

Social Enterprise Unraveled

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SOCIAL ENTERPRISE UNRAVELED

Best practice from the Netherlands

Warden Press

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'I believe that social business is key to a more sustainable, responsible, and more inclusive future for Europe.'

José Manuel Durão Barroso, President of the
European Commission

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INTRODUCTION

Businesses changing the world

The concept of social enterprise as a distinct type of business is very valuable.

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Social enterprises are truly different from other businesses, and deserve recognition and acclaim. Their aim is primarily societal and they can therefore create great value for humankind. Social enterprises are ideal vehicles to help solve social problems as pioneers and as shining examples.

The social enterprise sector is still young and developing. The interpretation of what a social enterprise is, and what it is not, differs across the globe. But we are seeing the commonality between definitions grow, as social enterprises are ever more clearly set apart from charities, commercial enterprises, and public sector organizations. While the definition of a social enterprise is coming together, the inner workings of a social enterprise and the impact of its services will continue to be determined by three factors that differ from one country to the next. First, a social enterprise is primarily aimed at solving societal challenges, which can differ by region, country, and community, giving rise to different social missions and services. The role that the government plays is the second factor that sets the playing field for social enterprises. Within the boundaries of legislation and regulations,

social enterprises fill the gaps left by public services. And, last but not least, the way people choose to work together is culturally bound and reflected in how social enterprises operate.

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This book is about the emerging social enterprise sector in the Netherlands, our home country. Our book contains our viewpoints, strongly bedded in the policies of the European Commission, and cases of Dutch social enterprises. Many of these examples can be found in other countries, but some are rather specific to the Netherlands. In any case, it will be of interest to the international reader to compare and reflect. And so we hope to contribute to the development of the social enterprise sector across the globe.

The Netherlands needs a strong sector dedicated to social entrepreneurship. Although the Netherlands is among the world's ten richest countries, it is by no means problem-free. Numerous social issues have yet to be tackled. There are over one million Dutch people who live below the poverty line and two million Dutch people who are considered to be lonely. We believe loneliness is also a form of poverty, a psychological and extremely distressing form of poverty. Another problem that exists in the Netherlands is that 27,000 young people drop out of senior vocational education every year. This is not only a problem for themselves, but also for the rest of society. Keeping young people in school helps prevent them from causing problems and instead contribute to the economy and society. Jumping to the environment, 4 percent of the Netherlands' energy comes from alternative sources, which is low compared to Germany, where 25 percent is produced from renewable sources.

Amsterdam and Rotterdam, the Netherlands' main cities, are not able to adhere to the minimum European Union air quality standard. Inhabitants of these cities are 20 percent more likely to get lung cancer than people living in rural areas. The social enterprise business model is ideally suited to help solve these types of problems. In addition, a large number of social enterprises focus on solving poverty in developing countries, which can be done through fair trade or through establishing social businesses there.

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There is still so much left to do. Social entrepreneurs are coming up with effective and sustainable solutions. By setting up companies with actual impact, companies that connect people, create jobs for disabled people, and propose solutions to environmental issues.

This book describes the phenomenon of a social enterprise, highlighting its social and human value and why it is a special and unusual form of business. We will also show how they come about and what challenges they face, because when starting a social enterprise, an entrepreneur is not choosing the path of least resistance.

We hope this book will enlighten and inspire, and energize you in the way social entrepreneurs have energized us. Get governments to create better conditions and opportunities, in a facilitating rather than a subsidizing role. Spur on investors to put their money into social enterprises. Induce universities to do more research and teaching on social entrepreneurship, thus producing large crops of talented social business students. But there is still plenty left to do. And everyone can do something, which is the great thing about social enterprise. We hope reading this book will inspire everyone, regardless of

their role — as a consumer, policymaker, commissioning party, financial backer — to help make this industry successful.

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The first chapter will describe social enterprise, its defining features, what social enterprises are, and why they are truly different: the new exceptional combination of idealism and business. Chapter 2 will subsequently go into the figure of the social entrepreneur: what drives him or her, what are some of the personal traits of someone who chooses to become a social entrepreneur? Chapter 3 deals with the social enterprise business model: the value a social enterprise seeks to create goes far beyond mere financial profit. Chapter 4 is about social enterprises, which like any other business have to attract and retain customers, position and sell their product or service, and will answer the question what you can and cannot do with your underlying idealism. Chapter 5 delves into the concepts of community interest and involvement, also covering citizen initiatives and value created for the community. Chapter 6 explains how to quantify social impact. Chapter 7 describes the inner workings of a social enterprise, its DNA, its nature, which inherently ensues from its social vigor, the fact that all stakeholders have a say, the ethics, and transparency. In Chapter 8, the focus shifts to how social enterprises are funded and which issues arise in that context. Chapter 9 centers on relations between social enterprises and the government. Chapter 10 will conclude with a look at the future of social enterprise, asking where social entrepreneurship is headed, and what it needs.

We hope you enjoy reading this book and that it will inspire you to actively support the development of social entrepreneurship — or even to become a social entrepreneur yourself!

Source citations and references to relevant books and articles are available online on www.social-enterprise.nl/book. On this same website, you can also submit any questions you have after reading this book.

Taxi Electric: quadruple impact

Our first case is Amsterdam's Taxi Electric, a young company that has managed to have a societal impact on as many as four fronts. Taxi Electric was established in 2011 by Edvard Hendriksen and Ruud Zandvliet, two young economists who could no longer bear to see how we are treating our living environment. They quit their jobs at a major corporation and started Taxi Electric.

Taxi Electric's quadruple impact starts with the environment, as their fleet of taxis is exclusively made up of eco-friendly Nissan Leafs — fully electric zero-emission vehicles. That in itself is already a major gain, because regular taxis are extreme polluters, at least thirty-five percent more so than regular cars. Amsterdam has poor air quality, and the city will fail to meet European air quality standards by 2015, with one of the measures being to have at least 450 zero-emission cabs by then. Ruud and Edvard's aim is to run one hundred of them. By so doing, they are showing that exploiting electric cabs and making a profit is possible. If they pull that off, others will follow their example and help Amsterdam reach its target. "It's also about scale," says Ruud. "You cannot make a profit with ten vehicles, and with thirty to forty you will only break even, but one hundred will generate a turnover of 10 million euros and get you a reasonable margin." Taxi Electric is in no way subsidized, it is primarily funded by private investors.

But Ruud and Edvard have taken their social entrepreneurship further by also helping to make the world a better place through their employment policy: nearly all their drivers are over fifty and returning to paid work after a long period of unemployment, which is a demographic in the Netherlands that struggles to get back to work without a little extra help. This employment opportunity not only benefits their drivers, but also the company itself: the drivers are nice and polite people, who look tidy and open

the door for you, because that is part of the Taxi Electric service. “We also want to offer good value for money, which is not always easy to find in Amsterdam,” Ruud says subtly.

With their good manners, which should in fact be common practice, Taxi Electric is helping to improve the Amsterdam cab industry’s lousy public image. This is the third area where the company is having an impact. And this just happens to be an area where there is a lot of ground to be made up in Amsterdam!

And fourthly, and perhaps most importantly in the long term, the company is helping to boost the uptake of electric vehicles. Unknown, unloved: electric vehicles do not have a great public image yet. In a Taxi Electric cab, customers get a first-hand experience of the fact that electric cars pull away quicker than gasoline-driven ones and can easily hit 130 km/h on the interstate. “Ours are the fastest cabs in town,” says Ruud. Their drivers can explain exactly how much range their cab has, or how the battery charges itself during braking, and that it now only takes under thirty minutes to charge the battery. This effectively makes a ride in one of Edvard and Ruud’s cabs a test drive in an electric vehicle. This is a company that sets the right example, achieving a quadruple impact.

The reasonable man adapts himself to the world; the unreasonable one persists in trying to adapt the world to himself. Therefore all progress depends on the unreasonable man.

George Bernard Shaw, *Man and Superman* (1903)

Business-minded idealists

What are social enterprises – and what are they not?

There are many different ways to start a business. You may have mastered a trade, let's say that of shoemaker, and you hire an apprentice – first only one but you keep hiring more and more. That's how Gucci and Adidas, for example, started. Or a couple of employees who launch a corporate spin-off, thinking they can do better than the company they used to work for. Or two socially engaged boys who don't know what to do with their lives and spend their last two dollars on getting an ice cream-making diploma – that's the story behind Ben & Jerry's. Also possible.

Every entrepreneur has a different reason to start a business, and it is generally a combination of several motives: the founder has spotted a gap in the market or wants to use his or her talents, do what he or she is good at and likes doing. Or he or she wants to show the world what he or she can do. The primary motive is often the need to earn a living, and starting a business seems like the best way of doing that.

But you can also be driven to start a business to better the world. You have identified a social problem and think your business idea can help solve that problem, like our friends at Taxi Electric. Odd? Unusual? Maybe so in the present day and age, but increasingly less so: over the past few decades, entrepreneurs have cropped up all over the world whose main aim was to better the world.

A social enterprise:

- 1. primarily has a social mission: impact first**
- 2. realizes that mission as an independent enterprise that provides a service or product**
- 3. is financially self-sustaining, based on trade or other forms of value exchange, and therefore barely, if at all, dependent on donations or subsidies**
- 4. is social in the way it is governed:**
 - a social enterprise is transparent**
 - profits are allowed, but financial targets are subordinate to the mission, shareholders get a reasonable slice of profits**
 - all stakeholders have a balanced say in strategy and management**
 - a social enterprise is fair to everyone**
 - a social enterprise is aware of its ecological footprint.**

Their companies are called social enterprises. The most famous, and perhaps even the mother of all social enterprises, is Grameen Bank, which was founded by Muhammad Yunus in Bangladesh in 1976. Yunus believed the best way to fight poverty was not through charity, but by enabling people to help themselves. And so he started giving small loans to the poor, to women in particular, who had no access to funding until then. By now, Grameen Bank has issued over 13 billion dollars in microcredit loans, but even more importantly: the concept of microfinance has taken off on a global scale. When Grameen Bank's business model turned out to work, social entrepreneurs in other poor countries launched similar initiatives. Regular commercial enterprises have since also entered the

microcredit business, which has meanwhile grown into an 80-billion-dollar industry. This development has helped 200 million poor people, the so-called bottom of the pyramid, gain access to financial services. In 2006, Yunus was awarded the Nobel Peace Prize, making him the only entrepreneur to ever receive this prize.

Social enterprises come in all shapes and sizes. Some focus on energy, others on fair food, and yet others on people who, for whatever reason, are unable to hold down a job without special attention and support. There are major ones, virtually multinationals, and small ones, operated from an attic somewhere. And as you would expect from a young industry: not everyone everywhere in the world goes by the same definition of what a social enterprise is and what it is not. For the sake of clarity, we will present our definitions in this chapter, which largely follow those used by the European Union.

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Financially self-sustaining

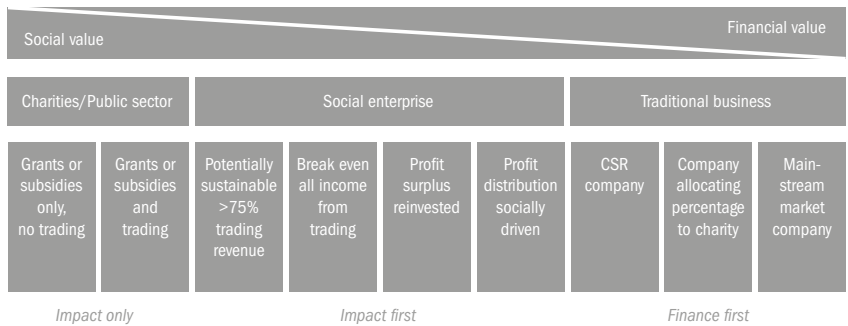
Social enterprises are organizations with the same objectives as charities, but operate based on the principles of the private sector, which includes the need to grow and ability to realize reasonable financial returns. A social enterprise is just like any other company: the company provides a product or service and has a revenue model. That said, making money is not the main aim, but rather a means to an end, with the end being to achieve social impact.

An organization that runs on donations or subsidies is not a business. If you are largely dependent on donations, you are a charity. If your organization relies heavily on taxpayers' money, you are part of the public sector, and therefore not a company. But when is an organization a social enterprise?

According to Wikipedia, corporate social responsibility (CSR), sustainable responsible business, or social performance is focused on economic performance (profit), while respecting the social side (people) and operating within eco-friendly conditions (planet). Many commercial companies — perhaps even most of them — play an important role in society: they make medication for our health, responsibly produce the food we need to live, or develop and build solar panels and electric vehicles. By far most commercial enterprises are increasingly aware of their responsibility, and this awareness is translating itself into highly concrete programs. Not only by sustainable operations “on the fringe” (do no harm), but also more and more in their core business. Still, this does not make these companies social enterprises, as their financial objective takes precedence over their social objective. This difference may seem subtle, but does indeed show in the company's behavior. These companies will always pursue high financial targets, which exclude certain services and innovations.

And in many cases, the decision to adopt CSR is not driven by social or ethical motives, by a will to do good, but rather by financial objectives in various ways. It looks good to the outside world and is helpful in a company's human resources policy. Young people want to work at social and eco-friendly companies. CSR helps companies attract the best people. The most direct financial interest lies in the relation with investors. A high listing on the Dow Jones Sustainability Index will make a company's share price shoot up.

Needless to say, this is not an exact science. We use 75 percent as a guideline: when an organization generates over 75 percent of its revenue through trading products or services we consider it a social enterprise. Otherwise, we consider it a charity or public sector organization. A social enterprise may therefore obtain part of its income from subsidies, donations, or, for example, voluntary work, which often actually turns out to be the only way a social enterprise can survive in the early years of its existence. But at the end of the day, a social enterprise is an independently operating company that can support itself financially through trading.



The social enterprise focuses on impact first. Source: Venturesome, Shaerpa.

Different from CSR

There is a great difference between social enterprises and traditional businesses that assume their corporate social responsibility. These latter companies go to great lengths to operate in a way that minimizes the negative impact on society, trying even to ensure that people and planet benefit. But no matter how admirable and useful that is, such companies were not founded with the objective of creating social value in mind. Although, for example, Ahold, the largest supermarket chain in the Netherlands, looks for

ways of cutting their carbon emissions, makes an effort to get more organic and fair trade products on their shelves, and seeks to employ disabled people, it never ceases to be a company that is run based on financial value. Ahold's share price features prominently on their website, and the "results" section lists only financial parameters. There is nothing wrong with that, as it instantly tells us where Ahold's priorities lie. When push comes to shove, people and planet will take a backseat to shareholder value. Regardless of how important their stores are in the community and how much people at Ahold are genuinely trying to do things better. Corporate social responsibility is a side show, while social entrepreneurship is a primary objective.

Social

As mentioned above, there are many organizations that "do good," but when do their actions become truly "social?" In the following, we will present our take on the most important social objectives.

- **Well-being**, and then in particular for the underprivileged and the disadvantaged. They need special attention to be able to exercise their basic human rights, although it would be even better to go one step further, to lift them out of marginalization and empower them to take part in society through employment and an income.
- **Social wealth and cohesion**. The idea is to forge contact between people, often within local communities, which is an elementary human need. New contacts lead to new commitment that can be centered on the other two objectives listed here, caring for each other and for the environment. Ethical conduct, meaning the way people associate with each other, also falls within this category of objectives.

- **Ecology.** Major issues such as global warming and declining biodiversity are shouting out for solutions. Everywhere mankind is faced with environmental problems caused by population density, clogged roads, and intensive agriculture. Social enterprises are often ecological pioneers that work on sustainable development, clean energy, healthy food, and smart mobility.

The word “social” refers to the interests of a greater unit, a community, a country, or the world as a whole. Besides directly involved shareholders, employees, or paying customers, a social enterprise has more beneficiaries. When you ride a Taxi Electric cab instead of a diesel-powered one, residents of the neighborhoods you’re passing through will all benefit, because the air they breathe is just a little bit cleaner and healthier thanks to you.

Marqt: stop talking and do something

Working at Ahold supermarkets, Quirijn Bolle learned about the ins and outs of the food industry. He saw healthy products that were kept out of the chain, while unnecessary (and harmful) substances were added to the majority of the supermarket chain's assortment. At one point, he said to himself: this has to change. For what are we as a society doing if this is how we organize our food industry? In his view, the industry was morally bankrupt, but the world just hadn't cottoned on to that yet. Quirijn: "The horse has bolted, but the machine just keeps going. The other day, I spoke to a supermarket manager with a turnover of 7.5 million euros a year. But he doesn't make a profit, as margins have dropped to such a low level that he can't even break even. And then you're only talking about the supermarket, most of which manage to eke out a tiny margin at least, and not about the producers, who have their backs against the wall, and not about the animals that are kept in dismal conditions. What on earth are we doing?"

Bolle decided to have a go at turning the entire industry upside down by opening a fair food store: Marqt. Marqt serves an important social purpose: in the area of consumers' health, farmers' livelihoods, animal welfare, employment, the positive effect on the street scene, stores' energy efficiency, less transport, and so on.

There were setbacks aplenty at the start and as the enterprise grew, pushing Quirijn's venture dangerously close to the brink of failure on several occasions. Never daunted by these setbacks, Quirijn always held his conviction that he would succeed. 'I really know from the tips of my toes that things should be done differently. And seeing as this belief comes from the tip of my toes, I have to be the one to do it. Because if I don't, who will? There is so much talk, but I say: stop talking, and do something. What do I have to lose? And it also gives me tremendous energy.'

Bringing about real change

Social enterprises have different kinds of impact and contribute to social innovation. The most ambitious entrepreneur wants to solve a certain social problem once and for all — that is the ideal. We call that aiming for systemic change: “the system” will then have been changed to such a degree that the problem has actually disappeared. But there are also numerous social entrepreneurs who pursue smaller goals and, for example, seek to bring about real change for a small community, which is equally commendable.

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Impact can occur on three levels:

1. locally
2. through a step change
3. systemic change

A social enterprise can have major impact on a community or a small group, but may lack the capacity or mission to have an impact on a larger scale. One fine example of this is that of a restaurant called Fifteen, which gives disadvantaged youngsters work experience and training (see page 55). The effect may be confined to the youngsters and the restaurant, but means a great deal to the people who work there and their future prospects, moving on to normal jobs when they are able to.

Social enterprises that have the kind of clout that enables them to generate greater impact create a step change. This is what happens when, for example, companies manage to reach far greater numbers of people they can help. This is possible when a company succeeds in acquiring sufficient means to roll their service or product out on a larger scale. Growth in scale not only comes with growth of the social enterprise itself, it is also a result of