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Re-examining Economic Responsibility

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Abstract

This chapter explores how redefining the purpose and value of businesses to balance economic, social, and environmental goals can lead to success. It presents a spectrum of approaches, ranging from those prioritising economic value with societal impact to those emphasising societal value while achieving economic success. Key concepts discussed include Bottom of the Pyramid strategies, Frugal Innovation, Coopetition, Disruptive Innovation, and Social Enterprise, providing new perspectives on business operations. By prioritising social and environmental responsibility and fostering stakeholder relationships, businesses can shift from competition-focused strategies to creating sustainable value, achieving both economic and societal impact.

Chapter Outline

This chapter outlines how thinking differently about the purpose and/or value of a business or organisation and balancing the economic, social and environmental can result in success.

The chapter introduces a spectrum to look at alternative approaches to business considering those that emphasise economic value but also have societal impact on one end of the spectrum to those that emphasise societal value but also incorporate economic success at the other end of the spectrum.

The chapter considers approaches such as 'Bottom of the Pyramid', Frugal Innovation, Coopetition, Disruptive Innovation, and Social Enterprise and explains what these are, opening new avenues of how to think about how we operate.

Key Points

- It is possible to achieve economic success whilst also achieving environmental and social responsibility. In fact, giving environmental and social responsibilities precedence can achieve economic success.
- Strategic thinkers can shift the focus to people (social responsibility) and environment (environmental responsibility) and to enhanced stakeholder relationships away from a focus on competitors to achieve value. Current ideas to consider include Bottom of the Pyramid approaches, frugal innovation, disruption, coopetition and social enterprise.

Thinking Differently – Economic Responsibility as one facet of Sustainability

There can be some scepticism about whether an organisation can thrive if it concentrates on environmental or social responsibility more than, or on an equal basis to, economic responsibility. However, there are examples of a more balanced (triple bottom line) approach where this focus has led to success.

Critically, this 'thinking differently' requires a different framework or perspective for strategic thinking. First, we need to accept that something needs to be done to tackle the environmental and social challenges that the world is faced with, and then we can make decisions in line with this OR we recognise that there are economic benefits that can be achieved through solving environmental and social challenges. This is a different way of seeing the business/organisational world compared to the traditional economic perspective which is driven by profit-making.

Here we give examples of this different perspective, using a spectrum that shows approaches from the more economic focus/societal impact approach (where the economic perspective comes first, but there is a societal aspect) to the more societal focus/economic impact approach (where the drive to solve social challenges is paramount, but economic targets are also achieved).

<Figure 5.1 here>

Figure 5.1. From Economic Focus/Societal Impact to Societal Focus/Economic Impact Decision-Making

Bottom of the Pyramid (BoP) Approaches

In BoP approaches organisations concentrate explicitly economically on those at 'the bottom of the pyramid' (Prahalad, 2004), these are the 'more than 4 billion people who individually earn less than \$1,500 per year' (Simanis & Duke, 2014, p88) who 'represent \$5 trillion worth of purchasing power.' (Karamchandani et al., 2011, p108).

Concentrating on these people is an economic sustainability perspective, with profit-making in mind. However, within this perspective lies the assumption that making money is the way to improve life more generally (a Friedmanite perspective (Friedman, 1970)) as that money should trickle down into the surrounding community (but only if the product or service's profits stay locally of course). Whether or not you agree with this primary focus, the point is that serving the bottom of the pyramid and making profit is possible using actions appropriate to this market, and there may be a corresponding beneficial social impact of concentrating on this market.

Actions to make BoP Approaches a Success:

- changing consumers' behaviour and dependence on certain accepted products and services with education about new or untried products
- taking the long-term view, working locally and collaboratively and over long periods
- rethinking the way products are made (specialise and standardise)
- rethinking distribution and delivery (consider direct sales, bundle products and services, provide in smaller amounts, consider pay-per-use, payment in instalments)

- finding appropriate partners to improve distribution networks.

(Simanis & Duke, 2014; Karamchandani et al., 2011)

If the profit-making approach does not work or does not garner big returns, it may be that profit making companies can 'reconstitute their (BoP) ventures as break-even social investments that are destined to remain small' (Simanis & Duke, 2014, p88). Whilst Simanis & Duke (2024) would favour the profit-making approach, any action that improves the lives of those who are less fortunate is surely a good thing and these social investments can sit alongside more economically successful ventures. Successes include:

- Lafarge, the world's largest cement manufacturer, created a dedicated affordable-housing team based at its Paris headquarters.
- Godrej Appliances launched the Chotukool, a revolutionary portable refrigerator for the rural Indian market
- BRAC created large-scale microfinance programs and trained women as community health entrepreneurs.

However, there are criticisms of these BoP approaches as exploiting the poor. This criticism extends to what is seen as a similar approach, that of Frugal Innovation.

Frugal Innovation

BoP approaches have similarities with Frugal Innovation, where the latter is product or service innovation taking its lead from the needs of the poorest in societies rather than the more 'technology push' approach of technological research and development which caters for the needs and requirements of those at the higher levels of society (Whittington et al., 2023, P338). There is an interesting debate about Frugal Innovation in academic literature and here we will provide a definition and a summary of the benefits and issues. In short, some see Frugal Innovation as a natural way to achieve the balance of the economic, social, and environmental responsibilities of sustainability. Others see it as a way for large multinational companies to 'greenwash' or 'carewash' (Chatzidakis & Littler, 2022) building their reputations as responsible organisations, whilst in reality exploiting the poor.

As well as a similarity between BoP and Frugal Innovation, you will also see other overlaps as the discussion continues, between BoP, Frugal Innovation and Disruption or Disruptive Innovation in terms of 'sufficient' solutions, and the extension of a theme of collaboration and cooperation from Frugal Innovation into the discussion about Coopetition and Social Enterprise.

Definition of Frugal Innovation

Frugal innovations are new solutions, generated through a creative, rethought improvisation and innovation process that minimises the use of resources (raw materials, production resources, energy, fuel, water, waste, financial resources) and this reduction is passed on in terms of lower prices to customers, making them more affordable. The concentration on reduction of the use of resources necessitates a focus on sufficiency or something that is 'good enough' in terms of the service or value provided and the provision of core functionalities (or vice versa in that the development may concentrate on core functionalities which necessitates the stripping back of resources). Importantly quality of provision will not be compromised, in fact more will be done with less. (Peng, 2001; Rogers, 2003; Zeschky, Widenmayer & Gassmann, 2011; Radjou &

Prabhu, 2014; Tiwari et al., 2016; Weyrauch & Herstatt, 2016; Albert, 2019; Ananthram & Chan, 2021)

Examples include a fridge made entirely of clay that uses no electricity and can keep fruits and vegetables fresh for many days; in Africa, if your cell phone battery runs low on power, you can often find resourceful entrepreneurs who'll recharge it with their bicycle; in Peru - a giant advertising billboard that absorbs humid air and converts it into purified water (Radjou, 2017).

Benefits of Frugal Innovation

- Frugal innovations not only provide value to lower socioeconomic groups who might otherwise be priced out of a market (social justice) but also use fewer resources (environmental responsibility). If a company is also making profit from them, then economic responsibility is also achieved. This would suggest that frugal innovations are truly sustainable (they achieve the 'triple bottom line').
- Anyone can do it. Initiators can range from big multinational corporations to individuals and grassroots entrepreneurs (Albert, 2019).
- Frugal innovation can create first mover advantage for an organisation: an innovation that achieves a high market share before others copy and follow.
- Whilst not necessarily an essential in the definition, it tends to be the case that frugal innovations help address pressing social and environmental problems (Hossain et al., 2022).

Issues with Frugal Innovation

- Frugal innovations do not solve the bigger problem of the fact that so many poor people exist in the world. Tesfaye & Fougere (2022) are concerned that frugal innovation maintains the status quo of economies and powers, presumably when innovations are driven by larger companies and away from needs-driven or justice-driven innovations and instead motivated by the exploitation of poorer bands of customers (as with the criticism of BoP approaches) (Hossain, 2021; Knorringa et al., 2016).
- Frugal innovation is targeted at 'poor, resource-constrained, cost-conscious, price-sensitive, and middleclass consumers, respectively low-income and rising middle income segments... on emerging countries as target markets' (Albert, 2019, p4) whereas one might hope for the development of frugality and simplicity across the socioeconomic groups to minimise impact on environmental systems (this would be a more philosophical approach, overriding the established form of consumerism which links the high price of goods with status).
- It is argued that frugal innovation is only possible using underhand means and bypassing rules and regulations, which also have a negative impact on the environment (Albert, 2019; Ananthram & Chan, 2021).
- Frugal innovation may otherwise be called hybrid strategy or value innovation but can only be socially responsible if value is interpreted in this instance as value to the

consumer or absolute value rather than just value to the shareholder. Cutting back on resources (otherwise called cost leadership) to optimise profit does not necessarily lead to good, or value to the consumer. For example, products that cost little to produce, with production being managed at low cost by outsourced suppliers and where working conditions may be poor, may yet demand high prices from customers and offer high shareholder value. When less use of resources is applied to human resources, the results may not be socially responsible.

Disruption

The above ideas flow into a discussion of Disruption or Disruptive Innovation, or at least the original meaning of it from Christensen (1997) (there has been some discussion about the tendency since the original development of the idea to apply it to everything that is new, but that is not how the original idea was framed). Disruptive Innovation is that which targets the 'overlooked segments' much as Frugal Innovation does, as opposed to concentrating on the 'higher profitability in more-demanding segments' that incumbent organisations focus on (Christensen et al., 2015). Much like frugal innovations, disruptive innovations tend to be 'good-enough' (which in turn can be traced back to the appropriate technology movement in the 1970s (Schumacher, 1973; Kaplinsky, 2011; Tesfaye & Fougere, 2022)).

Disruption occurs when organisations successfully move their product or service from the overlooked segments into the mainstream. This is counter to the standard 'S curve' of technology adoption (from higher socio-economic first adopters to the mainstream). Disruptive innovations take incumbent organisations by surprise and usurp their hold on the market. Even more interesting is the idea that companies who focus on sustainability (environmental and social sustainability as well as economic sustainability) are more open to developing disruptive innovations (Wang et al., 2022). This suggests that putting the environment and society on an equal footing with economic responsibility can have favourable results from a competitive advantage/profit-making perspective.

Coopetition

In Chapter 1 we discussed and challenged the idea of competitive advantage, suggesting that organisations should aim for absolute rather than relative value, not trying to 'beat' the competition necessarily, but concentrating on what the customer might value. An interesting example of where this approach was followed, contrary to more traditional business practice, is detailed in the idea of a 'pure' form of coopetition to achieve absolute value which can be seen in actions taken during Covid by those who would traditionally have been competitors:

- British supermarkets shared resources and capabilities to manage a national response to panic-buying. They shared data and employees and coordinated closure times.
- Pharmaceutical companies and medical equipment manufacturers shared scientific data, knowledge and equipment to develop a vaccine for COVID-19 and produce medical supplies
- Technological businesses joined forces to combat the cybersecurity threats associated with the pandemic

- UK charities worked together on joint fundraising, borrowing equipment and sharing staff and volunteers.

(Crick & Crick, 2020)

By 'a pure form of coopetition', we are suggesting that pure coopetition established a relationship to meet consumer needs (absolute value) as a guiding factor. The Covid response was a strong example of working together for the common good, for customer and societal value but with benefits for the partners, as opposed to having a principal consideration for the individual firms' success. However, a business decision made in response to Covid could stand as an outlier in the whole discussion – this was businesses working together in the face of a significant external threat. In 'normal' circumstances, what is coopetition?

'Coopetition is a strategic and dynamic process in which economic actors jointly create value through cooperative interaction, while they simultaneously compete to capture part of that value.' (Bouncken et al., 2015, P591). Kim explains that coopetition (an extension of joint ventures and strategic alliances) is a 'way of acquiring resources such as new technical skills, capabilities, and knowledge (and) firms can effectively acquire new capabilities when they already have a similar competence base.' (Kim, 2020, P2) So it is the similarity between businesses operating in the same industry (competitors) that can enable each to offer the other strength in areas where they are less strong. This is contrary to the idea that a competitor's weaknesses should be exploited to gain superiority. The idea of coopetition is not particularly new. 'Raymond Noorda, CEO of Novell, coined the term 'coopetition' to capture the complex phenomenon of simultaneous cooperation and competition among firms' (Kim, 2020, P1) in the early 1990s. The book 'Coopetition' by Brandenburger & Nalebuff was published in 1996 – recognising that business could not always be about war and that there was space for cooperation as well as competition.

The various literature provides us with many positions on coopetition and they can be organised on a 'protectionist' to 'free' spectrum:

1. Towards the more protectionist end of the spectrum, competitors work together to increase the size of the market (the pie) and then individual competitors work to appropriate as much of the market (or the pie) as possible. There can be negative effects of this working together, cooperation on pricing for example can leave consumers feeling at the mercy of what feels like a monopoly when we were promised at least an oligopoly, for example where a few companies appear to act in concert (energy companies in the UK for example). The need to win or compete whilst cooperating can jar in its paradoxical nature and negatively lead to opportunism and misunderstandings.
2. As we move across the spectrum, into a more open relationship, coopetition can be a mutually beneficial relationship of sharing resources and capabilities.

3. Across the spectrum again, we can achieve a network approach of learning and sharing which can improve business processes, procedures and business models as competitors learn from each other.
4. More to the right of the spectrum again, we look outside of the firms and to the wider market, industry, consumer base and society, and cooperation between firms results in technological development, price decreases and social value to society.

(Bengtsson & Kock, 2014; Bouncken et al., 2015; Velu, 2016; Corbo et al., 2022; Nyuur et al., 2023)

Coopetition builds on the more recent developments in business in an increasingly open (due to technology), disintermediated and global world. Coopetition is also seen as an important response to the complex, VUCA environment (Bouncken et al., 2015; Bengtsson and Kock, 2014) where the more traditional, simple ways of doing things just don't work anymore.

Examples of working together have been Toyota and General Motors who worked on fuel cell-powered cars. Coca-Cola, Pepsi Co., Red Bull, Unilever worked on 'Refrigerants Naturally,' sustainable refrigeration techniques. Note how businesses have been working together to tackle the challenge of environmental responsibility through coopetition.

Social Enterprise

And, next to consider in the spectrum, after Coopetition, is Social Enterprise. The related terms of social enterprises and social entrepreneurship are often used interchangeably and there are challenges in capturing the complex nature of social enterprises and conceptualising social entrepreneurship. In this section we navigate the subject area with you and will define various terms and present a range of vocabulary before agreeing the use of 'Social Enterprise' as a catch-all term.

Social enterprises

Social enterprises carry out revenue generating activities to achieve social value creation, using most of any profit to further a social mission (Goyal, & Sergi, 2015; Zahra et al., 2009; Social Enterprise UK, 2024). Thus, social enterprises focus on adding value in terms of the traditional 'bottom line' of profit, as well as creating value for social good: the 'double bottom line.' There does not have to be a trade-off between profit and social value creation (Rae, 2010), there can be a duality of mission. Indeed, to be sustainable, social enterprises need to generate a surplus to enable them to grow and to avoid becoming reliant on grants for operational costs. However, instead of being measured by profit, social enterprises are measured by how they achieve their social goals and have social and environmental impact (Ridley-Duff & Bull, 2016).

Social enterprises can also be associated with the 'triple bottom line', creating social, economic, and environmental/ecological value (McCulloch & Ridley-Duff, 2019): distributing profit, addressing economic inequality, improving social justice, contributing to environmental sustainability (Social Enterprise UK, 2024).

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Case Studies: How Economic Success, Social Innovation, Social Purpose and Environmental Aims are Integrated

The Eden Project

The Eden Project ('the mothership') in Cornwall, UK, is an educational charity and social enterprise, funded by Lottery funding, EU and Southwest Regional Development Agency, commercial funds and funds generated from the project itself. Since opening in 2001 it has generated over £2 billion for the regional economy (Eden Project, 2024b).

The Eden Project is now developing UK and international projects: 'New Edens', based on meeting local needs in response to the planetary emergency (Eden Project, 2024a).

For more information, go to <https://www.edenproject.com>

Community Wood Recycling

Community Wood Recycling launched in Brighton and Hove, UK, in 1998 and was the country's first community wood recycling social enterprise that uses volunteering as a pathway back to work and self-confidence. It specifically targets disadvantaged people. Receiving the National Social Enterprise of the Year Award in 2003 stimulated interest in the project and with funding from WRAP and the Esmée Fairburn Foundation the founder launched the National Community Wood Recycling Project (NCWRP) franchising the model nationwide (Community Wood Recycling, 2024). There are currently 29 social enterprises collectively forming Community Wood Recycling that collect around 20,000 tonnes of wood each year.

For more information, go to <https://communitywoodrecycling.org.uk>

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Box 5.1. Case Studies: How Economic Success, Social Innovation, Social Purpose and Environmental Aims are Integrated

Whilst the nature of the activities undertaken by social enterprises is diverse, a common denominator is a focus on local needs, as in the examples of The Eden Project and Community Wood Recycling. Also, as with Community Wood Recycling, one of the intentions of many social enterprises is to reach marginalised groups in society, including refugees, asylum seekers, neuro-diverse individuals, people with disabilities, long term unemployed, and ex-offenders. Many such individuals experience difficulties in seeking paid employment and social integration through social enterprises can help.

This local 'embeddedness' helps generate local knowledge and builds relationships with the beneficiaries of the social enterprise activity. Note the similarity here between social enterprises and BoP approaches, which recommended collaboration and building relationships as best practice.

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Case Study: Local Action with Marginalised Groups

Upbeat Clean

In 2023, 67,337 applications for asylum were made in the UK, which related to 84,425 individuals (more than one applicant can be included in a single application) (Sturge, 2024). For those successful in having their application accepted they often face challenges in social integration and obtaining employment.

Upbeat Clean is a social enterprise that provides employment opportunities and generates revenue to fund the charitable aims of Upbeat Communities, a Derby-based charity that exists to help refugees and asylum seekers settle and rebuild their lives in the UK, empowering them to thrive. Established in 2021, Upbeat Clean is an award-winning commercial cleaning company partnering with over 25 organisations across Derby. Their 5-year goal is that every refugee woman in Derby can find training and employment to help them rebuild their lives, support their families and contribute to society (Upbeat Clean, 2024).

Beneficiaries

The social mission is to create employment particularly for refugee women and asylum seekers, especially mums, who often face the biggest challenges to find their first job due to multiple barriers such as language, confidence, and childcare commitments. Out of the 52 cleaners employed since 2021, 39 have a refugee background and at least 32 are women. Whilst employment provides financial and mental health benefits, working alongside British nationals helps refugees with societal integration and reduces segregation and feelings of isolation.

Balancing economic, social and environmental demands

Whilst Upbeat Clean's main focus is on creating employment, it is just and fair in terms of its commitment to the environment by choosing environmentally friendly cleaning supplies and by paying its employees the real living wage that is considered enough for them to support themselves and their families and paying holiday, sick pay and pension contributions, something which not all cleaning companies honour. Prices are increased annually in line with the percentage increase in the real living wage to ensure economic viability. The social enterprise is transparent to its customers that their aim is to transform lives and although by paying a real living wage Upbeat Clean is more expensive than some of its competitors, they do not aim to

compete on price but they do want to make a profit to reinvest and be sustainable. Treating employees ethically and being just and fair is paramount and pays dividends to Upbeat Clean. Behaving ethically has increased staff retention, reduces recruitment efforts and reduced management time and word of mouth ensures a ready supply of willing recruits and Upbeat Clean is the employer of choice for cleaners.

Upbeat Clean emphasises its social mission through the strapline: 'Partnering with companies to transform lives through cleaning' and differentiating itself from the competition not on price but on social impact and quality.

Ensuring the business is sustainable

Scaling up and generating a surplus is important for building a sustainable business and enables Upbeat Clean to pay a competitive wage to management and attract talent. Grants are used for growth, such as website development and idea generation and not to pay running costs. The revenue stream covers running costs.

Attracting sufficient finance is a major challenge for social enterprises.

"Almost half of social enterprises report an insufficient amount of suitable finance available, with over a third saying the available forms of finance are unsuitable for their business and a third lacking the skills to obtain external finance or investment" (Social Enterprise, 2024).

This is not the case for Upbeat Clean who operate on a financially sound business model in which they do not compete on price.

Main challenges

Social enterprises are hard businesses to run as in general they have a low profit margin and often cannot afford to pay a competitive wage. There are individuals who are willing to trade off their corporate salary for job fulfilment but there is a danger in paying too low that the right talent is not attracted to the social enterprise.

"If you pay too low you attract people who don't have the experience or the skills, and then it's a self-fulfilling spiral because you just end up having lower performance and then you end up paying less." (Head of Enterprise, Upbeat Clean)

Business acumen and strategic thinking is often lacking in social entrepreneurs restricting their ability to scale up. Social entrepreneurs are often people who are kind and compassionate who want to act out that compassion in a sustainable way, but often rely too heavily on grant funding. Upbeat Clean recognises this danger and that as a low profit margin business, they are always vulnerable to economic risks and uncertainty. They aim to insulate themselves from the financial misfortunes of their clients by having a diversified pool of clients from different sectors and avoiding overreliance on one main clients.

So what does the future hold for Upbeat Clean?

Upbeat Clean has beaten the average life expectancy of a social enterprise. Whilst start-up rates for social enterprises are high, longevity is an issue with only one in three social enterprises operating for more than three years (Social Enterprise UK, 2024). Through scaling impact by packing the business model into a 'freemium model,' Upbeat Clean intends to

continue focussing on its mission of 'transforming lives through cleaning' and supporting others in replicating its success.

For more information, go to <https://www.upbeatclean.co.uk/>

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Box 5.2. Case Study: Local Action with Marginalised Groups

The perspectives of social enterprises may be different:

- those that align themselves with pursuing the social mission or innovation of an individual social entrepreneur - philanthropic entities with a uni-directional relationship between managers and workers, trustees and beneficiaries (Dees, 1998; Martin & Osberg, 2007; Scofield, 2011; Ridley-Duff & Bull, 2016).
- those focused on developing mutual relationships with members and wider communities that structure themselves as co-operatives and mutuals - a bi-directional or network relationship - a socialisation perspective emphasising collective action and mutual principles (Borzaga & Defourny, 2001; Sahakian & Dunand, 2014) to educate members for participation in the social economy (Moreau & Mertens, 2013 in Ridley-Duff & Bull, 2016). In the Mondragon Co-operative Corporation (MCC) <https://www.mondragon-corporation.com/en/about-us/> for example, the bigger the decision the greater the number of worker and consumer members involved.
- Social enterprises tend to use socially responsible production and distribution methods (Borzaga & Defourny, 2001; Defourny & Nyssens, 2010) and they may also bring about social transformation through a wider concentration on education, widening their scope and influence.

Social entrepreneurs

Social entrepreneurship is broad and encompasses those introducing social initiatives in profit-seeking businesses as well as those operating in social enterprises, and those encouraging entrepreneurial trends in non-profit organisations and in the public sector (Mair & Marti, 2006; Becchetti & Borzaga, 2010), so social entrepreneurship does not need to be restricted to those working in social enterprises.

Social entrepreneurs are viewed as change agents that use their enterprising mindset in pursuit of their social mission to make a difference using visionary or innovative approaches (Dees, 1998; Catherall & Richardson, 2017).

As change agents, social entrepreneurs are involved in:

- Adopting a mission to create and sustain social value (not just private value)
- Recognising and relentlessly pursuing new opportunities to serve that mission
- Engaging in a process of continuous innovation, adaptation and learning

- Acting boldly without being limited by resources currently in hand, and
- Exhibiting a heightened sense of accountability to the constituencies served for the outcomes created

(Dees, 1998, p4)

As with social enterprises, social impact, social value creation (Dacin et al., 2010; Nicholls, 2006; Martin & Osberg, 2007) social mission (Weerwardena & Mort, 2006; Nicholls, 2006; Martin & Osberg, 2007) are terms all associated with social entrepreneurship. Social entrepreneurs will come up with social innovations (Austin et al., 2006; Perrini, 2006) or social inventions (Ellerman, 1982; Bradley & Gelb, 1980; Thomas & Logan, 1982 in Ridley-Duff and Bull, 2016, p5) where people rather than money are the fundamental unit of concern. Note here the similarity between social entrepreneurship and Frugal Innovation.

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Case Study: A Nobel Peace Prize winning Social Entrepreneur

The Grameen Bank and Mohammed Yunus

Mohammed Yunus, internationally known as ‘The Banker to the Poor’ is well known for founding the Grameen Bank in 1976 with just \$27 from his own pocket. The Grameen Bank and Yunus were jointly awarded the Nobel Peace Prize in 2006. The Grameen Bank is a financial institution providing small loans, particularly to women in Bangladesh with no collateral. Yunus and the bank pioneered the concepts of microcredit and microfinance . In providing small loans to women to start their own micro businesses, within 30 years the bank had 6.6 million borrowers, of which 97% were women (BBC, 2006). The Grameen Bank was instrumental in helping women escape poverty in a society where women traditionally were home makers and banks traditionally lent to people who already had money and collateral. This case is an example of a social enterprise empowering individuals to create their own business enabling them to be independent and building capacity in an economy.

speaks of the need for a reform of the increased concentration and monopolisation of wealth in the hands of a few associated with capitalism and the need to move towards sharing wealth.

“The current economic system exacerbates environmental and unemployment problems and accelerates the concentration of wealth. We aim to reverse this trend and create a world that achieves the three zeros: zero poverty, zero unemployment, and zero net carbon emissions. The new economic system will be based on sharing, caring and helping each other” (Yunus Centre, 2024).

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Box 5.3. Case Study: A Nobel Peace Prize winning Social Entrepreneur

Social Enterprise

Bearing the above terms and discussions in mind, it seems fair to use the term 'Social Enterprise' to encapsulate all, using it to explain an entity, the behaviour of being socially enterprising, and social entrepreneurship as a more general, driving behaviour, and the behaviour of those who run social enterprises. All terms are used to try to capture a movement that, overwhelmingly, focuses on social value primarily or jointly (when compared to the economic).

Based on research by Social Enterprise World Forum and other Global Alliance members, the World Economic Forum (2024) lists the following five common characteristics in the definitions of Social Enterprise:

- Purpose: Exists to solve a social and/or environmental problem
- Operations: Prioritises purpose, people, and planet over profit in operational and strategic decisions
- Revenue: Has a self-sustaining revenue model
- Use of Surplus: Reinvests most of any surplus towards its purpose
- Structure: Chooses legal structures and financing that protect and lock in purpose long term

Common recurring themes when defining Social Enterprise all reflect areas we have previously spoken about when discussing social enterprises and social entrepreneurs:

- social change (Leadbeater, 1997)
- social benefits (Fowler, 2000) with a specific focus on the marginalised and poor (Leadbeater, 1997)
- the creation of sustainable financial, organisational, social and environmental solutions (Thake & Zadek, 1997)
- driving social value through innovation (Ashoka Foundation, 2012)
- creating social value by stimulating social change or meeting social needs (Mair & Marti, 2005)
- addressing market failure (Thompson et al, 2000; Said School, 2005)
- the promotion of social justice (Thake & Zadek, 1997)
- ethical behaviour (Bornstein, 1998)

Differentiating Social Enterprise

Having recognised the variety of terms used to define activity in Social Enterprise, let's go deeper into understanding its difference to conventional or economic entrepreneurship (Chell et al., 2016) and charities and other forms of organisation.

For Profit to Not For Profit

One strand on this continuum is from 'for profit' to 'not for profit' with economic enterprises classified as 'for profit' and social enterprises often associated with 'not for profit' (Dees, 1998; Chell, 2007). Social enterprises are also associated with the 'third' sector, the 'social economy,' and the 'non-profit' sector, where the third sector is seen as organisations that do not fit into either the public or 'for profit' sectors, and where the mission of members of the social organisation aims to benefit its members or wider community (Becchetti & Borzaga, 2010). However, the positioning of Social Enterprise in the 'not for profit' end of the continuum is erroneous. There is a common misunderstanding that social enterprises are 'non-profit.' On the contrary, social enterprises do make profit; it is the extent to which they focus on profit and the way that they distribute it which makes them different from economic enterprises (Becchetti & Borzaga, 2010; McCulloch & Ridley-Duff, 2019). Also, the focus on 'profit' or 'not for profit' leads to under reporting of the social and economic value of charitable trading activities (in voluntary associations), co-operative and mutual enterprises, and socially responsible businesses and does not recognise the contribution of social enterprises (Ridley-Duff & Bull, 2016; 2019). Charities and non-profit organisations may have a social mission but do not necessarily have a commitment to democratic ownership and control (see Low, 2006; Ridley-Duff & Southcombe, 2012) which may be a feature of Social Enterprise, as previously discussed.

Private to Public

Another simplistic binary classification is based on private compared to public enterprises. This distinction is also inadequate as there are privately owned enterprises that pursue public objectives. Many private owned for-profit enterprises combine a corporate social responsibility agenda or some social entrepreneurship behaviours with the generation of profit (Defourny & Nyssens, 2017; Borzaga & Tortia, 2010; Addae & Ellenwood, 2021). However, there is a distinction between those organisations which operate through democratic governance and mutuality as opposed to private organisations which exercise control through private property rights' (Ellerman, 1990; Ellerman, 1997 in McCulloch & Ridley-Duff, 2019, p6). Worker co-ops and employee-owned businesses are innovative in terms of ownership and control but do not have a social mission beyond their members/workers (Restakis, 2010).

Financial to Social

Borzaga & Tortia's (2010) conceptual framework distinguishes between entities based on their main objective with financial objectives at one end of a continuum and social objectives at the other, or economic at one end and social or non-financial at the other. Enterprises can be placed along the continuum depending on their orientation. At one end there are 'for profit' organisations seeking to maximise economic outcomes constrained by the satisfaction of needs and at the other, social enterprises seeking to satisfy needs constrained by economic and financial equilibrium; enterprises can be found at different positions along the continuum depending on whether they pursue the benefits of their members or pursue wider community benefits. The increasing convergence between economic entrepreneurship and social entrepreneurship, creating new insights into the potential for "responsible entrepreneurship" (Rae, 2010, p603) is reinforced by a shift in attitude towards those who do not have a social

agenda being classified as an outlier, whilst those with a social agenda are considered “the entrepreneurs of the 21st century” (Catherall & Richardson, 2017, p5). “As boundaries between the business and social sectors dissolve, social entrepreneurship has emerged as a phenomenon that bridges two worlds previously divided” (Addae & Ellenwood, 2021, p1).

Not For Purpose to For Purpose

Another challenge to the conventional classification of profit/not for profit (Becchetti & Borzaga, 2010; McCulloch & Ridley-Duff, 2019) is that it inappropriately focuses on what something is not - 'not for profit' rather than in terms of what they do, namely their purpose (McCulloch & Ridley-Duff, 2019). McCulloch & Ridley-Duff (2019) use the terms 'for purpose' and 'not for purpose' arguing that it helps a clearer differentiation between for purpose enterprises (primarily social) and not-for-purpose enterprises (primarily financial). Social enterprises can then be positioned as social wealth creators compared to what is seen the social wealth destruction of private enterprises locked into the pursuit of profit (McCulloch & Ridley-Duff, 2019).

Unethical to Ethical

Another binary distinction to tackle is unethical to ethical.

You will have noted the use of the criterion of ethical behaviour (Bornstein, 1998) when trying to summarise Social Enterprise, but ethical behaviour has not yet been discussed in any depth (although it will be discussed further in Chapter 8).

Defining the ethical is decidedly slippery but ethical practice can be described as doing what is right, just and fair and considering that social enterprises are concerned with ‘doing business by doing good’ with a focus on a social and/or environmental mission and social entrepreneurs ‘adopt a mission to create and sustain social value’ (Dees, 1998, p4), it is implied that a social enterprise will make decisions ethically because it makes its decisions for the benefit of its target beneficiaries, and those target beneficiaries tend to be a wider group of the community than those who benefit from private business. In some cases, there are legal regulations linked to certain social enterprises, those who elect to be Community Interest Companies (CIC): “A company satisfies the community interest test if a reasonable person might consider that its activities are being carried on for the benefit of the community” (Department for Business, Energy & Industrial Strategy, 2016, p7). Unlike other companies, CICs are subject to an ‘asset lock’ that locks in the assets for the benefit of the community it was set up to serve and to prevent any demutualisation and windfall profits being paid out to its members and directors. CICs are required to produce a community interest company report detailing amongst other things, how the company’s activities have benefitted the community. The majority of CICs are private companies limited by guarantee. “A community interest company (CIC) limited by guarantee is a ‘not for profit’ company, this means that it does not operate for private profit. Any profit generated is used to grow and develop its business which is benefiting an identified community, or goes directly to benefit that community” (Department for Business, Energy & Industrial Strategy, 2016, p14).

Ethical decision making is linked to social responsibility and the ability to make caring and constructive decisions based on ethical considerations as well as social norms. It is more likely that social enterprises and social entrepreneurs will make ethical decisions because their very

existence is predicated on an external perspective that looks to society's needs. We can't say that private or for-profit organisations are unethical, but it may be true to say that a social outlook tends to lead to ethical behaviour as opposed to a private outlook.

The Emergence of Social Enterprise

There are many reasons for the emergence of Social Enterprise:

- **To address the inadequacies in state and private provision of goods and services.** For example, the United Kingdom in the 1980s saw a growth in Social Enterprise as a result of the Thatcher era of privatisation and increase in marketisation of public services (Martin & Parker, 1995; Burton, 1987; Becchetti & Borzaga, 2010) that meant that many goods and services designed for the public good were instead now led by profit motives. This led to a decrease in the provision of non-profitable goods and services. Also in the United Kingdom, since 2010, government funding has been cut. The scope of the state has shrunk locally with the most deprived areas, where local governments were most reliant on grants and where social care spending represents a higher percentage of local authority budgets, experiencing the deepest grant cuts (Atkins & Hoddinott, 2022). Social Enterprise tries to fill the gaps left. Although social enterprises have a relatively small presence in relation to FTSE 100 companies, they are increasingly an indispensable tool for creating sustainable communities using innovative business solutions in the UK. This is particularly true in areas with the highest levels of deprivation where the share of government funding fell from 69% in the first round of funding to 57% in the second round of funding (BBC, 2023). "Social enterprises in the UK's most deprived communities reinvested more than £270m profit – equivalent to more than a fifth of the amount invested through Phase Two of the Government's Levelling Up Fund" (Social Enterprise UK, 2024).
- **As a result of wider cultural movements.** The emergence of increased advocacy movements, more socially responsible consumers, community-driven enterprises, and the increase in for-profit enterprises embracing corporate social responsibility agendas, all serve to drive the growth of social responsibility and social entrepreneurship (Becchetti & Borzaga, 2010).
- **Financial Crisis.** The global financial crisis of 2008 (Catherall & Richardson, 2017) sparked a recession lasting over a year from quarter two in 2008 to quarter two in 2009. The Covid crisis from 2019 caused an economic slump and resultant inflationary

increases that in turn caused global cost of living crises. The increased emergence of social enterprises during a crisis can be viewed as a response to redundancy, an alternative to unemployment, or as a response to the reduction in public sector provision.

- **Climate Crisis.** The climate emergency coupled with the cost-of-living crisis contributes to the 'perfect storm' facing social enterprises "both in the challenges of running the business itself and the increasing urgency of the mission it serves" (Social Enterprise, UK, 2024).
- **Individual Motivation** – non-self-seeking individuals driving change as demonstrations of their increased social responsibility and in response to discontent with public policy led by neo-liberal economic paradigms. Capitalist economic growth theory (Rae, 2010) believes that market forces, the 'invisible hand', will create value and allocate resources, and the state will address the deficiencies. In many cases these deficiencies have become extreme, prompting the emergence of social enterprises to reconcile economic imperatives with social and environmental sustainability entrepreneurship. Despite often paying less than economic enterprises, social enterprises can attract employees through relational and non-monetary incentives (Borzaga & Tortia, 2010). Millennials and Generation Z seek out employers with aligned values to their own; over the period 2019-2021, 44% of millennials and 49% of Gen Zs surveyed said their personal ethics have influenced their choice of work and employer (Deloitte, 2021). Company values and making a positive contribution to society are factors influencing choice of employer (PWC, 2021). Whilst self-selection is evident for all entrepreneurial typologies, it is more prevalent in social enterprises; "people motivated by intrinsic, relational, and other-regarding preferences will tend to choose organisations that have social objectives" (Borzaga & Tortia, 2010, p28).
- **Individual Motivation** - wanting to make a difference and solve a social problem emanating from a personal interest or problem. For social entrepreneur Richard Mehmed, founder of Community Wood Recycling, his idea originated by chance: "Founder Richard Mehmed first realised the potential of waste wood in 1998 when building a playhouse for his daughter. He spotted some plywood outside a local factory, and when he asked if he could take a couple of them for his playhouse he was shocked to find the pile was just a fraction of the perfectly reusable wood waiting to be landfilled. Saddened by the waste, Richard came up with a plan to divert wood out of the waste stream, and the social enterprise Brighton and Hove Wood Recycling Project was born" (Community Wood Recycling, 2024).
- **Individual Motivation** – wanting to solve a wider social problem. For Head of Enterprise, Michael Caldwell at Upbeat Clean, the origins of the social enterprise were explicitly based on the identification of the biggest social issue, namely the employability of refugee women. This was driven by the mission of the parent charity Upbeat Communities. "We have two social enterprises that provide employment opportunities as well as generate income for us to be able to carry out our charitable aims. These include Upbeat Clean, a cleaning business set up in 2021 to provide work for refugees, and Derby Language School, set up to provide language learning for local people and organisations" (Upbeat Communities, 2024).

- **Individual Motivation** - In the case study in Box 5.4., Ola Fagbohun was motivated by a gap in support for a particular demographic.

<start box>

Case Study: A Gap in Support

Zest OF: You

Founded in October 2000 by social entrepreneur Ola Fagbohun, Zest OF: You focusses on health behaviour change and gender health equity.

The impetus behind this social enterprise was the observation of the marginalisation of midlife women and the lack of positive imagery of midlife women in the media. Taking a holistic approach to tackling issues of health inequality issues around women's health, creativity, including dance, collage boards and creative writing are used during workshops to explore hopes and fears around the menopause and emotional mental wellbeing. Breaking down language barriers and using alternative mediums of expression, the workshops ensure accessibility for all women irrespective of their ethnicity.

Beneficiaries

The current focus is on "supporting midlife women to achieve their health and wellness goals, so they can live a more purposeful, peaceful and pleasurable life as they age" with a key aim of changing attitudes in the wellness industry towards midlife women by empowering women who want to age well and have fun at the same time.

Balancing economic, social and environmental demands

Running a social enterprise and balancing the social mission with the bottom line has proven to be challenging. Community groups operating on limited budgets often have the misconception that social enterprise services are free, but this is not feasible for the survival of the enterprise. Zest OF: You, whilst acknowledging the financial constraints of such groups, offers a social tariff under which those that can pay, pay. This allows charging of subsidised rates to cash strapped not for profit community groups, whilst ensuring that business expenses are covered.

Ensuring the business is sustainable

The need to generate a surplus is key to being sustainable. As the founder Ola highlighted from lessons learnt from others, relying solely on funding is a dangerous place for a social enterprise. "Whether they were social enterprises or charities that relied 100% on funding, the lessons I learned from those organisations was, is that if you are flavour of the month, you will get the funding, once you're no longer flavour of the month, your funding will dry up no matter how impactable, impactful and wonderful your business."

Working with a business coach and exploring different business models was key to deciding on the most appropriate way of doing business. Securing long term contracts that pay up front for services and costing out services accurately to reflect preparation, delivery and debriefing helps ensure financial sustainability.

Main challenges

For Zest OF: You, an initial challenge was building the client base whilst ensuring operational costs were covered and running the social enterprise as a business and not a charity. The latter might be possible during the early life of the social enterprise when building up a client base but is not sustainable long term. Time is a valuable commodity and must be included in pricing. Due to the personalised nature of the service offered, scaling up is challenging; one person cannot do everything., the challenge is how to scale up without losing personalisation.

So what does the future hold for Zest OF: You?

Not unlike many social enterprises, Zest FOR: You is happy to remain small. Rather than scaling up in the conventional sense, the vision is for the business to develop through digitalisation and become a thought leader in the women's health and wellbeing space.

For more information, go to <https://zestofyou.com/>

<end box>

Box 5.4. Case Study: A Gap in Support

The Growth of Social Enterprise

The growth of social enterprises is clearly gaining momentum. In 2018 there were 100,000 social enterprises contributing £60 billion to the UK in the UK employing two million people, representing 5% of the working population (Social Enterprise UK, 2018) this has risen to 131,000 in 2023, contributing £78 billion (equivalent to 3.4% of GDP), employing 2.3 million people and generating over £1.2 billion in profits, of which £1 billion was reinvested in social and environmental missions (Social Enterprise UK, 2024). Based on estimates of 5.5 million UK businesses in operation (GOV.UK, 2022) one in 42 UK businesses are a social enterprise (Social Enterprise, 2023).

The World Economic Forum (WEF) provides a comprehensive global data set to estimate the size and scope of social enterprise worldwide. The research covers over 80 countries, making up 83% of the global population and includes social enterprises operating across all sectors including for example, agriculture to fashion and financial services all contributing to the Sustainable Development Goals (SDGs), particularly those directed towards health and education, climate and jobs and the reduction of poverty and inequality. India, China and the United States respectively have an estimated 2 million, 1.75 million and 1.3 million social enterprises (WEF, 2024).

Whilst acknowledging there are gaps in the data, the WEF (2024) research reveals the headline data in Table 5.1 to provide an ‘informative overview’ of the state of global social enterprise.

10 Million Social Enterprises	There are around 10 million social enterprises globally, united by the principle of putting purpose before profit, representing around 3% of businesses.
\$2 Trillion Annual Revenue	Social enterprises are generating around \$2 trillion in revenue each year while creating positive impact.

200 Million Jobs	Social enterprises are creating 200 million jobs across various sectors, from agriculture to financial services.
Financing Need \$1.1 Trillion	Social enterprises are seeking around \$1.1 trillion in external financing (beyond personal savings).
1 in 2 Led by Women	One in two social enterprises around the world are led by women, compared to 1 in 5 conventional enterprises.
2x larger than advertising	The sector is larger than the \$1.79 trillion apparel industry and twice the size of the \$1.01 trillion advertising

Table 5.1. The State of Social Enterprise (World Economic Forum, 2024)

The contribution of social enterprises worldwide of \$2 trillion equates to around 2% of global Gross Domestic Product (World Economic Forum, 2024) and 3.4% of UK GDP (Social Enterprise UK, 2024).

However, despite the increase in social entrepreneurship and enlargement of their range of activities contributing to making social enterprises the leading social sector in the economy of social responsibility (Becchetti & Borzaga, 2010), the move towards ‘for purpose’ or ‘mission-driven’ enterprises only represents a small percentage of all economic activity (Social Enterprise UK, 2018; 2023) in comparison to for profit driven enterprises. In 2022, although social enterprises generated more than £1.2 billion in profits, this is significantly overshadowed by the level of FTSE 100 generated net-profit of £168 billion (AJBell, 2023). Furthermore, despite having a long history, social enterprises have largely been overlooked in policy circles due to a lack of impact awareness (Bridge, 2015).

Chapter Summary and Call to Action

This chapter has collected examples of how we can think differently about the economic responsibility of a business and organisation and supplied many examples of people doing just that.

Strategic thinkers can shift the focus to people (social responsibility) and environment (environmental responsibility) and to enhanced stakeholder relationships away from a focus on competitors to achieve value.

Current ideas to consider include Bottom of the Pyramid approaches, frugal innovation, disruption, coopetition and social enterprise. A re-focusing can increase the likelihood of responsible, sustainable strategic thinking.

Recommended Reading

Albert, M. (2019) Sustainable frugal innovation - The connection between frugal innovation and sustainability. *Journal of Cleaner Production*, 237. <https://doi.org/10.1016/j.jclepro.2019.117747>

Bouncken, R.B., Gast, J., Kraus, S. & Bogers, M. (2015) Coopetition: a systematic review, synthesis, and future research directions. *Rev Manag Sci*, 9, 577-601. DOI 10.1007/s11846-015-0168-6

These are systematic LITERATURE REVIEWS therefore they select, evaluate and summarise relevant literature on frugal innovation and coopetition respectively, revealing the history of a subject debate as well as the alternative views that exist up to the time of writing.

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