

What mainstream businesses can learn from social enterprises

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Introduction

We live in a time of rapid change and transition. The global population is growing faster than ever, inequality is rising and climate change is accelerating. More and more businesses want to contribute to tackling these challenges¹. This is illustrated by the recently launched Sustainable Development Goals, which are being adopted by numerous businesses worldwide. Nevertheless, we experience that 'mainstream' businesses often struggle to find the right approach to these goals. What is more, social enterprises – organizations that are impacted first and search for innovative business cases to solve social challenges – believe that the approach of mainstream businesses is not enough to tackle these issues.

We believe that mainstream businesses can learn valuable lessons from the innovative approach taken by social enterprises. In this publication we make a first step to illustrate what mainstream businesses can learn from social enterprises.

¹ Source: <http://read.pwc.nl/ii/734700-the-sustainable-development-goals>.

Research context

In line with PwC’s ambition to strengthen the social enterprise sector in the Netherlands, PwC has conducted multiple research projects (plotted on the financial-social business continuum in figure 1)². Building on the conception that social enterprises are a distinctive organizational category – positioned between charities and mainstream businesses – we believe that there is an immense potential for mainstream businesses to learn from social enterprises. In this publication we use PwC’s expertise to focus on finding ways to build synergies by illustrating what and how mainstream businesses can learn from social enterprises.

This publication is based on a research project that was conducted in two stages:

1. Interviews with eleven mature social enterprises and nine industry experts about the success factors of social enterprises³.
2. In-depth research on *what* and *how* mainstream businesses can learn from these success factors. This publication is the result of an in-depth analysis of the two success factors that were most often discussed by the 20 interviewees⁴: *multidimensional value creation and intrinsic motivation*.

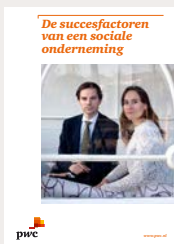
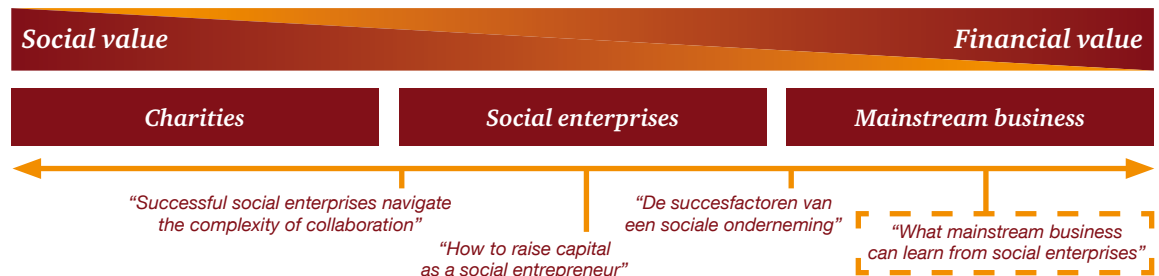


Figure 1 Research conducted by PwC on social enterprises⁵



For more information go to: www.pwc.nl/publicaties.

2 Source: “Successful social enterprises navigate the complexity of collaboration”, “How to raise capital as a social entrepreneur”, and “De succesfactoren van een sociale onderneming”.

3 The first research stage was conducted as part of a Rotterdam School of Management thesis project, called “A Search for a Fertilizer for Social Enterprises” (<https://thesis.eur.nl/>), which was conducted as a follow-up to a previous PwC Nyenrode research project, called “De succesfactoren van een sociale onderneming”.

4 Business success can be projected on different dimensions: financial, social and institutional (Bagnoli & Megali, 2011). Financial success is traditionally mainstream businesses’ reason for existence. Social enterprises are impact first, meaning that their social success is of vital importance. This publication will, therefore, more specifically focus on what mainstream businesses can learn from social enterprises’ social success.

5 Source of financial-social business continuum: Hillen, Panhuisen & Verloop (2014) “Iedereen winst”. A report written by Social Enterprise NL.

Success factor 1: multidimensional value creation

Our research shows that successful social enterprises typically generate value on multiple dimensions. As is illustrated by their position on the financial-social business continuum (figure 1), social enterprises generate social as well as financial value. Our research shows that social enterprises are aware of their multidimensional value creation and have it as a clear company goal. That is, they include both their financial and social mission in their core value proposition.

Mainstream businesses typically see customers as separate entities, whereas successful social enterprises perceive customers as a link in an ecosystem. This alternative approach does not only result in a wider range of problems that enterprises can solve for their customers, but also automatically includes social issues because these are part of the ecosystem. It is the holistic perspective on customers and their problems that enables social enterprises to successfully create financial value while also generating social impact. A significant advantage of this approach is that a social enterprise can create financial and social value as a result of its complete customer focus, since both types of value are included in the core value proposition the customer opts for.

“Successful social enterprises know how to sell their societal value as a business case.”

Social Impact Factory

According to contemporary business literature, there is a simple dynamic between a company and its customers⁶: a business offers its customers a solution to a problem they experience, for which the enterprise is financially rewarded. Our research has shown that social enterprises operate differently. The interviewed social enterprises argue that mainstream businesses tend to define the problems of their customers too narrowly.

“The more glasses we sell, the more impact we make.”

Dick Moby

⁶ Source: Ries (2011) “The lean startup: How today’s entrepreneurs use continuous innovation to create radically successful businesses”.

What can mainstream businesses learn from this?

Greenwashing
Misleading customers about the environmental/social performance or the environmental/social benefits of a product or service (Delmas & Burbano, 2011).

The blended value proposition
An approach in which different types of organizations can be evaluated and compared based on the blend of social and financial value they generate.

Mainstream businesses are traditionally ‘finance first’. If they want to generate social value, they need to make sure they do not engage in greenwashing. Our research provides two key lessons from successful social enterprises that can help mainstream businesses do this:

1. Include the most relevant social impact in the core value proposition – A first important step for mainstream businesses is to realize that they are already generating multidimensional value⁷. Whereas the ‘language’ of financial value creation is highly matured, mainstream businesses still need to develop their ‘language’ to talk about social value creation⁸. Although initiatives like Social Return on Investment and Integrated Reporting do exist, they stand at their infancy and are not yet influential enough⁹.

Inspiration to further expand this language can be taken from the Blended Value Proposition framework, which can be used as a guideline for mainstream businesses to continue integrating financial and social value creation. Building on this, the interviewed social enterprises indicate that it is best to focus on social impact areas that are strongly related to the rest of the company. Businesses that sell products can, for instance, focus on developing fair supply chains. IKEA even insists that sustainable supply chains are necessary in the near future to hold a competitive advantage¹⁰.

2. Create a paradigm shift in the perception of customers – Integrating a social impact mission in a company’s core value proposition can be achieved by developing a broader and more holistic view on customers. Successful social enterprises see their customers as part of an ecosystem of stakeholders that they want to support and improve. Mainstream businesses should therefore try to see their customers as partners with which they can cooperate to obtain a shared mission. Interestingly, an increasing number of mainstream businesses have included this perspective in their company purpose, such as ING.

“Successful social enterprises have societal impact at the core of their offering.”

Social Impact Ventures¹¹

7 Source: Dayso (2016) “Evaluating social innovations and their contribution to social value: the benefits of a ‘blended value’ approach”.

8 Think about ROI, EPS, quarterly figures etc. Financial return is the main focus of mainstream business (Van Horne & Wachowicz, 2008).

9 Inspiration for how to include social value generation in the core value proposition can be found in the Social Business Model Canvas. <http://www.socialbusinessmodelcanvas.com/>

10 Source: <https://www.theguardian.com/sustainable-business/sustainable-supply-chain-competitive-advantage>

11 Source: <https://www.ing.com/About-us/Purpose-Strategy.htm>

Success factor 2: importance of intrinsic motivation

Intrinsically motivated people are known to receive spontaneous satisfaction from a certain act, whereas extrinsic motivation comes from a consequence separated from the activity.

Our research shows that successful social enterprises ensure that all employees are intrinsically motivated for their social mission. Typically, intrinsically motivated employees are more successful, more productive and put more effort in their work¹². On top of this, it is easier to attract and retain talent for businesses with intrinsically motivated employees, and thereby to win the talent war¹³.

Following the ample benefits of intrinsic motivation, businesses widely seek to use it. Mainstream businesses generally try to use intrinsic motivation by redesigning the tasks of their employees¹⁴, whereas social enterprises and charities typically do this through their social impact mission.

Looking at intrinsic and extrinsic motivation independently, they can be positioned on opposite sides of the financial-social business continuum (figure 2). Accordingly, social enterprises appear to be able to leverage the power of intrinsic as well as extrinsic motivation. They can, for instance, use their inability to offer competitive salaries as a selection mechanism for employees in order to ensure that they solely employ truly intrinsically motivated people.

“Stakeholders go the extra mile for a venture with a social purpose. Employees are deeply committed, to a personal level. Suppliers just enjoy making your product work and take pride fulfilling a social purpose.” Land Life Company

Figure 1 Research conducted by PwC on social enterprises⁵



¹² Source: Pinder (2014) “Work motivation in organizational behavior”.

¹³ Source: De Graef, Stroosnier & Hazenberg (2015) “De succesfactoren van een sociale onderneming”.

¹⁴ Source: Houkes, Janssen, Jonge & Bakker (2003) “Specific determinants of intrinsic work motivation, emotional exhaustion and turnover intention: A multisample longitudinal study”.

What can mainstream businesses learn from this?

Our research shows that successful social enterprises can effectively balance extrinsic and intrinsic motivation. The following lessons taken from successful social enterprises show what mainstream business can learn from this.

1. Leverage social company mission and purpose
 - The social aspect of the mission of social enterprises is a large driver for intrinsic motivation and thereby company success. As a first step, mainstream businesses can start by implementing a company purpose and mission that are focused on positive social impact¹⁵.

Although mainstream businesses (finance first) are categorically different from social enterprises (impact first), examples like DSM and Unilever show that it is possible for mainstream businesses to be impact driven¹⁶. However, it does not suffice to just change a company's purpose and mission statements. The next step is to ensure that a company's actions are aligned to its mission; otherwise the efforts could backfire and be perceived as a greenwashing attempt, for example.

2. Take into account potential side effects of extrinsic motivators – Both intrinsic and extrinsic motivators have their benefits. That is why successful social enterprises strive to let them complement each other. Research and practice, however, show that extrinsic motivators have to be applied with care, since financial incentives can also undermine intrinsic motivation¹⁷. Hence, mainstream businesses have to carefully consider how they want to approach the inclusion of intrinsic motivators in an originally finance-first business¹⁸.

“I have noticed that our societal purpose provides a clear competitive advantage on the one hand, but also serves as an internal bonding mechanism on the other.”

Specialisterren

¹⁵ The relevance of company purpose and mission in relation to social value creation was also addressed by Lambooy:

http://www.nyenrode.nl/FacultyResearch/research/Documents/Inaugural%20lectures/Tineke_Lambooy_Inaugural_Lecture.pdf

¹⁶ Source: <http://mvonederland.nl/trendrapport-2015>

¹⁷ Source: Lacetera, Macis & Slonim (2013) “Economic rewards to motivate blood donations”.

¹⁸ The self-determination theory can assist mainstream businesses in overcoming these negative side effects, since it provides practical pointers on how to combine intrinsic and extrinsic motivation.

Conclusion

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Social enterprises and mainstream businesses differ to a high degree. Yet, we believe there is a huge potential to create synergies between the two. In this vein, we have set up different initiatives to stimulate the cross-fertilization between social enterprises and mainstream businesses. This publication is one of these efforts, and sheds a first light on what and how mainstream business can learn from the social innovativeness of social enterprises.

Summing up, in order to turn a mainstream business into a more impact-driven business, the company's social mission needs to be

integrated in its core value proposition and purpose. This enables the company to adopt a multidimensional value creation perspective on the one hand and to use the potential of intrinsic motivation on the other.

Again, this publication aims to start the dialogue on what mainstream businesses can learn from social enterprises. Future research can contribute to a better understanding of the selected success factors and can focus on additional success factors of social enterprises that might be valuable to mainstream businesses. ■