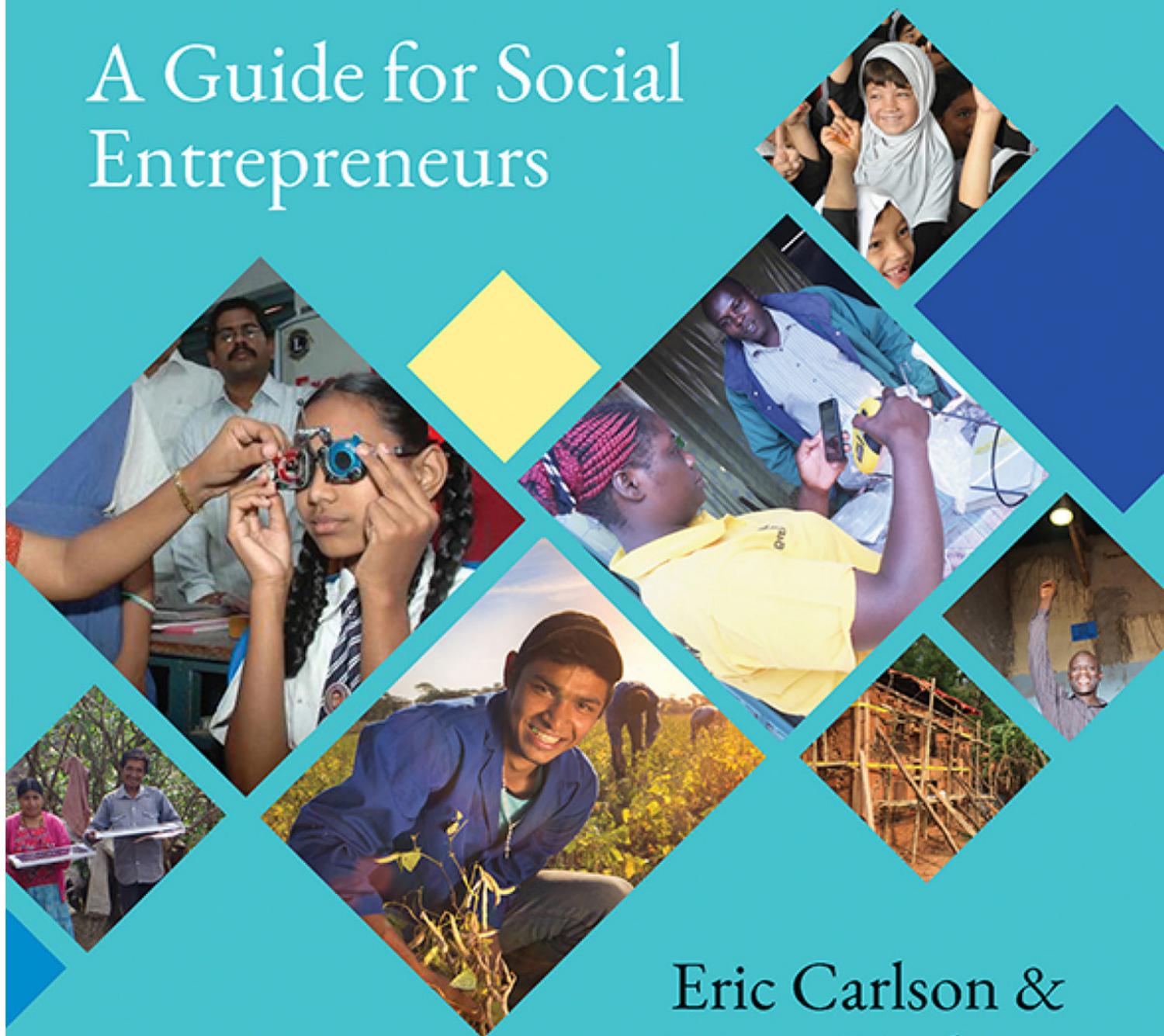


# Building a Successful Social Venture

A Guide for Social  
Entrepreneurs



Eric Carlson &  
James Koch

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Eric Carlson  
James Koch



Berrett-Koehler Publishers, Inc.  
*a BK Business book*

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# Paul Locatelli, S. J.

September 16, 1938–July 12, 2010



This book is dedicated to Father Paul J. Locatelli, the twenty-seventh president of Santa Clara University and the first secretary of higher education of the Society of Jesus—a network of 170 institutions around the world. Paul encouraged questions that open into a search for greater purpose in life and a thirst for justice. Throughout his twenty years as president of Santa Clara he sought to bridge the secular and the sacred—the innovation-driven ethos of Silicon Valley with the traditions of Jesuit education, a Catholic religious order founded half a millennium

ago. He inspired the work of centers of distinction in Jesuit education, applied ethics, and technology and society, and, through these efforts, he sought to integrate competence, conscience, and compassion as the foundations for transformative education. As president of Santa Clara University he created an environment in which the work described in this book could flourish.

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# Preface

**B**angladeshi social entrepreneur Muhammad Yunus defines a social business as an enterprise that “creates goods and services that produce social benefits” where any cash “surplus generated is reinvested in the business.”<sup>1</sup>

He also argues that a social business should operate like a profit-making business with positive cash flow (income greater than expenses), and, rather than offering equity to its investors, it should return any invested funds (investment capital) to its investors (in an amount, possibly zero, agreed to by the investors). Thus, a social business could be a for-profit or a nonprofit organization from a legal (or tax) point of view but would have a “social impact” mission and would reinvest all operating surplus in the business (after repaying the original investors an agreed-on amount).

Yunus cites Ashoka executive Bill Drayton’s definition of a social entrepreneur as “one who applies creative, innovative thinking to a previously intractable social problem.”<sup>2</sup> Yunus also posits that a social venture is a form of social entrepreneurship. He argues, however, that social ventures make up a new category of business—one grounded in a focus on social impact that represents an alternative rationality to the private wealth maximizing logic of capitalism. In a sense, a social venture truly seeks to create a “virtuous” cycle—the greater the surplus generated, the greater the benefit to society.

Accepting the premise that social ventures are essentially businesses with social missions and profit-reinvestment financial goals, the Global Social Benefit Incubator (GSBI®) at Santa Clara University was founded to help social entrepreneurs learn to manage their ventures in a way that would improve both financial sustainability and the scalability of impact. From 2003 through 2012, we were part of a leadership group that helped more than 175 social entrepreneurs develop strategic and operating plans for their social ventures through the GSBI. Groups of executive mentors were carefully selected based

on their depth of relevant start-up and general management experience, financial and marketing acumen, and sensitivity to intangible qualities such as “their ability to listen with humility” to the needs of the poor in diverse cultural and economic settings. Together with the GSBI leadership, the first group of chosen executive mentors had over five hundred years of combined executive experience in the public and private sectors. Social entrepreneurs themselves were selected from a pool of applicants who submitted a value proposition, a target market statement, and a business model description for their would-be social venture. During the first ten years of its existence, over one thousand organizations applied.

Each year, for a period of about four months, selected social entrepreneurs were assigned two or three Silicon Valley executive mentors who coached them through a set of online foundational exercises designed to develop the basic information (product/service definition, market size, go-to-market plan, etc.) needed to create a business plan. After these four months of distance-based work, the entrepreneurs attended a two-week “boot camp” at Santa Clara University during which they worked intensively with their mentors and GSBI staff to develop an elevator pitch, a detailed business model, a PowerPoint presentation about their organization, and, from 2008 onward, a two-page “investment profile” (key facts sheet) for their organization. The nine months of work, from application through in-residence, were intended to help the entrepreneurs develop a strategy and plan to achieve financial sustainability (positive cash flow) and scalable impact (growing income and impact at a rate faster than the growth in expenses).

In the 2003 pilot year, seven organizations participated, with fourteen to nineteen organizations participating in subsequent years. During this period, the growing group of enthusiastic Silicon Valley mentors (eventually over one hundred) volunteered thousands of hours of their time to work with social entrepreneurs in the GSBI program. They also contributed their lessons learned as mentors to support continuous innovation in the program itself—lessons that have been incorporated into this book.

The GSBI has continued and expanded since 2012, although the processes involved have changed somewhat to accommodate the expansion. As of December 2017

- more than 800 social entrepreneurs have been served by the GSBI, including 233 by the in-residence program,

- over 200 mentors have worked in pairs or trios with the social entrepreneurs,
- GSBI alumni have positively impacted the lives of over 267 million people,
- GSBI alumni ventures have generated \$525 million in impact capital investment, and
- ninety-seven Santa Clara University undergraduates have engaged in in-depth fieldwork with GSBI alumni ventures.

Influenced by lessons from his work as a cofounder of the GSBI, Professor James Koch designed an MBA course in 2005 titled Leadership for Justice and Prosperity. First offered in the winter of 2005, this course had been taken by more than 2,500 MBA students by the fall of 2016. Each of these students was required to identify technological innovations that, in combination with business model innovation, could contribute to the eradication of global poverty. Their projects applied emergent, practice-based theories from the GSBI to stimulate thinking about the “Bottom of the Pyramid” (BOP) as a new frontier for technology and business model innovation. Around the same time, Professor Eric Carlson designed an MBA course titled Social Entrepreneurship based on the paradigm described in this book. This course has been taught in the Santa Clara University Leavey School of Business every year since. In addition, the syllabus of the course was published by Ashoka University as a model “practical” course on social entrepreneurship. Professor Koch used draft versions of this book as a resource for teaching social entrepreneurship and enabling students to prepare conceptual business plans in courses at both the undergraduate and MBA levels.

## How to Use This Book

This book is intended to capture the lessons learned from the first ten years of the GSBI in a guide that will help social venture leaders be more effective in working with their teams and advisors to develop business plans that are financially sustainable and more likely to create scalable impact. While this book may be most useful for those managing a social business, it is designed to assist any social entrepreneur who seeks to develop a program or business that uses financial, human, and physical resources to create a financially sustainable and beneficial social impact. Potential investors, students, or researchers

might also use the book to analyze an existing social business organization's sustainability and scalability. The book has been used in both undergraduate and MBA classes as an analytic framework for fostering systems thinking and developing market-based approaches to solving social challenges.

The book consists largely of a set of lessons and exercises that, when completed, form the basis of a business plan that can help social entrepreneurs

- raise money,
- maximize the social impact of the enterprise,
- operate the enterprise with a surplus (cash flow positive),
- grow (scale) the social impact (and income) of the enterprise at a rate faster than the growth of expenses, and
- ensure their enterprises provide a needed solution to a real problem in an effective and efficient manner.

The book consists of three parts. Part I provides background information and describes the basic assumptions on which this management guide is based (i.e., a bottom-up approach, market-based discipline, and the logic of business planning). More specifically, chapter 1 compares top-down and bottom-up theories of social change. It argues that social progress is a more meaningful measure of human well-being than gross domestic product (GDP), and examines the role of social entrepreneurship as an alternative to welfare or charity as a means of poverty reduction. Social entrepreneurs may find this chapter useful in developing their own theories of social change or comparing them with others. Chapter 2 describes the “Base of the Pyramid” market and can be used by social entrepreneurs to understand the overall structure of this vast, underserved market. Chapter 3 provides an overview of alternative business planning paradigms or frameworks and their uses, including the paradigm used in this book. While each of these frameworks has been used by social entrepreneurs to develop business plans, the GSBI paradigm has inherent advantages for ventures seeking to understand and manage all of the elements that are involved in addressing intractable social problems. For those already familiar with theories of economic development, the BOP market, and business plan paradigms, the related chapter(s) could be skipped.

Part II presents the seven elements of the GSBI Business Plan paradigm. Each chapter describes one element of the business plan. It begins with an

introduction that includes a summary of the assumptions and knowledge that experienced mentors thought necessary for completing the element of the paradigm described in the chapter, and concludes with a checklist for assessing the viability of a social mission business. (Note: An online companion document containing a complete set of templates for use in developing a social venture business plan has been developed to accompany this book.)

Part III describes the key execution elements that can be derived from a business plan, including financing plans and fund-raising goals, budgeting, and the creation of an operating plan. These three execution elements may be the most important reasons for having a business plan. They are the practical “so what, now what” implications, paying particular attention to the unique challenges of social businesses—businesses that simultaneously seek to achieve both financial viability and measurable improvements in the well-being of real people.

Beyond the main parts, we also include a number of pedagogical tools—tools that are useful for helping the reader easily discern the most important takeaways of a given chapter, for situating the sometimes abstract into the real world, for diving deeper into a given area, or for putting the pieces of his or her own business plan together.

#### *Basic Knowledge and Minimum Critical Specifications Checklists*

Beginning in part II, each of the business planning chapters begins with a reference to and summary of the basic knowledge that GSBI mentors felt was necessary to successfully create that element of the business plan. In essence, this basic knowledge helps frame the chapter, cluing the reader to the most basic of takeaways. Each chapter ends with a Minimum Critical Specifications Checklist reflecting the collective intelligence of mentors as to what needs to be included in that element of the business plan. In systems thinking, a minimum critical specification is a condition that is critical to the overall viability of system design. These checklists will come in handy when a would-be social entrepreneur works to build a viable path to success for his or her venture.

#### *Social Venture Snapshots*

The cumulative insights and knowledge in this book are largely derived from GSBI participant work products. In most chapters, Social Venture Snapshots serve to illustrate how different organizations realize specific elements of a social venture business plan. Because the business plans and strategies presented