective business model, even when they are not working at full tilt.

d) **Stage 3** — the Crucible stage. Here, entrepreneurs are operating at full capacity, but the supply of product lags the demand. There is also the resistance to give up on tried organizational production patterns that have brought them to this point. Therefore, this stage may also have, a persistent “stickiness” to it.

e) **Stage 4** — the Cruise stage. Having arrived at stage 4, this provides evidence that entrepreneurs: a) have gained insights into what constrained them at Stage 3; b) have removed some bottlenecks; and c) would be operating at full tilt. Should they not have the balanced team and support systems necessary to concentrate on core competencies, a plan would be in place to gain those.

Having arrived at Stage 4, social enterprises may face new challenges and possibilities. Among them would be to move to a new business model, or to create a franchise. Nevertheless, the business may lose a critical resource at this juncture. Competitors may cause a loss of market share, thus adversely affecting operations. Key personnel may leave, which, while not causing a reversion to either Stage 0 or Stage 1, can erode the SE’s ability to carry out its mission, or its effectiveness regarding the provision of solutions for clients and customers. The owners of social enterprises at this stage too, may also move on to other, or even sell their businesses. Thus they become serial
entrepreneurs either by: a) design, or b) getting back into a new entrepreneurial activity because of disenchantment, or c) being drawn back in to repeat a past success. Gilkey (2014) argues that it is more difficult to move up the organizational life cycle from Stage 3, than it is to remain there.

However, to operationalize scaling, and although some approaches may not apply to all ventures across the board, certain pre-conditions must be in place. Several models have been advanced suggesting the correct path and the critical success factors (CSFs) that entrepreneurial units should address, in order to ensure growth and sustainability. For Harnish (2014), key factors include: 1) attraction of the right people, meaning, a team; 2) creation of a truly differentiated strategy, meaning, the organization has modified and improved upon the seeming weaknesses of competitive groups; 3) flawless execution; and 4) possession of a great deal of cash to ride out economic storms. The cash factor brings with it, other conditions of its own: a) the need to understand how to manage cash flow, b) how to fund growth, and c) knowledge of the basics of financial control (Hoffman & Finkel, 2014).

3.2 Accounting-related Risks

Some SEs, especially non-profits, face especially, serious financial risks, in the general spectrum of other organizational risks they face. Among them are: a) managing the venture’s cash and investments; b) accounting for grants, activities, and overhead; and c) a discretionary, ad hoc, or emergency project (Feiler & Nayowith, 2017). Irrespective of the structure of the enterprise, or the manager types associated with the SE’s finances, be they part-time, expert, volunteer, in-house or outside accountants; they need to be knowledgeable about all the reporting GAAP requirements that apply. If the venture’s chart of accounts, however, is set up correctly, some necessary reporting will be facilitated. Cost accounting systems must be organized and set up for all possible audits, if especially, SE operations involve government contracts. First-time women- and other minority-owned businesses, in particular, could face an uphill task of dealing with the required paperwork associated with government contracts. To gain necessary experience, however, some women- and other minority-owned businesses can team up with bigger firms, as part of the bigger companies’ supply chains (see Rawson, 2016).

4. Discussion

Even when examining the work of the most successful SEs, they are reportedly meeting only a small portion of the needs of their constituents (see Milway, 2014). Women- and other minority-owned businesses operating as a subset within the broader economic space of SEs, face some characteristically unique challenges related to some persistently stubborn historical patterns. Today, to gain access to the “American Dream,” entrepreneurship is being used as a lever by women and minority groups. However, appropriately integrated approaches may be needed to moderate centuries-old institutional biases. The role played by access to government contracts has already been referenced. Social entrepreneurial businesses, nonetheless, require the economic cultural acceptance and existence, of more inclusive supply chains, and their corresponding value chains (see Harper, 2010). Survival at the growth stage of some related women- and other minority-owned businesses may require, in some instances, acceptance of second-tier supplier roles to larger businesses. This may lead however, to positive mention by first-tier suppliers, and can position some SEs to become eventually, prime suppliers themselves (see Bari, 2016).

A number of socio-economic groups have historically been excluded from operating in some of the more valuable sections of the national supply chains in the economy. The complexity of the problems faced, both social and economic, warrants multidimensional approaches and solutions. Reflecting that complexity, some solutions by the SE sector have created several organizational and corresponding legal structures to address the related issues. As discussed above, SE structures have basically taken the form of for-profits and nonprofit entities. In the broader economic sphere, too, SE units have ranged in size from micro, to small-to-medium enterprises (SMEs). Some SE may have
well-defined missions. However, they vary in the performance outcomes of effectiveness and efficiency, based on: a) the nature and quality of personnel, 2) their staffing levels, 3) on-board training, and 4) paid or all-volunteer employee units (see Love, 2016; Rose, 2016; Maurya, 2016). Critical elements facing all the social enterprise types discussed have been those of finance and funding. Of the several funding and innovative financing models presented, some liabilities associated with funding SE ventures however, are now being securitized and sold (see Bugg-Levine et al., 2012).

6. Conclusion

Drawing heavily on secondary sources, this paper attempted to provide insights into some of the new directions and opportunities available to enable SEs to execute their individual missions. In this regard, a suggested area for research would be the creation of surveys to measure the extent of the penetration and impact of some of these new financing options on the operations of SEs. Another area of useful research would be the existence issue of the extent to which SE start-ups have --- using the Gilkey Model, (say) for example---are remaining at, or reverting back to Stage-03 of the model, thus seeking to identify causes of SE failure to graduate to Stage-04. From the above, it follows therefore, that where the missions of SEs entail the reduction or moderation of the sometimes, ill-defined social injustices tied to socio-economic ills of the society, knowledge of available options and techniques must become more widespread, in order to gain more traction regarding the delivery of promises and mega societal outcomes.

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