The Seven Pillars of Social-Enterprise Success

Here are the seven business ideas most useful for nonprofit entrepreneurs.

BY FRANK VILLENEUVE–SMITH

As more and more nonprofits develop social enterprises, this new field is working hard to generate its own body of thought. Meanwhile, what business principles can we translate to a social-enterprise context in a way that's relevant and meaningful? This article outlines the seven most useful ideas that can start just such a translation.

Pillar 1: Know what business you're in.

"Know what business you're in" is a standard mantra for any MBA student, but it's even more vital for a social enterprise. It's easy to assume that you're in the same business as the cause your social enterprise is supporting—with disastrous consequences.

For example, an environmental visitor center in England had trouble attracting visitors because its leaders thought they were part of the environmental movement. They weren't: They were in the tourism business. As a result of their misconception, their strategy, priorities, and organizational culture were out of step with their needs.

Don't let that happen to you. It's essential to focus on the business you're in, not the cause you support. Doing so can be challenging, since staff members will likely find the cause more inspirational than the business. Thus, social-enterprise leaders need to manage and sell that change in understanding.

Pillar 2: It's not about you.

The first three rules of the successful market-led organization are: Focus on customers. Focus on customers. Focus on customers. These rules are as true for social enterprises as for any business. Some nonprofits, however, aren't interested in customers but only in the social outcomes of their organization. In other words, it's about them.

An example from the UK is the Guide Dogs College, which trains professionals to work with people who have a visual impairment. At first, the College viewed its customers almost as an inconvenience. Rather than focusing on its customers, the College focused on its role in the field of visual impairment. This mistaken priority caused a decline in sales of its training, which had become out of step with the needs of its customers. The College has had to work very hard to reorient itself for success.

Another example is "funder focus," which occurs when an enterprise depends on third-party funding and focuses its strategies around the funding criteria rather than the customers' needs. Funder focus can destroy the organization's ability to deliver value to customers.

Pillar 3: Stop talking amongst yourselves.

Few social enterprises are household names. With surveys showing that social and ethical factors are important to customers, this begs the question—where are the social enterprises?

To help answer this question, it's worthwhile borrowing from the work of Geoffrey Moore.[1] To explain why some technology companies succeed while so many others fail, Moore asserts that there is a "chasm" between the "introduction" phases and the mass market. This chasm is driven by the tech companies, who like techno-speak and technical people. Thus, the only customers these companies focus on are people like themselves, who share their "language" and interests—a very small percentage of the population. This communications gap makes it difficult to secure support and funding.

The parallels between this situation and social enterprise are clear. Many social enterprises rely on a customer base that broadly shares their aspirations, val-

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ues, and goals. Simply put, they’re happy to talk amongst themselves, limiting their growth potential. Potential sources of funding are closed off, because the enterprise doesn’t share the language of mainstream funders.

“Crossing the chasm” means talking to customers who don’t automatically share your values and interests. Your challenge is to develop your products and services in a way that is accessible to different segments of society.

Pillar 4: It won’t work forever.

Many social-enterprise leaders believe their social/ethical stance gives them an advantage over their mainstream competition. While there’s some truth to this belief, there are two cautionary notes.

First, all competitive advantages erode over time. As Nigel Slack notes, factors that are “order-winners” for businesses become, in time, minimum “qualifiers” and, eventually, “less important” factors. This is because anything that gives an organization an edge over its competitors can be copied and because customers seek products and services that continually improve.[2]

The erosion of competitive advantage from being a social/ethical organization will likely prove no different—it will move from being an “order-winner” to a “qualifier” over time. An example from the UK is Beauty without Cruelty, a cosmetics organization which gained a competitive edge in the 1980s and early 1990s because it didn’t test its cosmetics on animals. Since then, this anti-animal-testing stance has eroded as a form of competitive advantage. Now, for many customers, it is merely a “qualifier,” with customers seeking better products, more attractive retail environments, *and* a robust anti-testing stance.

Second, the business environment changes. Customers’ tastes and preferences, competitors, legislation, and innovation all affect your business model exactly as they impact a mainstream business. To become sustainable, you need to continually match your organization to the business environment. Resting on your ethical laurels is unlikely to be enough in the long run.

Pillar 5: That which makes you stronger, kills you.

Danny Miller finds that businesses often fail because of the very competencies that originally caused their success.[3] This “Icarus paradox” also applies to visionary leadership in social enterprises. Visionary leaders are effective at securing funding, motivating staff, and delivering real social change. But their strengths may hold the seeds of their greatest weaknesses. For example, the power of their vision can blind them to vital information that conflicts with that vision. Visionary leaders may also find it difficult to work in partnership with other stakeholders and to delegate responsibility.

In social enterprises, these drawbacks are usually outweighed by the advantages of having a visionary leader. However, social-enterprise leaders will need to work to avoid these pitfalls, especially as the organization grows.

Pillar 6: Know your scale.

Even if you’re a large, respected social enterprise, you’ll most likely be a small business. If you don’t understand the difference between the two, you’re apt to make poor decisions.

For example, an ethical retail chain in the UK was able to achieve near-record levels of socially invested share capital. The leaders of this social enterprise were so delighted by its success that they invested in a head office, a London PR company, and a design agency, and traveled to international conferences on a regular basis.

However, their view of their success was inflated. The sum of the business was three medium-sized retail outfits—large for a social enterprise but small for a business. Not surprisingly, the enterprise, which also failed to heed the previous five pillars, quickly ran out of cash and had to recruit a turnaround manager.

The dissonance between your scale as a social enterprise and your scale as a business can make managing growth challenging. To avoid the dangers, keep a benchmarking eye on equivalent-size for-profit organizations.

Pillar 7: Learn from anywhere.

Social enterprise is a relatively new field, still finding its way in terms of effective business models and best practices. This means that there’s no “right” answer and few places to go to develop learning. Thus, you need to be open to learning from anywhere.

It’s easy to see what makes your business model different from for-profit enterprises and other social enterprises. It requires a much greater openness and flexibility to identify similarities and use them to develop reflective practice.

In addition, many case studies surrounding social enterprises champion the successes of leading enterprises. This practice is informative and inspirational. However, many new organizations fail, and few find growth easy to attain. Consequently, it is worth exploring causes of failure to help avoid the pitfalls.

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Conclusion: Keep borrowing.

As new business models continue to emerge from the field of social enterprise, a new set of best practices will emerge, ideally fitted for the sector. In the meantime, it's worth borrowing where appropriate from mainstream business thinking. The above seven pillars all find their origin in for-profit best practices.

Borrowing needs to be done creatively. It's not enough to take a for-profit model or framework, scrub out the word "business," write "social enterprise" in its place, and hope it will serve. Nevertheless, keeping a weather eye on commercial models can be a source of reflective practice for social-enterprise leaders as the sector develops. The key is to be flexible and open in finding ways to learn and grow. ■

Footnotes

[1]Moore, Geoffrey, *Crossing the Chasm: Marketing and Selling High-Tech Products to Mainstream Customers*, Harper Business Press.

[2]Slack, Nigel, "Formulating Operations Strategy," lecture to Warwick Business School.

[3]Miller, Danny, "The Icarus Paradox: How Exceptional Companies Bring about their Own Downfall," *Business Horizons*, Vol. 24, No. 35.

Frank Villeneuve-Smith is the business manager of the Guide Dogs for the Blind Association's College in Surrey, England, where his task is to develop the College into a viable social enterprise. Frank started out in for-profit sector sales and marketing before gaining an MBA with Distinction from Warwick Business School. Since then he has worked for a variety of social enterprises, translating his commercial experience into useful ways of tackling social-enterprise issues. Frank is keen to hear your feedback, ideas, and any interest in the development of more in-depth work. He can be contacted at frank@villeneuve-smith.com.