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WHY BEING FOR-PROFIT IN THE NON-PROFIT SECTOR MAKES SENSE

In 2007, the Lien Centre for Social Innovation was commissioned by the Ministry of Community Development, Youth and Sports to study the social enterprise space in Singapore for the first time. Carolyn Seah summarises the study's findings.



A social enterprise – simply defined as a business with a social mission – can provide alternative employment opportunities for groups of (physically, economically or mentally) disadvantaged people who face higher than usual barriers to employment. But until recently, the sector had not been the subject of any serious empirical study. Then, in 2006, the Ministry of Community Development, Youth and Sports commissioned the Lien Centre for Social Innovation to undertake such a study. This is a summary of the study.¹

The survey sample comprised 94 social enterprises: 86 were established by volunteer welfare organisations and eight were established by small or medium-sized enterprises. The majority of social enterprises were established as units of the parent entity. From these numbers, the Lien Centre extrapolated and estimated a total of 150 social enterprises that operated in Singapore. Of this number, 100 were led by voluntary welfare organisations, while the remaining 50 were led by small or medium-sized enterprises.

Business Models

Social enterprises use various business models:

- Profit plough back – these social enterprises generate profit to fund social programmes of their affiliated charities, improve sustainability and reduce reliance on donation.
- Subsidised services – subsidised services are provided to the disadvantaged while mainstream clients pay commercial rates. This ensures that affordability will not bar an individual from receiving services.
- Work integration – skills training and employment opportunities are provided to the disadvantaged, with the intent of creating self-reliance and (re)integration back into society.
- Social needs – this model addresses social needs/issues such as racial harmony and community bonding.

At 54 percent, the study found that the plough back model was the most commonly used.

Summary of Lien Centre’s Social Enterprise Study

Survey Sample Size and Responses

	VWO's	SME's	TOTAL
Surveys sent out	460	5,000	5,460
Valid responses	296	77	373
VWO's/SME's with SE's	66	8	74
No. of SE's	86	8	94
VWO's/SME's with ceased SE's	4	0	4
Ceased SE's	10	0	10
VWO's/SME's with intent to start SE's	19	9	28

The sample 94 social enterprises accounted for a total of 1,212 full-time and 341 part-time employees. Of these numbers, 254 beneficiaries were employed full-time and 236 on a part-time basis.

In general, social enterprises cater to diverse social causes – education, the arts, environment, health, and the elderly among them – with a majority focusing on education (29 percent), social services and community development. Low-income individuals are the most common beneficiaries (34 percent), followed by children as beneficiaries.

Lifecycle

A typical social enterprise begins its life with a low awareness of revenue and profits, and with very little basic infrastructure to meet legal and stakeholder requirements. At this stage, beneficiaries are usually pure recipients of the fledgling social enterprise’s efforts. As it becomes more mature, the social enterprise shows increased commercial nous through active management of revenues and profits. It has in place systems and processes to enhance efficiency, transparency and accountability. Additional bottomlines, such as

environmental and cultural preservation, may be included, and beneficiaries usually take on a more involved role.

By comparison, for-profit enterprises typically develop along dimensions of scale, profitability, and ownership of the value chain.

Performance

Of the 94 social enterprises surveyed, 42 reported profitability in the most recent financial year, and 31 identified their primary source of income as their own earned income. This reflects a self-financing philosophy.

As positive as this picture is, the study is a snapshot in time. It only captured information on existing social enterprises with poor performers already exiting the sector.

Ten social enterprises had ceased operations at the time of the study. The factors that led to the closures included finances, human resources and poor market demand for their offerings. These 10 also identified donations and grants as their primary and secondary sources of income. Other sources such as earnings from operations were conspicuously absent.

Funding

The Ministry of Community Development, Youth and Sports ComCare Enterprise Fund was established (initially as the Social Enterprise Fund) to seed-fund and support the development of the social enterprise sector. Twenty-eight social enterprises in the survey were funded by the Fund.

Funding support was also available from various companies including M1, Singapore Press Holdings, DHL, Exxon Mobil, Standard Chartered and Citibank, as part of their respective corporate social responsibility programmes.

Respondents naturally welcomed government funding support but this alone is not sufficient to encourage the setting up of social enterprises. The differentiating factor in the decision to start a social enterprise is business competence. Also, a comparison of the financial performance of social enterprises that were funded by the ComCare Enterprise Fund and those that were not, did not indicate any significant advantage, suggesting that while such funding was helpful, it did not address the core issue of capability.

Challenges

Social enterprises face a number of challenges.

A major challenge involves capabilities. Often, social enterprise staff lack adequate business management capabilities as they tend to come from social services or other non-business backgrounds. The reason for this may be the lack of overlap in the formal education system between social and business sectors, and the public perception that the social sector has little need for business competence.

Social enterprises also face challenges in tapping into the pool of business professionals. Volunteers can be a good solution to the lack of capabilities, but difficulties arise from the dominant mindset in Singapore that cash donations are the most useful and easiest way of giving.

What's more, the scale of most social enterprises usually means that they are not able to afford business support services such as IT, audit and business advisors. These needs are often addressed by existing staff with limited knowledge, or by volunteers who come and go.

Another challenge relates to business models and financials. Most social enterprises surveyed face both pricing and cost disadvantages. The price disadvantage arises because Singaporean customers sometimes perceive products and services provided by social enterprises as being inferior, hence justifying a lower price. This perception contrasts with countries with a well-established social enterprise sector such as the United States and the United Kingdom where products and services are sold at a premium because of the social mission.

A cost disadvantage also results from a typical social enterprise having a business model that pursues a double bottomline of financial and social returns.

Financial instability (or uncertainty of revenue streams) was another challenge highlighted by the study's results. Changing donor sentiments, limited fundraising capability and operational challenges all add to a social enterprise's funding issues. Most enterprises are not able to plan strategically; instead, they have a tendency to think short-term and fight fires as they arise.

A social enterprise business model presents some unique constraints. The difficulty of scaling is one. Unlike a for-profit enterprise where diseconomies of scale set in much later, social enterprises can be operationally constrained almost from the outset. For example, one social enterprise surveyed was a victim of its own success because when demand for their services became too great and their work-integrated beneficiaries were not able to cope.

The poor public understanding of social enterprises and their contributions further stymies any effort to create an active sector. This lack of awareness contributes to difficulties in attracting employees, marketing and pricing.

While support programmes are available for social enterprises, there are difficulties in identifying and accessing them. Each programme has its unique social objective, qualification, application, timeline and funding criteria, but there is no central repository of such information for easy access.

Social enterprises could benefit hugely from cooperating and collaborating with each other, which would require some form of platform for these enterprises to gather around.

Potential Solutions

The Lien Centre proposes several solutions to address some of the challenges highlighted. These can be broadly categorised into a support and public awareness programme.

The first step is to establish a champion for the social enterprises sector that is independent of any government ministries. The Lien Centre is particularly heartened to see this being taken up by the Social Enterprise Committee, chaired by Philip Yeo.

A resource centre for social enterprises could also act as an information interchange of resources for social enterprises and any other stakeholders. Such a centre can serve as a facility to identify opportunities and match services, whether it be for marketing, consulting or funding. For example, if a social enterprise requires IT support, the centre can help match this business need to volunteers or service providers. It can also act as a platform for networking, encourage cooperation and collaboration as well as celebrate successes. More importantly, the centre can act as an incubator that encourages new ideas and allows testing and development of these ideas.

A significant mechanism to help social enterprises achieve optimal outcomes is a venture philanthropy fund. The fund would use venture capital methods in identifying successful social enterprise business models to give out grants over time (which, in turn, are dependent on meeting key operational targets and milestones) and provide ongoing support and incentives for social entrepreneurs. An example of this is the Social Venture Partner in the US that introduced rigorous venture capital practices in businesses to the social sector.

These suggestions will all help develop a more sophisticated social investment market, as well as an incentive model for NPOs to change their mindset from one of 'hand-outs' to one of business-minded sustainability and self-financing. A gradual reduction of grants from the government, combined with support from venture philanthropy funds can help develop business orientation, provide incentives and capabilities for NPOs to venture into the social enterprise sector. Evidence from Canada in the 1990s show that reduced government funding for NPOs resulted in the dramatic growth of social enterprise and private philanthropy.²

This could be an effective solution for Singapore, but it is not the only one.

A coordinated research effort to build an information resource of social enterprise activities in Singapore

is needed as the sector develops. This will equip stakeholders with better information to guide future development.

A public relations programme set up to address public misperceptions and low awareness and understanding of social enterprises, will also go a long way towards addressing the poor image that the sector has now.

The formal education system at the tertiary level can introduce courses that teach the application of business skills in the non-profit sector. Currently, there is little or no overlap between business courses, community development or social work courses. The Lien Centre notes that several leading institutes of higher learning have successfully teamed up with the sector to create viable social partnerships. For instance, Oxford (Skoll Foundation), Harvard (Social Enterprise Initiative), and Columbia (Research Initiative on Social Enterprise) universities are all active in the research and promotion of social enterprise and entrepreneurship.

Conclusion

A vibrant culture of social entrepreneurship requires an effective support system, funding avenues and public awareness. It is an undertaking well worth the effort. If nothing else, the financial rewards are significant.

For instance, the social enterprise sector in the UK accounts for an impressive one percent of GDP.

There are already examples from abroad that prove social enterprises can work well. *The Big Issue* magazine in the UK fosters social inclusion and empowers marginalised segments of the community by offering a legitimate way of supporting themselves as well as giving them a voice in the media. Closer to home, Thailand's Cabbages and Condom restaurant chain decentralises the provision of public services by serving up food with a promotion of family planning and safe sex education.

With strategic planning and nurturing, Singapore's social enterprise sector can be a vibrant one that can contribute, both socially and economically, in a meaningful way. □

¹ Lien Centre for Social Innovation, "State of Social Enterprise in Singapore", *Report of the Social Enterprise Committee* (Singapore: 2007)

² Sherrill Johnson, "Literature Review on Social Entrepreneurship" (Edmonton, AB: University of Alberta. Canadian Centre for Social Entrepreneurship, 2000). Cited in *Enterprising Non-Profit* <www.enterprisingnonprofits.ca/-DOCUMENTS/DV_Prjct/Concept_paper_August_2.pdf>



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