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### Social Enterprises: Beyond the Hype

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# SOCIAL ENTERPRISES: BEYOND THE HYPE

**With their promises of sustainability, social integration and lower dependence on welfare, social enterprises are the flavour of the month. But, as Sean Quek points out, the challenges involved in designing and executing a sustainable social enterprise are often underestimated.**

In 2006, Muhammad Yunus and the Grameen Bank that he founded were jointly awarded the Nobel Peace Prize. The prize recognised Yunus for successfully pioneering the concept of microcredit – the extension of small loans to very poor entrepreneurs who do not qualify for traditional bank loans, based on the belief that very small loans could make a disproportionate difference to a poor person.

Yunus is celebrated both for the social impact he has created in needy parts of Bangladesh and his genius in developing the innovative business model that Grameen Bank is built upon. The bank serves an unmet financing need in an economically sustainable way through group-financing schemes for rural women. The model addresses the concerns that traditional banks were unable to manage, including the perceived high default rates amongst the poor and the logistics of loan disbursement and collection. Traditional banks, despite their maturity and global scale, were just not set up to pursue microcredit financing.

Yunus' Nobel Peace Prize has pushed the social enterprise<sup>1</sup> sector into the foreground. This, I believe, is both a blessing and a curse. It has justly highlighted a sector that holds great promise in meeting social needs in innovative and sustainable ways, while reducing the burden on government welfare programmes and empowering the needy to achieve poverty alleviation. At the same time, the 'sexiness' of the social enterprise sector attracts many who are ill-prepared and who have underestimated the challenges of developing a sustainable business model that serves both social and economic needs.

### **Underestimating The Challenge**

The complexity of operating a social enterprise is often underestimated. Let us first draw a parallel with the commercial world which is undoubtedly more mature and well-understood. Over the ages, we have accumulated experiences

and codified knowledge on how to make profits from the exchange of goods and services. There are countless academic institutions, consultancies and management gurus who dedicate their lives studying selected slivers of the business world such as finance, organisation, operations and strategy.

And yet, in spite of this wealth of knowledge and well-developed infrastructure to facilitate the pursuit of profits by businesses, we witness the demise of companies on a daily basis.

A good indication of the difficulties of establishing for-profit businesses can be found in the venture capital industry. Established venture capital funds in the United States and Europe are highly sophisticated and staffed with individuals who have rich business experiences and world-class rolodexes. Nonetheless, their portfolio management strategy often targets a success rate of 10 percent: Out of 10 investments they make, nine are expected to fail.

Now that we know the odds that mainstream for-profit businesses supported by world-class professionals face, let's consider the social enterprise sector.

For starters, a social enterprise does not enjoy the luxury a for-profit business has of being able to focus on maximising its commercial value. Instead, it must juggle at least two bottomlines – an economic and a social one. Multiple bottomlines have a profound impact on the operating model and often materialise as increased costs of operations, decreased revenues or other constraints on the operations.

An illustration of the challenges posed by multiple bottomlines is a restaurant that employs handicapped or youths-at-risk. This is a noble effort by the founders to integrate a social element into a for-profit business. Such an example would fall under the 'work integration' category of social



## Setting up a for-profit business with a social element loosely slapped on results in an inherently disadvantaged operation.

enterprises as defined by the Ministry of Community Development, Youth and Sports. While the aspiration is worth applauding, adding a social element without fundamentally changing the operating business model will result in significant disadvantages for three reasons.

First, this simplistic hybrid model faces higher costs of operations due to reduced productivity of staff or increased costs of training them. Secondly, public perception in Singapore is such that this restaurant is not able to charge higher prices just by virtue of its social mission. Third, the restaurateur will face reduced flexibility in employing new staff or dismissing existing staff as compared to a typical restaurant. Suppose the restaurant is well-received and he wants to double the sales, or conversely, business is bad and he needs to downsize his operations. In either case, he will need more time to recruit and train new workers from a limited pool.

Essentially, a social enterprise faces an uphill task from day one with higher costs, lower revenues and reduced agility. Setting up a for-profit business with a social element loosely slapped on results in an inherently disadvantaged operation.

So what does this mean for budding social enterprises? The difficulties they face are often underestimated. Designing and operating such entities is arguably more challenging than for-profit enterprises. Yet, by comparison, capabilities and know-how that exist in the social enterprise sector are generally less sophisticated than in the for-profit world. Therefore, social enterprises are not above market forces.

Yet, there is still hope. One performing arts centre – ‘O’ School is an example that, I believe, actively considered the multiple bottomlines challenge during its inception. It is a social enterprise set up by CHEC Ltd.<sup>2</sup> ‘O’ School offers employment to talented youths and its proceeds are channelled back as education bursaries for financially needy students of CHEC. So what is the difference between ‘O’ School that employs its beneficiaries and a restaurant that employs disadvantaged youths? The answer simply lies in the job that needs to be done. ‘O’ School needs good dance instructors. Thus, it looks to employ good dance instructors in the market. And guess what, many of their target beneficiaries are really the best dancers available. Employing them fulfils the business needs since they are the best ones in the market. At the same time, they are empowering and helping their beneficiaries as their mission mandates. Voila! – a matching of business and social requirements.

### Way Forward

First, we need to accept that social enterprises are not above market forces. The same rigour we insist on for for-profit businesses should be applied to the social enterprise sector. This also implies a willingness to let ill-managed social enterprises fail. This is painful because beneficiaries become temporarily deprived. However, only with such Darwinian evolution will the ‘strongest’ social enterprises emerge, developing strong capabilities and delivering the best outcomes in the most efficient ways. The immediate and obvious implication of this is that any funding or support given to social enterprises should be temporary. In addition, they should be staggered and subject to the achievement of clear milestones.

Second, the social enterprise sector in Singapore is immature and not well understood. As such, there exist significant knowledge and capability gaps that require the combined effort of stakeholders. Stakeholders include individuals, government entities, research institutions, academic institutions, venture philanthropy funds and various workgroups. I firmly believe in the ‘divide and conquer’ strategy. No one should attempt to do everything. There is no shortage of issues to address, including designing operating models; understanding the role of the government; generating public awareness and understanding; recruiting and training individuals; coordinating across social enterprises; codifying learnings from past experiences; carrying out administrative tasks; marketing products and services; and so on. No single stakeholder today is able to handle all the issues alone, and each should specialise in its unique strengths with the objective of solving the social enterprise puzzle together. An immediate step would be for each stakeholder to conduct an exercise in self-awareness to identify its own strengths and weaknesses.

The social enterprise model may be the ‘in’ thing these days, but it is a complex and ferocious animal to master. In spite of the difficulties, I still harbour hope that the promises of social enterprise – sustainability, empowerment, innovation – can be delivered. The rewards are great and worthy of a good collaborative effort by interested parties. □



**Sean Quek** works in the for-profit sector, and had the privilege of observing Singapore’s social enterprise sector through a short stint at the Lien Centre for Social Innovation.

<sup>1</sup> A social enterprise is a business with a social objective. It has a social bottom line combined with exposure to competitive market forces. In short, it aspires to be a sustainable enterprise and fulfils an unmet need in the market.

<sup>2</sup> CHEC Ltd is a Ministry of Education registered centre which seeks to provide “effective and affordable education to private candidates taking the N and O level examinations”, and is supported by the MCYS ComCare Enterprise Fund.