

## SIX ESSENTIAL QUESTIONS FOR SOCIAL ENTREPRENEURS

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Social enterprises have an important role in tackling social and economic problems. But setting out to change the world is a complicated business. It requires not only passion, dedication, skills and resources, but also good judgement and sound information to support decision-making.

The growth in numbers of start-up social enterprises is a positive trend. Social enterprises are a vehicle for addressing problems in ways that are often innovative and focused to meet the needs of the target group or to address a particular issue. Initiatives to promote and support social enterprises frequently champion the individual social entrepreneur themselves on the basis that supporting individuals to do their best work will ultimately lead to positive environmental, social and economic change.

This article draws on my experience of both starting up enterprises and working with other people doing the same. I have noticed that there are aspects of the start-up process that receive less attention than they should. This means that the enthusiasm and energy put into new enterprises can be misdirected. In the worst case, entrepreneurs lead the work down a certain path without enough focus on aspects that need more thorough treatment earlier in the process. These can be often seem mundane and prosaic, as if talking about them dampens the original idea. They include identifying risks, working out cash flows and building reputation. But they are critical strategic aspects of the enterprise.

In this paper, I work through each of these topics starting with a question. All individuals and groups starting social enterprises ought to pose these questions to themselves. The aim is to temper the excitement of new enterprise development with a more sober and sophisticated assessment of its prospects at an early stage.

### QUESTION 1: WHAT DO THE CLIENTS WANT?

Most social enterprises have two distinct client groups; the people who benefit personally from its work and the people who part with money to support it or to pay for its services.

The most important clients are the first group. They might be experiencing problems relating to, for example, health or violence. They could be vulnerable to pressures or situations that damage their prospects, such as homelessness or substance abuse. Or they could be seeking ways to fulfil potential denied them for a range of reasons that could include family circumstances, conflict or racism. Effective social enterprises have a clear understanding of this group of clients and bring their voices into planning from an early stage through feasibility work, baseline studies or simply meeting and listening to them. Where start-ups feature the views of clients in their planning documents, then they are more likely to emphasise their needs. This is likely to be more effective than basing the enterprise solely on the passion and dedication of the founder.

Social enterprises are in the business of human development. So taking note of trends in policy and practice in international development is a good place to begin. For example, in service delivery to remote and rural areas, policy tends to be defined by its position on decentralised services. Current policy trends focus on the need for greater numbers of people to access the benefits of public spending. So, if the policy of governments and development agencies favours decentralisation and it that approach aligns with the strategy of the enterprise, then it makes sense for it to point in the same direction.

Sometimes, we think we know what both sets of clients want. In reality we often don't. Instead, we know what we want to achieve. The work of investing in knowledge about client needs is essential but is often carried out superficially or not at all. But if we see the need to understand clients as part of market research, then it becomes just a normal activity in enterprise development.

**QUESTION 2: WHAT IS THE THEORY OF CHANGE THAT UNDERLIES THE ENTERPRISE?**

If I do something (say, open a door in a hot room) that leads to a change in something else (in this case, reducing the temperature by letting in cool air), then I have tested a theory of change. The theory was that opening the door will make the occupants of the room more comfortable. In social enterprise, theories of change are statements of cause and effect directed towards social, economic or environmental outcomes.

While mission statements have become commonplace for all organisations, to the point of losing relevance where they are used as a glib extended slogan, theories of change are yet to have their day. But for anyone working in social enterprise, articulating a theory of change is essential because it describes the choices that the organisation makes to achieve its objectives. An effective theory of change is a statement of strategic intent.

I worked with a start-up social enterprise that was trying to change the world in a myriad of ways. The energy and commitment of the person leading the business was undoubted. But his objectives were often undefined, as if generating activity was enough and that the eventual results would take care of themselves. Two things were going on. First, the enterprise had not yet decided its focus, so effort was diluted over too many subjects. Second, the entrepreneur was better at working with people on processes than completing results from the work.

While the second point above may seem like a fatal flaw for an enterprise (no results!), it turned out to be a positive. In understanding where he did his best work, we could define a theory of change for the enterprise that played to the strengths of the leader. The theory described the value of certain methods and processes in achieving social change led by others. It was an interesting twist on a strategic challenge and became the focus of the work of the start-up.

Until the question about theory of change is asked, often the scope and nature of the enterprise will not be adequately discussed. This leads to misdirected effort.

**QUESTION 3: HOW AND FOR WHAT PURPOSE IS MONEY GOING TO FLOW THROUGH THE ENTERPRISE?**

A key strength of social enterprises is supposed to be realism about money. They seek to generate enough revenue to achieve long-term sustainability and they often have a desperate desire to achieve independence from grant funding. Coincidentally, grant funders want this too. They are the ones who ask the hard questions when applicants come forward with a business model that claims that a grant will somehow lead to long-term income from other sources.

The problem is that too few social enterprises talk enough about money early on. It's as though we think that passion alone will pay the bills. Or that money is not an appropriate subject to spend time on. The opposite is true. We need to arrive at a clear understanding of the following:

**The costs of running the enterprise under different scenarios.**

In other words, if we operate a certain number of services in a certain number of locations, what will the cost be? If we vary the services and locations, what will the costs of those scenarios be? Also, we need to estimate the management, communications, overhead and other costs required for the organisation to function. These don't have to be complex conversations and they don't even require a spreadsheet. But they need to be had.

**The revenue flows into the enterprise.**

On the other side of the ledger, we need to be honest with ourselves about the way in which money will flow into the organisation to pay for its work. Grants, partnerships, sales of goods and services, consulting, leasing and other means of generating cash may all be part of the mix. Essential is a hard-nosed examination of the figures, the planned results and the probability of each activity reaching the targets we set.

I have worked for medium-sized and large, well established non-government organisations in which the management team sat down with a whiteboard a couple of times a year and projected each revenue item by a percentage measure of its likelihood of being achieved, along with a measure of the potential shortfall in each case. We then prepared graphs showing income changing over time in three or four of the leading scenarios (spreadsheets are essential here) and which were then discussed by the board. Active projections of revenue flows are simply good management and need to be done from the outset.

**Consulting work.**

Sometimes social enterprises see consulting work as a way to generate income to underpin other less viable activities. Too many times I have heard start-up social entrepreneurs say something along the lines of 'We can fund that idea through consulting profits'. This may be a reasonable aim, but the effort required to win consulting contracts, deliver results and then get paid for the work takes time and carries overheads. Any spare time and money usually needs to be invested in winning the next job or covering unanticipated costs. Without regular and well-paid assignments or very low running costs, it is difficult to reach the level of activity where consulting work can make a significant contribution to other parts of the enterprise. If social enterprises are successful in consultancy, then it could be that their business model should be that of a consulting company.

There is value in a simple input-output diagram, presented on a whiteboard, as a means of prompting the right questions and discussion about the enterprise. It can be just a circle with arrows showing dollars in and dollars out. Where is the revenue going to come from and how? What will it pay for? What are the costs and capacity needed to offer the products and services? The end result improves our understanding of the basic parameters of the enterprise including its strengths and potential weaknesses.

#### QUESTION 4: WHAT CAPABILITIES DO WE NEED AND WHERE WILL WE FIND THEM?

We all have the tendency to dream large without knowing exactly how we are going to get there. For any venture, staff members with suitable skills, aptitude and knowledge are essential. We need to be confident that the enterprise has the expertise to sustain its products and services over an extended period and to clients who have particular expectations. A strength of the social enterprise sector is its culture of flexibility. This means that people take on more than one job or role and shape-shift from one to another, sometimes filling their time with several kinds of work, some of which is paid and some is not. As a result, individuals are often available for short-term contributions to an enterprise without any obligation on either side that the work will continue. This is good for startups as it enables us to nudge ideas forward without having to make big commitments. It also allows small teams to be assembled for particular purposes using the feverish networking activities that also characterise the sector.

This still leaves the unanswered question of how to work out what capabilities are required. The input-output diagram in the previous section of this paper certainly helps. Once we know with greater confidence the likely flows of resources within the enterprise, then deploying the right people and skills to deliver them becomes more obvious. To give an example, one enterprise with which I am familiar spent a lot of time fighting the natural tendency of the manager to spend time and money on the best-possible brochures, website and other marketing products. By contrast, in its sector the enterprise really needed good people working directly with clients as this is where the results were most likely to come from, leading to increased revenue. Once she recognised this, the director shifted emphasis to invest time looking for the right people.

Governance can be a thorny issue in start-up enterprises. Some people set it aside as a topic for consideration later (often much later) on the basis that a board might be too difficult to manage or a distraction from the real work. Others worry about finding the right people. Almost universally, investing in a process to find the most suitable board members and then setting that board to work produces many great benefits in the short term. Most of these benefits are in the form of new ideas and expertise that the enterprise sorely needs, but didn't realise beforehand. At least two managers of start-up social enterprises have told me that the board has just made them feel more confident and more supported, reminding us that social enterprise can be a lonely road.

#### QUESTION 5: HOW DO WE BUILD A GOOD REPUTATION?

I know this one sounds obvious. After all, how could anyone neglect their own reputation? But often an over-stretched social activist attending all kinds of meetings and events, running an unmanageable diary and not wanting to let anyone down and not eating or sleeping properly, does not make a good impression on any of the clients I described earlier.

The transition from social activist to enterprise manager can sound to the individual making it like a descent into a corporate world where they have to be a different person from the one they were before. The reality is that individual reputation is critical to all start-ups and a big part of reputation comes from the small stuff. This means being on time, being prepared with the key information to hand, not double booking appointments, ensuring that proper follow-ups are done after meeting key people and so on. Having breakfast before leaving home also helps.

Once we have improved this part of our game, the next step is the actual delivery of work that people want. For start-ups, it is naturally difficult to demonstrate a track record. The alternative is to use the experience of people joining the enterprise as a proxy for the work of the enterprise. In other words, with the consent of previous employers and clients, to describe previous achievements of the team as a basis for the planned achievements of the new organisation.

Some social entrepreneurs understate the value of their previous work. They might have been a social worker for ten years and yet somehow dislocate that from the new enterprise's work with homeless people, as if they are disillusioned with that period and want to forget about it. A much better approach is to consider the director as a person with ten years of experience that she or he brings to the start-up, and to tell clients about this.

Ultimately, social enterprises have to work out how best to forge the reputation they want and to concentrate on those priorities. For some, it will be innovation and dynamism, for others, reliability and delivery. But for everyone, the need to demonstrate expertise will be paramount.

## QUESTION 6: WHAT ARE THE RISKS WE FACE AND HOW DO WE MANAGE THEM?

A conversation about risk management has the effect of draining the entrepreneurial energy from most people's faces. But, addressed in the right way, risk is a subject that sheds new light on the enterprise and helps us answer key questions about capability and resources, for example.

Borrowing terminology from logical frameworks, a tool used for planning many aid and development projects, examining our assumptions can be an effective way of getting to a discussion of risks. For example, let's say a social enterprise plans to establish a drop-in place for women, where mothers and their daughters can spend time together talking, sharing skills and doing practical work, a bit like the Men's Shed movement. This may be already working in one place and this has led the people behind it to the idea that it could be replicated in many other locations.

There are some assumptions at play here:

- » That women will be willing to come along
- » That daughters will be attracted to the idea
- » That family pressures or childcare responsibilities will not prevent women from participating
- » That there is no stigma associated with the idea.

A discussion about the assumptions we are making enables us to focus on the risks. In the case above, if stigma is actually likely, then the way in which the drop-in place is advertised locally will be critical to making sure we reduce the risk that women will not attend. Spending time working out where the risks lie enables us to make better decisions about the enterprise on a daily basis.

This paper has set out to encourage people working in social enterprises to take time to think about key aspects of their business and to balance drive and commitment with analysis. In essence, they all sound like fundamentals to any business. Staff and skills, reputation, strategy, cash flow, risk and the views of clients are critical to any new initiative. But I have noticed that these topics are often overlooked in the rush to meet other demands or to manage a heavy workload that, for many enterprise start-ups, is being handled while the lead person has a fulltime job too. Tools and techniques are available to help people starting social enterprises have productive conversations about all of these questions. These tools include simple exercises, flow-models, tables and visual aids to analysis. A few insights early on in the life of a social enterprise can make a huge difference to its viability and its ultimate impact on the world.

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