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### More Than Just Tugging at the Heartstrings

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# MORE THAN JUST TUGGING AT THE **HEARTSTRINGS**

If you are a non-profit organisation and thinking about starting a social enterprise in Singapore, B. Joon Park has some start-up tips.



The attitude among non-profit organisations and civil servants towards social enterprises has been rather diverse – ranging from enthusiastic to very skeptical. One civil servant I met complained about a catering service that delivered her lunch. The catering service operated as a social enterprise and she did not think that she had enough choices of ‘healthy’ meals on the menu. When she expressed her dissatisfaction at the lack of choices offered on the menu, the company’s reaction was not the kind of response one might expect from a commercial enterprise which was: “Thanks for letting us know your concern. We will see how we can improve our services.” Instead, it was more like a plea for understanding, which was: “We are a social enterprise for a good cause. Please bear with us.”

In a sense, it is good that most social enterprises in Singapore are initiated, or will be initiated, by voluntary welfare organisations (VWOs). They have a good understanding of the needs of their beneficiaries. And they have passion for the social causes in question. The trouble, of course, is that VWOs often do not have enough business knowledge and commercial smarts to turn their social enterprises into viable businesses.

#### **Tip No. 1: A Social Enterprise Is A Business**

It is not a fundraising machine for charity. In other words, the quality of products or services offered by a social enterprise has to be at least as good as the quality of other commercial enterprises. A charity may be able to survive on the philosophy of providing inferior products or services and expecting customers to pay just because the money will be used for a good cause; but this is not the case for a social enterprise.

And as with any commercial venture, cost and revenue must be carefully calibrated, especially since social enterprises sometimes face cost disadvantages that purely commercial enterprises do not. If the mission of a social enterprise is to provide employment opportunities for the disabled, for example, the enterprise may have to design a special work-flow process, purchase specific equipment and conduct a longer training programme for workers. These are all additional expenses that regular commercial enterprises do not have to bear.

In addition, one has to factor in the perception that consumers expect a social enterprise to offer lower prices for products and services which, in turn, will affect revenue streams. But how true is this perception? I once met a customer who said, “I am willing to pay the same price or higher to

social enterprises as long as the quality is good.” I believe that customers may want to pay less for goods provided by a social enterprise because people perceive that goods coming from social enterprises are of inferior quality. When I buy microwave popcorn, I always choose Newman’s Own Light Butter<sup>1</sup>, one of the most expensive brands on the market. Why Newman’s Own? It is not because I know that the profit from the sales will go to charity but because Newman’s Own is simply the best microwave popcorn I can find in Singapore!

In short, social enterprises do face cost disadvantages over commercial enterprises. Yes, it does cost more to run social enterprises. I believe, however, the revenue-side ‘squeeze’ is a wound that is self-inflicted by social enterprises themselves.

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**Capital always flows into the areas that money can be made. So if a certain service or product is not offered by the commercial sector, even though there is a need, it is very likely that the business itself is not profitable.**

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#### **Tip No. 2: The Social Enterprise Is As Important As The Social Mission**

Would-be-start-up social enterprises need to remember that they have two missions – social mission and enterprise. More often than not, VWOs do not fully understand the enterprise mission as clearly as the social mission. The enterprise mission is to serve the market, no matter which business it is in. There must be a market for the products or services that a social enterprise plans to offer. It is an honourable social mission to provide employment opportunities for the elderly. But such a social mission is not enough, in itself, to form a sustainable social enterprise. Social enterprises must offer a product or service that can find its own market. Paper oranges made by the elderly in the heartlands may be a good item for a one-time fundraising activity but they are not a suitable product for a social enterprise.

## A social enterprise is a business. It is not a fundraising machine for charity.

The social mission need not be the dominant consideration. There used to be a social enterprise that hired former drug addicts to wash cars to provide a 'work-therapy' programme. Now, it is no longer in operation. Ironically, the company was attracting more business than it could handle and, as a result, could not find enough people to hire from the rehabilitation centre. It resulted in too high a workload for the existing employees. Since being stressed is the worst thing for people undergoing rehab, the company had to close down eventually.

Was it necessary only to hire ex-drug addicts in rehab? Why did the company not hire ('normal') workers to handle a portion of the business while maintaining the employment of the recovering addicts? If people in the programme were not ready to mingle with regular workers, one could have been physically separated. In a multi-storey carpark complex, for example, people in the rehab programme would wash the cars on, say, the second storey, and the rest would be washed by regular workers. Instead, the operators insisted on only hiring those in rehab. One could argue that an extension of the hiring policy would dilute the social mission. I could not disagree more. I simply do not see how closing down a socially important business is a better way to achieve the social mission. Even if the company hired only a few recovering ex-drug addicts, that few would be much better than hiring none at all.



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### Tip No. 3: The Social Enterprise Must Be Sustainable

A manager of a social enterprise once told me: "Financing is always one big problem. The business funds account for almost 30 percent of operating expenses, while donations account for 70 percent. There is always a need to apply for donations. The government just funds us in terms of a one-off seed funding. Although it does help to carry on with the project, there is always a need to forecast where and when the next dollar is coming in."

When social enterprises decide on which business sector they want to be engaged in, they should not be swayed too much by the notion that social enterprises should address needs that are unmet

by the commercial sector. Providing transport for the disabled is a good social cause. The question for a start-up social enterprise is, however, whether it can be profitable or at least has the capacity to breakeven. If the business requires constant injections of cash from government grants or donation money, it should remain as a charitable activity. In other words, a social enterprise must be self-sustainable. Capital is a living creature. Capital always flows into the areas that money can be made. So if a certain service or product is not offered by the commercial sector, even though there is a need for them, it is very likely that the business itself will not be profitable. My advice is simple – stay away.

The Furniture Resource Centre Group in the United Kingdom is a good example of a social enterprise based on a solid business model. It is set up as a solution for social and environmental problems. Every year, it collects bulky household wastes from more than 100,000 homes with the goal of reusing, recycling and refurbishing at least 36 percent of the collection. Refurbished furniture is sold to low income families at a lower price.<sup>2</sup> With the global growing concern for the environment (accompanied by an increasing number of environmental regulations), the business of collecting waste, recycling, and then selling to the second-hand market has great potential for any commercial enterprise.

That said, social enterprises must create their own opportunities and not wait until the Singaporean government organises a social enterprises association. Here's a tip: There are many business professors, such as myself, who desperately want to see their business knowledge be made use of in the real world. Drop them an email, and see how it goes from there. ☐

<sup>1</sup> The famous Hollywood actor, Paul Newman, established Newman's Own in 1982. The company's products range from salad dressing to organic food. The company itself does not donate any money. However, as the company's sole owner, Newman donates all the profits, after tax, to the charities he selects. To date, he donated over US\$200 million. <[www.newmansown.com](http://www.newmansown.com)>

<sup>2</sup> Furniture Resource Centre Group <[www.frcgroup.co.uk](http://www.frcgroup.co.uk)>