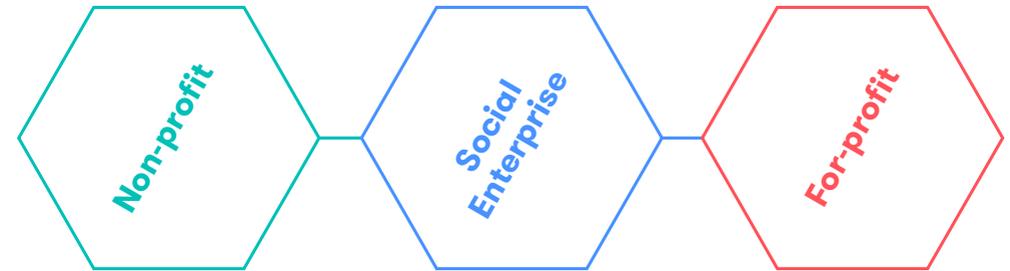


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**What are social enterprises  
and what is impact?**

# Social enterprises

Social enterprises are an emerging organizational form. They strive to create benefit for society in areas where markets and governments fail, while at the same time generating profit. In other words, social enterprises are organizations that conduct commercial activities with the goal of creating positive social or environmental impact. They are not typical non-profits, such as charities, foundations or Non-Governmental Organizations (NGOs), nor are they typical for-profit businesses; they aim to combine the best of both.



Social enterprises run **commercial operations** with the goal of addressing **a societal problem**

The mission that a social enterprise pursues is usually defined by the founders and integrated into the company's vision and mission statement. This is a key difference between a pure for-profit business and a social enterprise: a social enterprise usually enshrines its mission in to its legal framework, governance and culture.

# Examples of social enterprises

Over the past decades, social enterprises have gained in importance for the global economic system. Their activities cover a range of sectors. Below are some prominent examples from the finance, energy, education and the environment sectors:

- Finance: **Grameen Bank offers** financial services for low-income populations. It was established by Muhammad Yunus – a pioneer of social entrepreneurship and recipient of the Nobel Peace Prize for the development of the microcredit and microfinance concepts.
- Energy: **Nuru Energy commercializes** renewable energy lamps with the aim of bringing clean energy to every village. To date, they have provided 120,000 of the world's poorest households with access to clean energy, thereby displacing 12,000 tons of CO2 emissions.
- Education: **Khan Academy** develops low-cost online education materials and thrives to provide a free, world-class education to everyone in the world.
- Environment: **South Pole Group is** a leader in developing CO2 emission-reduction projects for businesses and governments all over the world.

# The United Nations Sustainable Development Goals

Since social enterprises aim to tackle societal and environmental problems, their missions typically align with the United Nations Sustainable Development Goals (SDGs). The SDGs were agreed and implemented by the United Nations in 2015 with the objective of ending poverty, protecting the

planet and creating global prosperity by 2030. They provide a common framework for addressing social and environmental impacts on a global scale and putting social business into context. As such, they are an important reference point and communication tool for social entrepreneurs.



For instance, social enterprise MoSan offers an innovative mobile sanitation system for the world's poorest. They aim to provide dry toilets to impoverished people who do not have access to sewage systems and thus support the achievement of SDG 6: „Clean water and sanitation for all.”



A completely different example is Social Fabric. They offer work integration programs, product development workshops and social sewing courses for refugees in Switzerland. Their objective is to improve the lives of their beneficiaries by helping them to advance their qualifications with the goal of obtaining work. Social Fabric promotes SDG 8: „Decent work and economic growth.”



# Defining environmental and social impacts

Impact is the downstream consequence of socioeconomic decisions for society. Some impacts are perceived as positive, others as negative. When it comes to understanding impact, it is often useful to consider different social impact categories such as health, corruption, and underemployment, which have been defined based on human rights considerations. Whereas for environmental impacts, it is useful to consider impact categories such as ecosystem health, greenhouse gas emissions and resource consumption.

As impacts do not affect all groups in society to the same extent, it is important to consider the initial situation because particularly disadvantaged social groups or environments can be influenced disproportionately.

For example, a community with a high proportion of people with low education level and underemployment could be more severely affected by a negative social impact (such as a local sanitation issue), while a positive impact (such as a sanitation solution) might generate higher value for the same community.

This consideration also concerns environmental impacts. An additional discharge of wastewater into an already polluted lake might lead to the death of a lot of fish, whereas the same discharge into an unpolluted lake might have little effect.

This is one of the reasons that impact forecasting and measurement is so important for any business that aims to become a force for positive environmental and societal change.



Example of a negative environmental impact on a vulnerable ecosystem

# Impact measurement

Successful social enterprises must deliver financial performance as well as impact. Therefore, just as the finances of a social enterprise must be quantified, forecast and measured with the help of financial statements, like the profit and loss statement, impact must be quantified, forecast and measured to monitor performance against impact goals. This may involve reporting on outcomes such as avoided CO2 emissions or the number of supported beneficiaries over the years. For a social enterprise, impact forecasting, measurement and reporting are crucial to the success of the business and essential to:

1. Access vital sources of funding directed at mission-driven businesses and organisations (such as impact investment and grants);
2. Communicate progress towards the mission to different stakeholders; and,
3. Obtain competitive advantage and win clients.

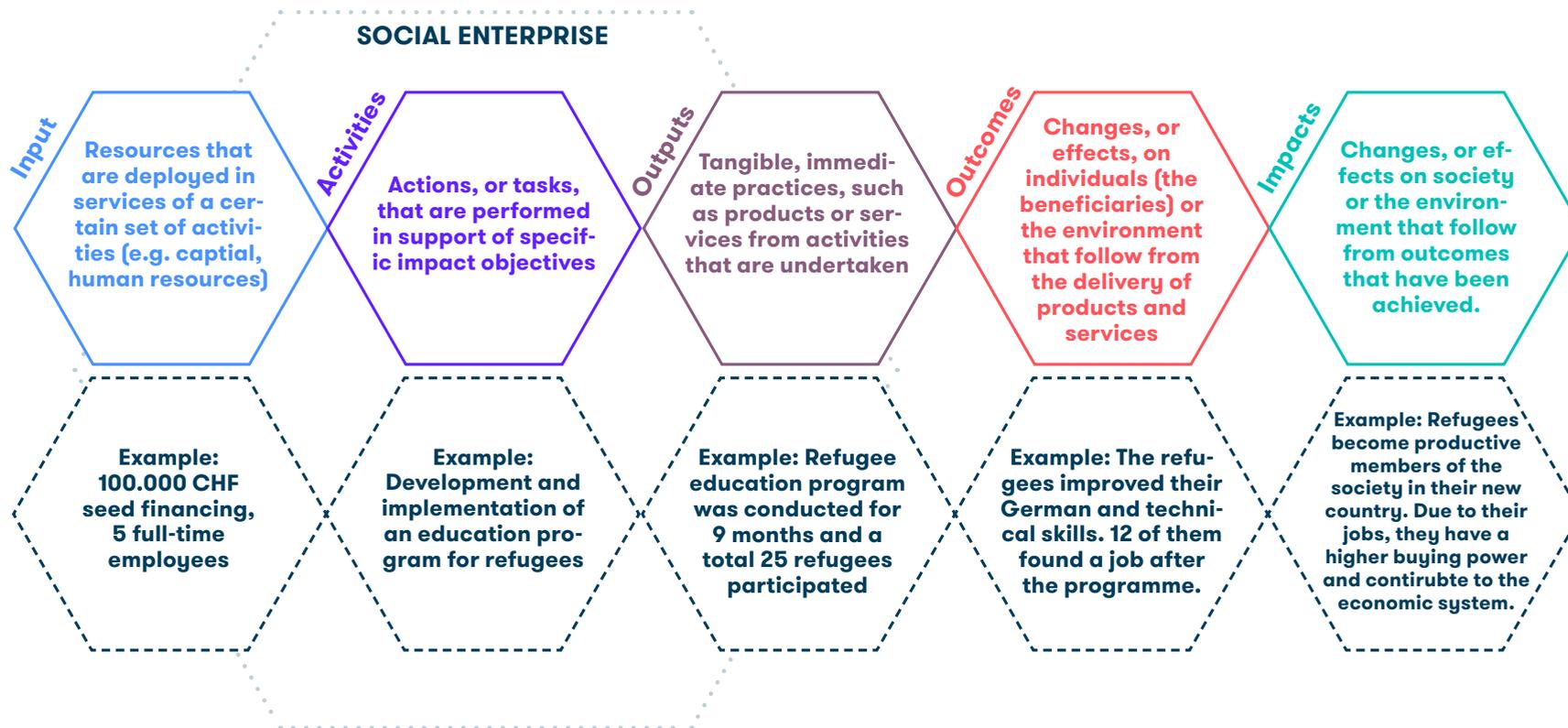
# Understanding impacts on beneficiaries: the theory of change

Understanding how a business or organization might create positive social or environmental change is complex. Often, impacts on a community or the environment are difficult to define and may have positive and negative effects. As a result, a number of different models and methods have emerged to help organizations and businesses assess their impact, both positive and negative. The leading

model in this area is something known as the theory of change. It can be used to understand what connects an organization's operating activities with the generation of impact for their beneficiaries. Such changes are primarily assessed using a so-called chain of effects (see Figure). At the beginning of the chain are the inputs that the social enterprise needs to run their business. These inputs include

capital, personnel, etc. Subsequently, these inputs are used to generate various outputs such as products or services. By using the products or services, outcomes can be obtained for the beneficiaries. The outcomes are the changes for the beneficiaries, which can be divided into medium-term (e.g. improved education) and long-term outcomes (e.g. work acquisition). In the long term, these results then lead to societal

impacts (e.g. poverty reduction). Thus, the theory of change helps social entrepreneurs to link their activities with the impacts they cause. The desired effect, however, is not the only one triggered by the entire impact chain. All economic activities have a social impact, and a social enterprise must be aware of the possible side effects that can jeopardize the general benefit to society.



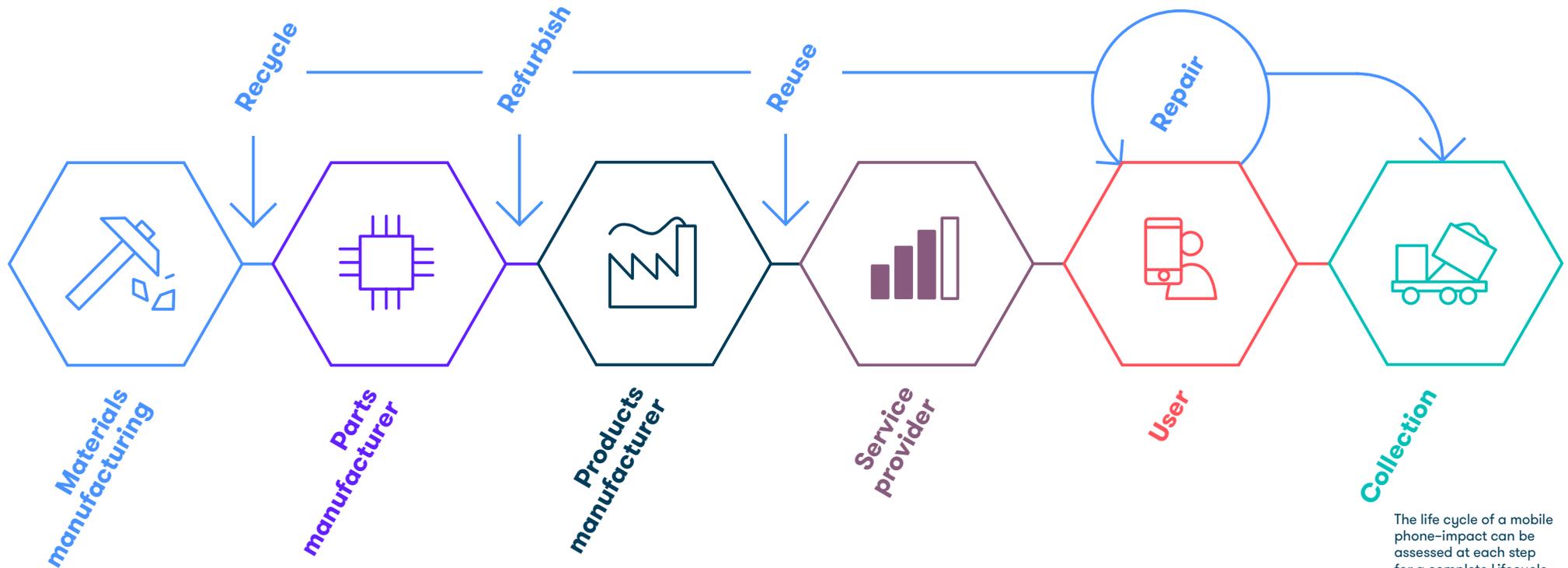
Chain of Effects (based on the Theory of Change)

# Understanding impacts along the value chain: product lifecycle assessment

An alternative way to think about how an organization or business could impact society or the environment is to consider the entire life cycle of a product using a process called Lifecycle Assessment, or LCA.

LCA involves assessing all the different stages of the value chain, including the extraction of raw materials, materials processing, manufacturing, assembly, product and end of life

stages, involving waste disposal or recycling. Each of these stages can lead to different environmental (e.g. CO2 emissions, water use) and social conditions (e.g. corruption, child labour), which can be forecasted and measured in order to consider the impact of the product or service across its entire lifecycle. LCA tends to be less useful for service-based social enterprises, but it can be very useful for a product-based enterprise.



The life cycle of a mobile phone—impact can be assessed at each step for a complete Lifecycle Assessment (LCA)



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