

# Growing Opportunity Entrepreneurial Solutions to Insoluble Problems



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**Growing Opportunity:  
Entrepreneurial Solutions to  
Insoluble Problems**  
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To the 130 social entrepreneurs who offered their time and perspectives, a heartfelt thank you for your candor, courage and inspiration. And, our best wishes for your success. A list of social entrepreneurs who participated in our research is provided in Annex 2. We have omitted, however, those organizations who asked for confidentiality in their responses.

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Sally Osberg

## Skoll Foundation foreword

**Fast forward: it's 2020, and the world has changed. With perfect hindsight we take stock of what we did, or didn't, to bring about what's different — good, bad and negligible. It's a good bet that we will be saying that 2007 marked a turning point, and that John Elkington, SustainAbility, and a relatively new phenomenon called social entrepreneurship can take the credit for changing the way we think about business, investment and social progress.**

For two decades, SustainAbility has tuned its radar to pick up signals of what the future might hold, and then used this intelligence to advise mainstream corporations on how to re-tool for long-term competitive advantage — with that advantage encompassing what founder John Elkington has termed the 'triple bottom line' of economic, social, and environmental performance. So when John began tracking signals from social entrepreneurs and considering their relevance to corporations doing business in a globalized world, we at the Skoll Foundation took note.

This report is the first product of the Skoll Foundation–SustainAbility partnership, and we hope our fellow travelers in the worlds of business and social entrepreneurship find it informative, useful, and provocative.

On one level, the report probes familiar themes: social entrepreneurs feel hamstrung by their lack of access to capital, concerned for the visibility and differentiation of their solutions in a competitive landscape, and worried about their ability to attract the talent and commitment needed to expand their impact. No surprises here, but humbling, even sobering reminders for those of us committed to investing in these folks, their models and their ventures. Serious challenges persist, challenges that constrain what social entrepreneurs will be able to achieve even as their ranks increase and their champions multiply.

The report becomes more intriguing in the soundings it takes of the healthcare and energy sectors. Here the increasingly complex environments — geographic, economic, socio-political — in which business must operate today seem to cry out for what social entrepreneurs have to offer: innovative, highly adaptive models that directly and indirectly serve mainstream business's larger interests.

Social entrepreneurs who are changing the landscapes of these industries, SustainAbility suggests, have a distinctive way of 'reperceiving' many of the enormous and urgent challenges before us — climate change, access to and delivery of healthcare for developing world populations, and overwhelming poverty — as opportunities 'to leverage the power of markets and business to have transformative, system-wide impacts'. The report dubs this emergent, integrated approach 'Mindset 3.0,' differentiating the advance from predecessor 1.0 compliance-focused and 2.0 'cause related' stakeholder-involved modes still dominant even at progressive corporations.

Mindset 3.0, of course, is fundamentally entrepreneurial; in 'reperceiving' well-entrenched but unsatisfactory systems as opportunities, Mindset 3.0 cracks the code of resistance inherent in any well-established equilibrium — from fossil fuel dependence to health care delivery to over-consumption. That social entrepreneurs should excel at 3.0 thinking comes as no surprise. After all, social entrepreneurs are entrepreneurs first and foremost; it's just that their value propositions target neglected, disadvantaged or suffering segments of society. Underlying Mindset 3.0, I'd suggest, is the realization that this segment of society matters, that it is no longer possible to ignore two-thirds of the planet's population or fail to account for the consequences of industrialization in the developing world. Our very survival as a species and as a planet is at stake.

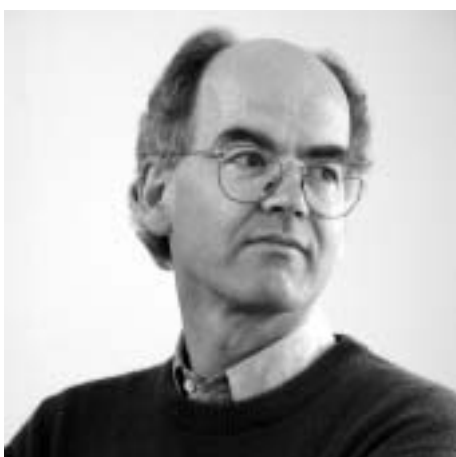
Yes, mainstream business absolutely needs what social entrepreneurs know and do. And social entrepreneurs need much of what corporations have and take for granted. Ultimately, this first SustainAbility report suggests that a better future — for business, society, and the planet — may very well depend on how well both learn and work together.

Onward!

**Sally Osberg**  
President and CEO



Maggie Brenneke



John Elkington



Sophia Tickell

### SustainAbility foreword

**The entrepreneurs we surveyed are experiencing growing pains, but their capacity to see new market opportunities and experiment with novel business models and leadership styles makes them an amazing source of insights for mainstream business.**

A growing array of apparently insoluble socio-economic, environmental, and governance challenges presses in on decision-makers — including climate change, the risk of global pandemics, the growing threat to natural resources like water and fisheries, and the ever-present issues of poverty and hunger. *Growing Opportunity* — the first in an annual series of surveys conducted by SustainAbility in partnership with The Skoll Foundation<sup>1</sup> — explores the potential for more entrepreneurial solutions to such challenges. The key messages: At a time when such challenges seem to narrow our horizons, they are creating a wealth of new opportunities, but to enjoy them longer term we must ensure real opportunity for a very much greater proportion of the global population.

This first survey has been financially supported by Allianz and DuPont, as noted in our Acknowledgements. We are proud to work alongside these partners and, over time, we believe that a growing number of mainstream business and financial institutions will follow their lead in recognizing the extraordinary potential value of what social and environmental entrepreneurs are doing. That said, it is clear that many people in mainstream business still struggle to understand what is going on in this space and its relevance for them.

More positively, a number of recent developments have helped ensure that growing numbers of business people do at least invest the effort to learn.<sup>2</sup> Indeed, these are extraordinary times, with social and environmental entrepreneurs alike on a roll. Muhammad Yunus — probably the world's best-known social entrepreneur — won the 2006 Nobel Peace Prize,<sup>3</sup> following in the steps of Wangari Maathai in 2004. The work of social entrepreneurs is also increasingly spotlighted at events like the World Economic Forum in Davos, by the Clinton Global Initiative and at summit meetings organized by Acumen, Ashoka, Endeavor Global, the Schwab Foundation, and the Skoll Foundation. The efforts of social entrepreneurs are extensively covered in the media — in the pages of *Time*, *Newsweek*, *Fast Company*, and the *Financial Times*.

New initiatives network them in novel ways, among them xigi<sup>4</sup> and i-genius.<sup>5</sup> And a growing wave of money chases for-profit cleantech investments and markets for healthy living, such as organic food.

Growing numbers of mainstream corporations are switching on to the area — and trying to work out what the business case might be for investment, partnership, or other forms of engagement. Take DHL, with its new initiative, the Young Entrepreneurs for Sustainability (YES) Awards, initially launched in five Asian countries and designed to support young entrepreneurs working to help meet the UN Millennium Development Goals.<sup>6</sup> Or take the case of Groupe Danone, the French dairy company, which is leading the new trend with its breakthrough partnership with the Grameen Group in Bangladesh. The aim: to supply fortified yoghurt products to the nutritionally deprived.

Coincidentally, the launch of *Growing Opportunity* at the Skoll World Forum will mark the 20th anniversary of SustainAbility's founding. The report is a companion piece to an ongoing study of the future of globalization, due to be published in mid-2007. Through its evolving Skoll Program, SustainAbility plans to develop and communicate a deeper understanding of the links between social entrepreneurship and the six sectors on which we now focus: Capital Markets & Finance, Chemicals; Energy; Food & Beverage; Healthcare; and the Knowledge Economy.<sup>7</sup> Our overarching aim: to help build bridges between the mainstream corporations and financial institutions, which make up most of our client and partner base on the one hand, and — on the other — the extraordinary entrepreneurs and enterprises described in the following pages.

**Maggie Brenneke**  
Director and Skoll Fellow

**John Elkington**  
Founder and Chief Entrepreneur

**Sophia Tickell**  
Chair

<sup>1</sup> [www.skollfoundation.org](http://www.skollfoundation.org)

<sup>2</sup> [www.sustainability.com/downloads\\_public/skoll\\_reports/business\\_primer.pdf](http://www.sustainability.com/downloads_public/skoll_reports/business_primer.pdf)

<sup>3</sup> [http://nobelprize.org/nobel\\_prizes/peace/laureates/2006/](http://nobelprize.org/nobel_prizes/peace/laureates/2006/)

<sup>4</sup> [www.xigi.net](http://www.xigi.net)

<sup>5</sup> [www.i-genius.org/home/](http://www.i-genius.org/home/)

<sup>6</sup> [www.dhl.com/yesawards](http://www.dhl.com/yesawards)

<sup>7</sup> [www.sustainability.com/sa-services/sectors.asp](http://www.sustainability.com/sa-services/sectors.asp)



Paul M. Achleitner



Linda Fisher

**Allianz foreword**

As a leading financial services and insurance company, Allianz is acutely aware of how global trends such as aging populations, climate change and the globalization of supply chains are affecting our customers and our communities. The sorts of questions we address on a daily basis include: How can people ensure that their loved ones and assets are protected from the full spectrum of risks, including ever-increasing manmade and natural disasters? Do people have access to affordable and reliable health care – and, if not, what can be done to meet their needs? And where will the processes of globalization take our customers, our industry and our company?

We see it as our responsibility to empower our customers to prepare for and respond to these and other challenges. But we cannot do this alone. While we bring significant experience, knowledge and passion to bear, we also seek inspiration from partners who can help us to think outside the box and act as catalysts for innovation.

Social entrepreneurs are one potential wellspring of insight and inspiration. Individuals from Bonn to Bangalore are seizing the chance to turn challenge into opportunity, in the process identifying and pioneering new markets. Microfinance, as an example, is now a \$9 billion market that is increasingly empowering citizens to realize their full potential in society. Our hope is that collaborating with creative thinkers will help our people to realize their full potential – and to better serve the needs of present and future customers.

We are delighted to work alongside The Skoll Foundation and SustainAbility. This project has helped us to take a first look at what collaboration between mainstream business and social entrepreneurs might look like. While this is new territory for us, it is exactly the sort of opportunity space that our business needs to explore. We look forward to ongoing conversation on ways to develop and deploy new generations of sustainability solutions.

**Paul M. Achleitner**  
Member of the Board of Management

**DuPont foreword**

The need for truly sustainable options for 21st century life remains one of the most critical challenges facing the global community. The work of the social and environmental entrepreneurs profiled in *Growing Opportunity* is truly inspirational.

As a science company, DuPont has an interest in being part of the solutions by putting our science to work in ways that can design in – at the early stages of product development – attributes that help protect or enhance human health, safety, and the environment. Through our science, we will design products and processes that pass rigorous criteria for the use of renewable resources, energy, water, and materials. We believe this is a direct route to a successful, profitable business that adds value to our customers, their customers, consumers, and the planet.

DuPont has broadened its sustainability commitments beyond internal footprint reduction to include market-driven targets for both revenue and research and development investment. The goals are tied directly to business growth, specifically to the development of safer and environmentally improved new products for key global markets, including products based on non-depletable resources.

And we are investing to ensure that DuPont moves towards sustainable growth. By 2015, we have committed to:

- Double our research and development investment in environmentally smart market opportunities;
- Double revenues to \$8 billion<sup>8</sup> from non-depletable resources;
- Grow annual revenues \$2 billion or more from products that create energy-efficiency and/or reduce greenhouse gas emissions for its customers; and
- Introduce at least 1,000 new safety products or services.

**Linda Fisher**  
Chief Sustainability Officer

<sup>8</sup> Note: unless otherwise stated, all \$ references are to US\$.

At a time when such challenges seem to narrow our horizons, they are creating a wealth of new opportunities, but to enjoy them longer term we must ensure real opportunity for a very much greater proportion of the global population.

**A growing array of socio-economic, environmental and governance challenges presses in on decision-makers – including climate change, the risk of global pandemics, the growing threat to natural resources like water and fisheries, and the ever-present issues of poverty and hunger.** *Growing Opportunity – the first in an annual series of surveys conducted by SustainAbility in partnership with The Skoll Foundation – explores the potential for more entrepreneurial solutions to such challenges.*

The key messages: at a time when such challenges seem to narrow our horizons, they are creating a wealth of new opportunities, but to enjoy them longer term we must ensure real opportunity for a very much greater proportion of the global population. The report attempts to assess the current state of social entrepreneurship – the possibilities presented by new mindsets, the challenges entrepreneurs face in scaling their organizations and the opportunities for greater collaboration with corporations and others.

The survey findings are discussed in Chapter 2 (pages 11–22) and the – increasingly persuasive – business case for mainstream corporations and financial institutions to get involved is explored in Chapter 3 (pages 23–29). We look at three different mindsets that have characterized business thinking in relation to the relevant issues. If 1.0 was about compliance and 2.0 about citizenship, 3.0 is about creative destruction and creative reconstruction.<sup>9</sup> Chapters 4 and 5 then probe a little deeper into two key sectors, health and energy.

Our main conclusions are that:

- 1 **Social entrepreneurship is on a roll.** Social entrepreneurship is emerging as a powerful catalyst of the sort of change that governments and business are increasingly committed to – but rarely know how to deliver.
- 2 **The potential for breakthrough solutions is considerable – and growing.** Among the routes to breakthrough solutions and scaling discussed by our respondents, the following surfaced repeatedly: (1) grow individual social enterprises; (2) establish multiple enterprises; (3) get big organizations – whether companies, public agencies or NGOs – to adopt the relevant models and approaches; and (4) spur public policy legislation designed to fix market failures.

- 3 **The field is growing, but still relatively small.** To put rough numbers on the three areas of social enterprise, cleantech and philanthropy, we estimate that less than \$200 million is going into social enterprise worldwide from dedicated foundations each year, compared with over \$2 billion into cleantech in the USA and EU and well over \$200 billion into philanthropy in the USA alone.
- 4 **Money remains the main headache.** Accessing capital is the No.1 challenge for the entrepreneurs we surveyed, with almost three-quarters (72%) putting this at the top of their priority list. Foundations are still the favorite source of funding for social entrepreneurs (mentioned by 74% of respondents), but there is a wide recognition of the need to diversify funding sources.
- 5 **Financial self-sufficiency is seen as a real prospect within five years.** The proportion of respondents expecting to be funding their own operations, with little or no dependence on grants, jumped from 8% to 28%.
- 6 **There is a real appetite to partner with business.** Social and cleantech entrepreneurs are equally interested in developing partnerships with business – but with different expectations. Social entrepreneurs, in particular, are acutely aware that they often lack the experience and skills needed. A constant refrain was the growing need for brokering between the entrepreneurs and potential business partners.
- 7 **Beware blind spots.** There is a risk that we may become overly focused on narrow definitions of social and environmental entrepreneurship. For example, it's easy to get excited about small start-ups in the renewable energy field, but we should remember the huge contributions already being made by much larger companies like **Acciona** in Spain, **Vestas** based in Denmark or **GE** based in the USA. And there is also a need to focus on ways of supporting social *intrapreneurs*, change agents working inside major corporations and financial institutions. The potential leverage at their disposal is huge.
- 8 **For real system change, we must focus on government and public policy.** Governments need to do more to shape public sector targets, tax incentives and pricing signals to ensure that markets drive change – and that the sort of ventures covered in *Growing Opportunity* reach their full potential.

<sup>9</sup> We adopted the 1.0–3.0 terminology during an Australian tour early in 2006. *Fast Company* also talk of Business 3.0 in their 'Fast 50' survey report, *Fast Company*, March 2007. The terms label different aspects of the same phenomenon.

One thing that is likely to bewilder mainstream business brains entering the world of social enterprise is the near-fetish for discussing definitions. Huge effort has been invested – and continues to be invested – in defining social and environmental entrepreneurship and in identifying and classifying the relevant entrepreneurs

**How do you grow economic, social, educational, and political opportunity to the degree required to ensure that the 21st century is significantly less turbulent and violent than the 20th? Part of the answer will be to invest in entrepreneurial solutions to the world's pressing problems, and to build the system conditions in which solutions are encouraged to replicate and scale. In this sense, the social and environmental entrepreneurs discussed in *Growing Opportunity* are models of how to push towards a more sustainable future.**

But that's not always how they are seen.<sup>10</sup> Business people encountering the world of social entrepreneurship for the first time often emerge confused, at least to begin with. The sort of questions they raise include: Why all the excitement? How are these people different from NGOs? Isn't entrepreneurship what business already does? How can you expect the world's poorest to represent any sort of market? And how can ventures operating at this relatively small scale ever hope to change the world, as they proclaim their ambition to be. All great questions, but before we start looking for answers, it is worth remembering the critics at the time could easily have expressed – indeed often did – the same skepticism about the likes of Pasteur, the Wright Brothers or, in more recent times, Steve Jobs and Steve Wozniak, who not only founded Apple but also catalyzed the early growth of the personal computer industry.

No doubt a great deal of debate went into what a germ was, into what sort of future aircraft might have or whether PCs would ever challenge the computing power of IBM's 'Big Iron.' One thing that is likely to bewilder mainstream business brains entering the world of social enterprise is the near-fetish for discussing definitions. Huge effort has been invested – and continues to be invested – in defining social and environmental entrepreneurship and in identifying and classifying the relevant entrepreneurs. Important work, no question, but you tend to know these people when you meet them. The air crackles with energy. They aim to turn apparently insoluble crises into tomorrow's political, social, and market opportunities.

Some definitions can be found on page 7, but as Jed Emerson – one of the field's most influential thought-leaders – warned us, an over-emphasis on definitions can be distracting. 'We risk wasting the coming years in endless discussions of how many angels dance on the head of a pin,' he argued, 'as opposed to what wonderful garments we might collectively stitch together.'

The key point is that a range of social, environmental, and governance challenges increasingly demand something more than corporate citizenship responses. They require innovative, entrepreneurial, and – often – disruptive strategies which incumbent companies are often ill-prepared to develop or deliver.

This isn't an either social entrepreneurship or big business agenda, but will involve both together. Looking at the worlds of our three sponsoring organizations, the evidence is clear. A company like the US chemical giant **DuPont**, with its long-standing 'sustainable growth' strategy, has the capacity to bring new solutions to scale. To take just two of DuPont's 2015 goals: it aims to grow annual revenues from products that create energy efficiency or cut greenhouse gas emissions by \$2 billion, and to nearly double revenues from non-depletable resources to at least \$8 billion. The involvement of German financial services group, **Allianz**, underscores the growing role of the financial sector in supporting entrepreneurial solutions to the broad spectrum of sustainability challenges. And Jeff Skoll's background as a co-founder of **eBay** spotlights the emergence of very different thinking on how business models can be designed to replicate and scale – even, if the **X Prize Foundation** has its way (page 29), in such demanding areas as poverty alleviation.

<sup>10</sup> [www.sustainability.com/downloads\\_public/skoll\\_reports/business\\_primer.pdf](http://www.sustainability.com/downloads_public/skoll_reports/business_primer.pdf)

'At its core, the corporate pursuit of sustainable development is not just about "doing good." It makes companies more entrepreneurial, nimble and competitive.'  
Björn Stigson, WBCSD

So why are a growing number of business leaders suddenly so interested in the linked worlds of social and environmental entrepreneurship? And, with intensifying investor interest and lively media coverage, what is the current state of the key sectors now busily developing entrepreneurial solutions to the world's looming sustainability challenges? These are questions **SustainAbility** is exploring in its three-year Skoll Program (2006–2009).<sup>11</sup> *Growing Opportunity* is the first in a planned survey of studies into key aspects of this increasingly important field.

Why should business be interested in all of this? We asked Björn Stigson, President of the **World Business Council for Sustainable Development (WBCSD)**. He replied: 'At its core, the corporate pursuit of sustainable development is not just about "doing good." It makes companies more entrepreneurial, nimble and competitive. One of our largest manufacturing members has taken the concept of eco-efficiency so seriously that it began focusing on selling less material product and more knowledge, with great success. A Latin American member understood base-of-the-pyramid business as a theory, but then found by experience that it makes good bottom-line business sense. Coping with sustainability challenges builds stronger companies.'

In 2001, SustainAbility concluded that the early decades of the 21st century would see a series of interlinked economic, technological, social, political, and managerial transitions that would transform the global economy, in very much the same way as the rapacious caterpillar is transformed inside a chrysalis. We are now embarked on a period of profound economic metamorphosis, of what the economist Schumpeter dubbed 'creative destruction.' Think of the entrepreneurs profiled in the following pages as the global economy's equivalent of the 'imaginal buds' that drive the process that converts a caterpillar into a butterfly inside the chrysalis.<sup>12</sup>

In preparing this study, we interviewed 20 entrepreneurs in depth – and over 100 more completed an online survey (page 48). It is clear that they are as determined as ever to drive change, but it is also clear that many of their enterprises are experiencing significant growing pains along the way.

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### Key drivers

Focusing down on today's world, at least four factors seem to be central in driving the growing mainstream interest in social and environmental entrepreneurship:

- First, 20 years after the **Brundtland Commission** first put sustainable development onto the political agenda,<sup>13</sup> a number of major challenges once seen to be (and often dismissed as) the preserve of activist NGOs and wider civil society have pushed forcefully into the political and business mainstream – a process often reinforced by the withdrawal or weakening of government activity. Successive summit meetings of the **World Economic Forum**, for example, have focused on an increasingly interconnected agenda linking such issues as poverty, hunger, pandemic risks, terrorism, human rights, energy security, and the growing threat of climate destabilization.
- Second, despite the huge progress achieved in corporate citizenship and corporate social responsibility over the past 10–15 years, there is a growing concern that we may be reaching the 'limits of CSR.' The *Harvard Business Review*<sup>14</sup> neatly captured this mood with a twinned pair of articles by Michael Porter and Mark Kramer ('Strategy and Society: The Link Between Competitive Advantage and Corporate Social Responsibility') and Clayton Christensen ('Disruptive Innovation for Social Change'). The conclusion: too many companies have seen the new, interconnected agenda as remote from their core business interests. The reality is that these complex issues pose increasingly strategic choices that need to be addressed in suitably radical and higher leverage ways – something that most corporate citizenship departments seem ill-equipped to do.

<sup>11</sup> [www.sustainability.com/insight/skoll.asp](http://www.sustainability.com/insight/skoll.asp)

<sup>12</sup> John Elkington, *The Chrysalis Economy: How Citizen CEOs and Corporations Can Fuse Vales and Value Creation*, Capstone/John Wiley & Sons, 2001.

<sup>13</sup> *Our Common Future*, Report of the World Commission on Environment and Development ('Brundtland Commission'), Oxford University Press, 1987.

<sup>14</sup> See *Harvard Business Review*, December 2006.



One key reason why mainstream business needs to pay attention is that these people aim to achieve higher leverage than conventional philanthropy and NGOs, often aiming to transform the systems whose dysfunctions help create or aggravate major socio-economic, environmental, and political problems.

#### Panel 1.1 Definitions

**Entrepreneurs** are people who, through the practical exploitation of new ideas, establish new ventures to deliver goods and services currently not supplied by existing markets. That said, people like Greg Dees (Adjunct Professor of Social Entrepreneurship and Nonprofit Management, Fuqua School of Business, **Duke University**) argue that there is a spectrum of enterprise, from the purely charitable through to the purely commercial.<sup>15</sup> Our version of that spectrum – or landscape – can be seen in Figure 1.1.

On the purely charitable side, 'customers' pay little or nothing, capital comes in the form of donations and grants, the workforce is largely made up of volunteers, and suppliers make in-kind donations. At the purely commercial end, all these transactions are at market rates. Most of the really interesting experiments, however, are now happening in the middle ground, where hybrid organizations pursue 'blended value' and where less-well-off customers are subsidized by better-off customers.

**Social entrepreneurs** are entrepreneurs whose new ventures (social enterprises) prioritize social returns on investment, i.e. improving quality of life for marginalized populations by addressing issues such as health, poverty, and education. One key reason why mainstream business needs to pay attention is that these people aim to achieve higher leverage than conventional philanthropy and NGOs, often aiming to transform the systems whose dysfunctions help create or aggravate major socio-economic, environmental, and political problems.

**Ashoka**<sup>16</sup> defines social entrepreneurs as, 'individuals with innovative solutions to society's most pressing social problems. They are ambitious and persistent, tackling major social issues and offering new ideas for wide-scale change. Rather than leaving societal needs to the government or business sectors, social entrepreneurs find what is not working and solve the problem by changing the system, spreading the solution, and persuading entire societies to take new leaps.'

The Skoll Foundation puts it this way: 'Social entrepreneurs share a commitment to pioneering innovations that reshape society and benefit humanity. Whether they are working on a local or international scale, they are solution-minded pragmatists who are not afraid to tackle – and successfully resolve – some of the world's biggest problems.'<sup>17</sup>

**Environmental entrepreneurs** may be interested in social objectives, but their main focus is environmental. Many consider environmental entrepreneurship to be a subset of social entrepreneurship, but they are distinct. A major rebranding of the sector began in 2002, as the 'cleantech' sector. The **Cleantech Venture Network (CVN)** defines cleantech as embracing 'a diverse range of products, services, and processes that are inherently designed to provide superior performance at lower costs, greatly reduce or eliminate environmental impacts and, in doing so, improve the quality of life. CVN includes the following sectors: energy generation; energy storage; energy infrastructure; energy efficiency; transportation & logistics; water purification & management; air quality; materials & nanotechnology; manufacturing/industrial; agriculture & nutrition; materials recovery and recycling; environmental IT and enabling technologies.'

<sup>15</sup> J. Gregory Dees and Beth Battle Anderson, 'Framing a Theory of Social Entrepreneurship: Building on Two Schools of Practice and Thought,' in Rachel Moser-Williams (Editor), *Research on Social Entrepreneurship*, ARNOVA occasional paper series, Vol. 1, No. 3, The Aspen Institute, Washington DC, 2006.

<sup>16</sup> [www.ashoka.com](http://www.ashoka.com)

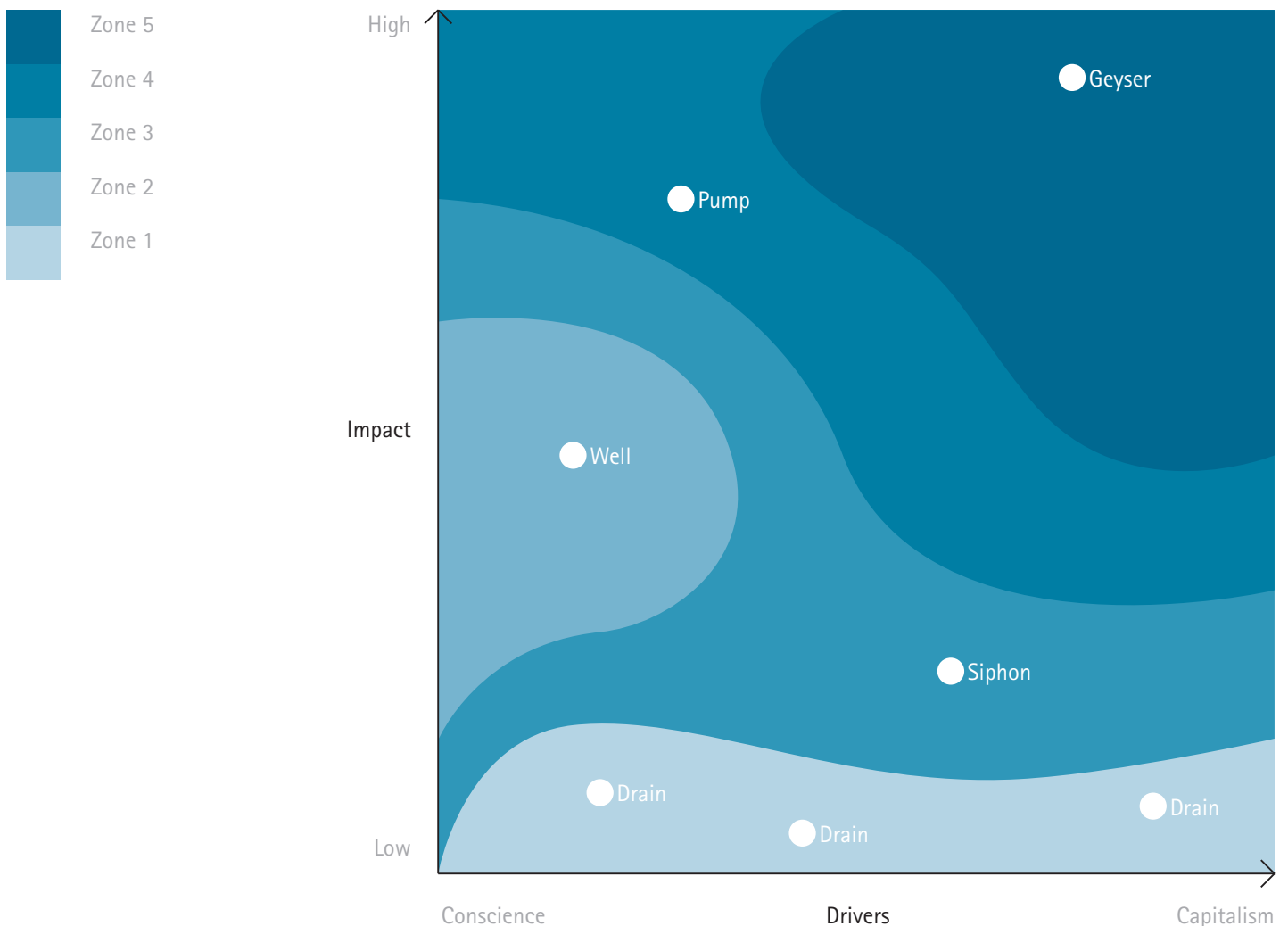
<sup>17</sup> [www.skollfoundation.org/aboutsocialentrepreneurship/whatis.asp](http://www.skollfoundation.org/aboutsocialentrepreneurship/whatis.asp)

Figure 1.1  
**The opportunity landscape**

It's remarkable how much of the financial world's vocabulary relates to water and to hydraulic imagery. We have liquid assets and liquidations, we manage cash flows and solvency, we float companies and exchange rates, there is sunk capital and there are investments below water, money goes down the drain, we try to deflate bubbles, and we — or at least some people — launder money.

In this spirit, Figure 1.1 plots five zones of the opportunity landscape for entrepreneurs. On the vertical axis, we plot 'Impact' (think leverage, blended value creation,<sup>18</sup> and system change), from Low to High, and on the horizontal axis we plot the degree to which the 'Drivers' of action are 'purely' Moral or 'purely' Financial. Clearly, entrepreneurs of different types will spot opportunity right across this landscape.

- **Zone 1 (The Drain)** is where money drains from the system, because of poor management — or because of the bribery and corruption that blights so many economies and new ventures. Enron operated in this space, as do the fraudulent 'briefcase NGOs' that blight countries like India.
- **Zone 2 (The Well)** is where communities under stress — or those that help them — dip into capital reserves and the benevolence of ordinary citizens, although (like wells) public benevolence can be over-pumped to the point of exhaustion or 'donor fatigue.' Médecins sans Frontières and the Red Cross are leading players here.
- **Zone 3 (The Siphon)** is the area of corporate philanthropy, where businesses create shareholder returns, but channel off a percentage, partly to ensure their continuing license to operate. Think of the Danone Communities Fund, Shell Foundation, or Google.org.
- **Zone 4 (The Pump)** is where predominantly non-profit or hybrid non-profit/for-profit ventures leverage resources to create blended value — and, through lobbying, promote wider systemic change. Organizations like Grameen Bank, OneWorld Health, and PATH create change here.
- **Zone 5 (The Geyser)** is where deep-seated seismic forces (think demography, economic development, technology trends, and eco-pressures like climate change) build a head of pressure that powerfully, if unpredictably, erupts in showers of new wealth — laying down deposits of value and helping irrigate the entire catchment area. Powerful players here include Acciona, GE, Vestas, and much of the cleantech sector.



<sup>18</sup> For more on blended value, see [www.blendedvalue.org](http://www.blendedvalue.org)

<sup>19</sup> <http://ge.ecomagination.com/@v=022120072196@/site/index.html>

<sup>20</sup> One of the most notable actors in this sector is the Cleantech Venture Network. [www.cleantech.com](http://www.cleantech.com)

<sup>21</sup> The five-yearly summary of events is illustrative only, to give a sense of what else was going on at the time.

– Third, a number of major corporations have begun to rebundle existing activities, and in some cases launch new ones, designed to meet sustainability-related needs. A case in point has been **GE**, with its 'ecomagination' initiative.<sup>19</sup> To illustrate the scale at which such companies can drive change, if minded to do so: when GE released its 2005 ecomagination report, it revealed that revenues from the sale of energy efficient and environmentally advanced products and services had hit \$10.1 billion in 2005, up from \$6.2 billion in 2004 – with orders nearly doubling to \$17 billion.

– Fourth, we have seen the emergence of two separate movements that have helped push entrepreneurial solutions further into the spotlight. (1) The social enterprise sector has been building for decades, but has been given a major boost by the work of **Ashoka** and initiatives launched by **The Schwab Foundation**, **The Skoll Foundation**, **Acumen**, **Endeavor**, and **Fast Company** (particularly its Social Capitalist Awards).

(2) The 'cleantech' sector, in part a rebranding of environmental and energy-related enterprise, has seen rapid growth thanks to growing concerns around energy security and climate change – and the recent 'greening' of US state and mayoral politics.<sup>20</sup>

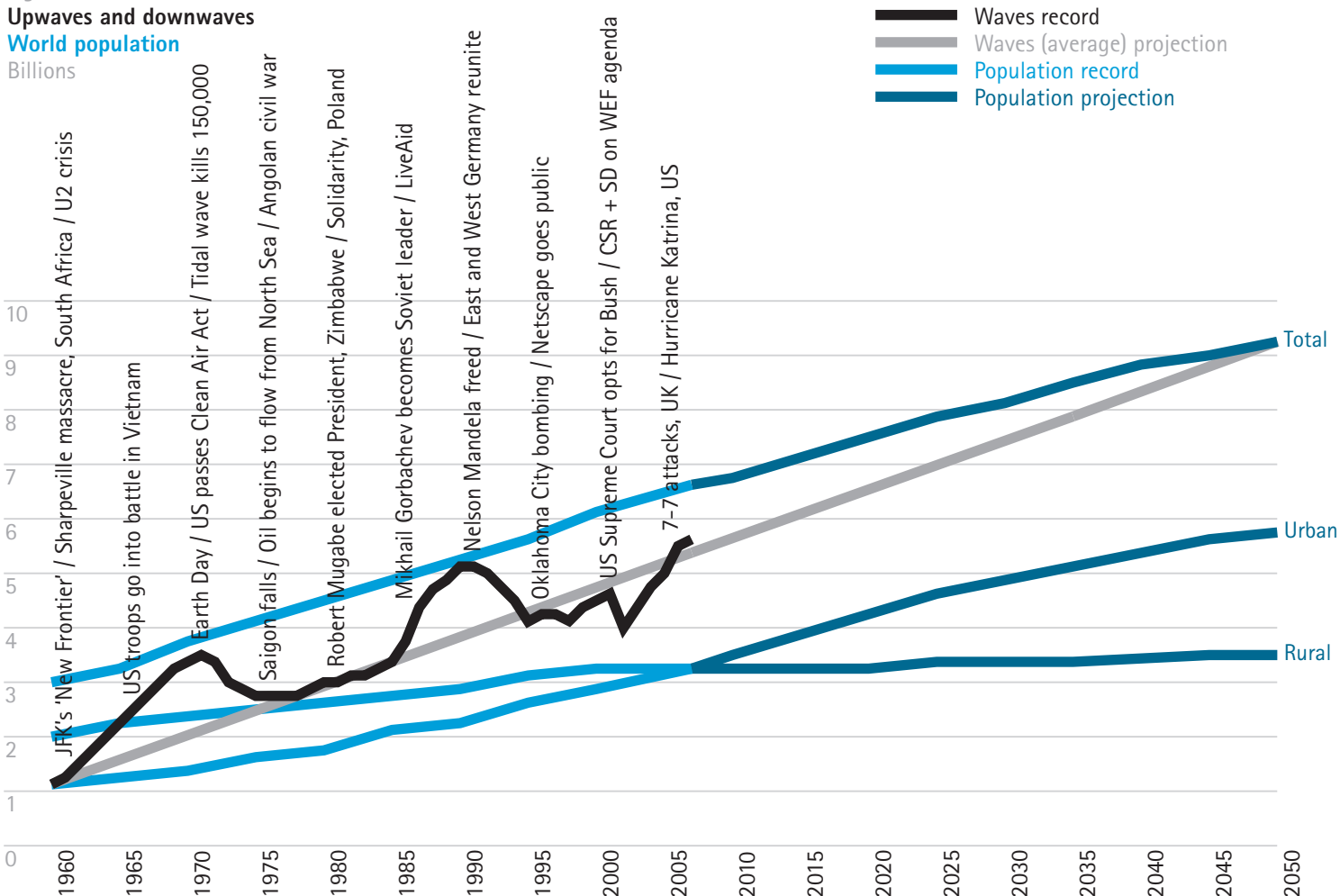
**Closer than you think?**

At the 2007 World Economic Forum summit in Davos a key question asked was: What could be done to spur entrepreneurial solutions to global sustainability challenges? The business media picked up on the theme. 'Imagine a world,' the front cover of *BusinessWeek* encouraged readers in its Davos issue, 'in which socially responsible and eco-friendly practices actually boost a company's bottom line. It's closer than you think.' This trend aligns closely with the emerging 'Fourth Wave' agenda SustainAbility has been tracking.

Just as a series of waves run through the caterpillar to uncover the chrysalis, so the global economy has been powerfully shaped by a series of societal pressure waves – at least in the OECD region (Figure 1.2).<sup>21</sup>

Figure 1.2

**Upwaves and downwaves**  
**World population**  
Billions



## This report attempts to assess the current state of social entrepreneurship.

Given that 2007 marks the year when the human population becomes predominantly urban for the first time, the three blue lines map the trends in the rural, urban, and global populations. By our analysis, the waves have run as follows:

- **Wave 1** (peaking 1969–72) focused on new policies, rules and regulations, largely in the environmental, safety, and health areas. During this period, there was much counter-cultural entrepreneurship, particularly in areas like whole foods and 'alternative' or 'intermediate' technology. The compliance agenda continues to evolve globally.
- **Wave 2** (peaking 1988–91) drove voluntary market initiatives in such areas as reporting and certification, including the evolution of standards such as ISO14001 and the Global Reporting Initiative. Here, much of the entrepreneurship focused on environmental and sustainability-related services and socially responsible investment.
- **Wave 3** (peaking 1999–2001, before being knocked back sharply by 9/11) drove concerns around globalization and both global and corporate governance. This period saw a dramatic increase in the number of networks linking social and environmental entrepreneurs.
- **Wave 4** (which is just getting into its stride) appears to be rebounding energetically, with a growing focus on innovation and entrepreneurial solutions to sustainability challenges.<sup>22</sup> The promise is that mainstream players now get involved, potentially overwhelming or outflanking smaller players. Equally, however, the prospect of alliances, partnerships, mergers, and acquisitions will also likely grow.

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### 2007 survey and report

This report attempts to assess the current state of social entrepreneurship – the possibilities presented by new mindsets, the challenges entrepreneurs face in scaling their organizations and the opportunities for greater collaboration with corporations and others. To explore these themes, we:

- E-mailed a quantitative survey instrument to 400 entrepreneurs, selected from the networks of the **The Skoll Foundation, The Schwab Foundation,**<sup>23</sup> **The Hub,**<sup>24</sup> **Columbia University's RISE project,**<sup>25</sup> and **Fast Company.**<sup>26</sup> Over 100 completed the full survey, representing a 27% response rate. The survey instrument can be found in Annex 1;
- Undertook extensive desk research, including 'Deeper Dives' into the health and energy sectors, and took part in a number of major events in the field; and
- Interviewed 20 entrepreneurs in depth, either face-to-face or by telephone.

We rounded out this research with feedback from our growing network. From Acumen to Zouk ventures, we invited perspectives about the main challenges and opportunities facing social and environmental entrepreneurs today. The survey findings follow in Chapter 2.

<sup>22</sup> Four scenarios based on SustainAbility's pressure waves analysis will feature in another report part-funded by The Skoll Foundation, focusing on the future of globalization. Due out in June 2007.

<sup>23</sup> [www.schwabfound.org](http://www.schwabfound.org)

<sup>24</sup> [www.the-hub.net](http://www.the-hub.net)

<sup>25</sup> [www.riseproject.org](http://www.riseproject.org)

<sup>26</sup> [www.fastcompany.com/social](http://www.fastcompany.com/social)

- <sup>27</sup> [www.grameenphone.com/index.php?id=64](http://www.grameenphone.com/index.php?id=64)
- <sup>28</sup> [www.ashoka.org](http://www.ashoka.org)
- <sup>29</sup> [www.acumenfund.org](http://www.acumenfund.org)  
[www.fastcompany.com/social](http://www.fastcompany.com/social)  
[www.schwabfound.org](http://www.schwabfound.org);  
[www.skollfoundation.org](http://www.skollfoundation.org)

To our surprise, the entrepreneurs interviewed and surveyed were significantly more interested in responding than we had imagined — and the thrust of our questions was particularly appreciated. Indeed, it soon became clear that even the best entrepreneurs are experiencing real growing pains, mainly in the field of funding — but also in a number of other areas. For the sake of simplicity, let's boil down the questions to three main areas of interest:

- 1 Who are these people, what are they trying to do, how do they view the prospects for scaling what they do, and how optimistic/pessimistic are they currently?
- 2 What are the critical challenges they face in replicating and scaling successful solutions to sustainability challenges?
- 3 And how do they think of mainstream business in all of this — whether as a route to funding, a source of potential partnerships, or as a roadblock to progress?

We cover the first two areas in Chapter 2, the third in Chapter 3.

## 1 Meet the entrepreneurs

### Who are these people?

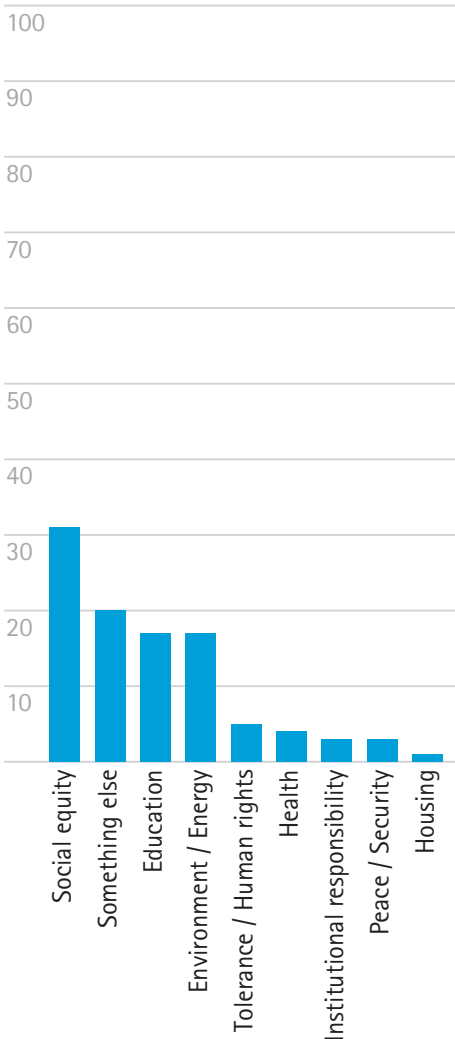
For non-experts who know something of the field, Muhammad Yunus of the **Grameen Bank** is probably the first person who comes to mind. But Dr Yunus is not a typical social entrepreneur, however much many entrepreneurs may see him as their model. Not only does he now have a Nobel Prize, but he has been working in the area for over 30 years, his institution is large, successful and globally known, and already partnering with a number of major corporations — including **Danone** and **Telenor**.<sup>27</sup> By contrast, perhaps the best way to get a sense of the more typical high-performance social entrepreneur is to take a look at Ashoka's website.<sup>28</sup> Or, to focus on people who have gone through further hoops, visit the websites of **Acumen Fund**, **Endeavor Global**, **Fast Company**, **The Schwab Foundation**, and **The Skoll Foundation**.<sup>29</sup>

### Panel 2.1

#### Organizational mission

Each organization was asked to identify its 'primary area of focus.' Social equity, selected by most respondents, includes organizations addressing poverty, economic development, and empowerment of marginalized citizens. Not surprisingly, a significant number of respondents selected 'something else' — an illustration of how social entrepreneurs see these challenges as interrelated and their solutions as out-of-the-box. Most used the 'something else' response to signal 'several of the above.' The results are shown in Figure 2.1.

Figure 2.1  
**Primary mission of organizations surveyed**  
N=109  
%



As far as the respondents to our quantitative survey are concerned, their missions and geographic focus are summarized in Figures 2.1 and 2.2.

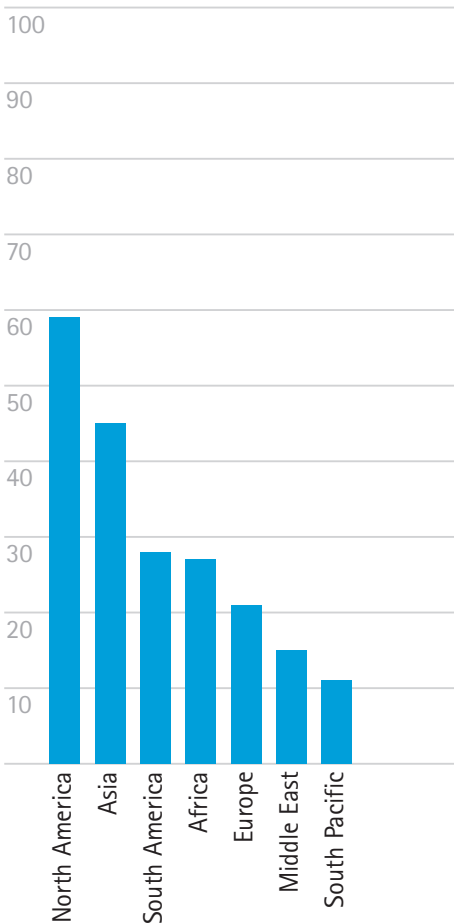
**How do they think of — or label — themselves?**

Many respondents and interviewees clearly considered themselves to be 'social' or 'environmental' entrepreneurs, while others thought of themselves as entrepreneurs, innovators or even campaigners. Here are replies from four US respondents that underscore the diversity of perspectives even among entrepreneurs of the same nationality:

- **Rick Surpin, ICS**  
Health Care, New York, NY  
'I consider myself a social entrepreneur, but that is an approach to the work; it's not my vocation and no one would give us money, except Skoll possibly, on this basis. If people ask me what I do — I work on transforming the health care and social service system for low income adults with disabilities and create decent jobs for low income people at the same time. This is how I see myself and what I think is interesting and challenging and generally what makes other people interested as well.'
- **Chris Elias, PATH**  
Health Care, Seattle, WA  
'We are a relatively new entrant into this discourse and community of social entrepreneurs. It is clear that there are two groups. There are the organizations that were basically built around an individual social entrepreneur who had a strong vision and charisma and created an organization to meet that vision. Then there are groups like PATH and Technoserve, that may have started that way, but are now big organizations whose directors are certainly entrepreneurial . . . but it no longer makes sense to talk of PATH as the product of any one person. We have 550 staff worldwide with variable degrees of entrepreneurship. If I were to I ask, probably 100 or more of them would raise their hand and say "Yes, I'm an entrepreneur."'

- **Laura Peterson, Hands to Hearts International**  
Health Care, Portland, OR  
'Right now there is a ton of hype around social entrepreneurs. There are pros and cons to this, but the reality is that very few social entrepreneurs will ever get off the ground. I am a therapist, a supervisor, and an administrator. Now people call me a "social entrepreneur," but I'm not entirely comfortable with that. This title seems to come with super-human expectations that go beyond talent, innovation, and integrity and into unrealistic extremes of personal self-sacrifice.'
- **Josh Tosteson, HydroGen LLC**  
Cleantech, Cleveland, OH  
'We are a commercial business in the clean energy industry. So, we manufacture fuel cell systems for industrial applications, and as such, I wouldn't characterize our business strictly as a "social entrepreneurial" venture. It has clear social benefits that motivate and animate some of the reasons why I and some of my colleagues are involved with it in the first place. On the other hand, we are casting this as a straight up commercial venture subject to all of the challenges and opportunities inherent in that kind of a corporate enterprise. Even though we pay attention at a certain level to the social outcomes of the work we do, and focus intently on how we operate as an ethical enterprise both in internal and external dealings, as an investor-backed, public company we need to retain a first-order focus on business metrics that reflect our principal obligations to shareholders and investors.'

Figure 2.2  
Primary regions of operation  
N=109  
%



Where are they on the optimism–pessimism spectrum?

Successful entrepreneurs, by their very nature, tend to be optimists – highly pragmatic optimists. No surprise, then, to find that, despite the challenges, the entrepreneurs we interviewed were overwhelmingly optimistic. Most cited what some might see as extremely aggressive growth plans, such as doubling their operations in the next three to five years, and taking local programs national or, if already operating at the national scale, international. Our survey results reflect this optimism – 32% believe they will move away from foundation funding to more sustainable source of funding in the next five years.<sup>30</sup> That said, several – including **PATH** – expect to scale significantly mainly on the basis of foundation funding.

Reading between the lines, however, we did detect a difference in tone from those addressing poverty issues as compared with the rest of the social enterprise community. We often heard a more frustrated (sometimes even desperate) tone, a sense that the challenges are much greater than currently acknowledged, and that – because this is an area of intense market failure – social entrepreneurs have to compete for limited foundation funding. Typical comments noted the need to live a 'hand-to-mouth existence,' and another spoke of the challenge of, 'Gaining recognition in a very crowded non-profit marketplace.' More fundamentally still, another respondent argued that, 'There needs to be a paradigm shift in order to reduce world hunger and poverty.'

More positively, the emergence and growth of the base-of-the-pyramid movement is seen as an optimistic trend, an attempt to reframe the issues in terms of the potential commercial opportunities. It will be fascinating to see how **The X Prize Foundation**,<sup>31</sup> which stimulated a huge wave of private enterprise in relation to space travel and is now working in such fields as genomics and automobility, applies the same approach with its planned prize for poverty alleviation (page 29). One key is to set the targets in ways designed to switch on the entrepreneurial juices of a wider group of innovators.

Panel 2.2  
Regions

We asked where each respondent's organization 'primarily' operated, which allowed for multiple answers in terms of geographies. North America came top (54%), with the South Pacific – perhaps not surprisingly – bottom. The low positioning of Europe is notable.

<sup>30</sup> Note: there may be a risk of survey bias, on the basis that those responding could be more optimistic about their ventures, although there could equally be a reverse effect.

<sup>31</sup> www.xprize.org

'If I had twice as much money, I'd make at least four times as much impact.'  
Jim Fruchterman,  
Benetech

### How do they view the prospects for replication and scaling?

For the new breed of funders, the capacity of social or environmental entrepreneurs to replicate and scale is fundamental. For many, scalability — of beneficial impacts, business models, and enterprises — is the Holy Grail. And that also creates a sense of frustration with the current order. Some respondents see the nature of much current funding as part of the problem — encouraging a sense of dependency. A related comment came from Keerti Pradhan of **Aravind Eye Hospitals**, in relation to the state of other NGOs, particularly in India: 'NGOs get hooked on a sense of *getting* when they rely on foundation or non-sustainable funding sources. As a result, people don't apply their brains to different ways to break that barrier of dependency on foundations. The question is: whose responsibility is it to help NGOs with this? NGOs have huge potential, but huge knowledge gaps exist about how to access market-rate funding sources that could help support non-profit work.'

Perhaps not surprisingly, most interviewees and respondents are enthusiastic about the ability of their model to replicate and scale. This trend seems to be independent of geography. Only one entrepreneur suggested that their model is too complex to scale at the pace that the Skoll and Schwab Foundations, and others, are pushing for — and clearly felt a great deal of pressure to do this beyond the organization's ability.

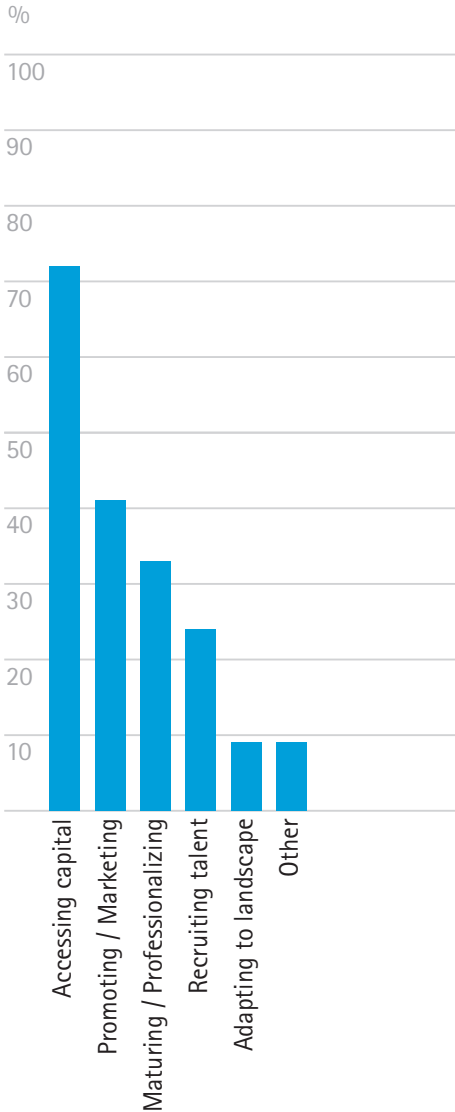
The drive to scale is seen to raise its own very particular challenges. In addition to the financing, marketing, and maturation/development challenges highlighted in the next section, social entrepreneurs underscore issues such as: 'finding the right partners' for joint ventures and franchising; maintaining the quality of service, particularly when working with third parties; and the question of pace of growth — 'How fast can I grow, continue to deliver and not compromise my mission?' Anyone working with mainstream entrepreneurs will recognize the thrust of the questions.

Finally, a significant minority of the entrepreneurs stressed the need for government to play a more effective role in making scaling possible. In particular, entrepreneurs suggest that government:

- **Needs to provide an enabling environment**, through policies that create, as a minimum, a level playing field for solutions and, at best, that strongly incentivizes the development and deployment of new solutions; partly by developing incentives that allow the most cost-effective solutions to compete, for example by removing perverse incentives. In many countries, more fundamentally still, governments also need to provide basic infrastructure, such as sewers, roads, and schools.
- **Must make social and environmental issues a political priority**. A number of respondents expressed concern that their issues were not top priorities for politicians in their country.
- **Should explore alternatives**. Sylvia Aruffo of Careguide Systems in the healthcare sector said, 'It's very difficult for any entrepreneur when you have a breakthrough idea and the structure is already set up for another way to solve that problem. What do you do when your solution is better, but it just doesn't fit?'
- **Has a role to play in setting minimum standards for provision**, and in scaling solutions, not just as service providers, but as policy makers, procurers of services, landlords, experts, and so on.
- **Can be a major stumbling block in some countries**, particularly where there is widespread corruption. Some governments, we were told, don't want social entrepreneurs to succeed, because it would make them look bad and accentuate their failures.



Figure 2.3  
**Challenges facing social entrepreneurs**  
Respondents select the top two challenges they face in growing their organizations  
N=109



## 2 Critical challenges

The central thesis of *Growing Opportunity* is that the undoubted progress of the social enterprise sector is often being bought at the expense of growing human, organizational, and opportunity costs. This is inevitable, given that the same could be said of all entrepreneurial ventures, but the conclusion calls for a thoughtful, coordinated set of responses from those who fund and otherwise support these people. The pains, as Panel 2.3 suggests, come in various areas: funding, promotion and organizational development. The majority of respondents operate in the not-for-profit sector, which intensifies the challenges of raising funding and recruiting and retaining talent.

A number of challenges raised by not-for-profit enterprises are clearly much less of an issue for their for-profit counterparts, particularly in terms of the ability to attract and hold talent. But for-profit social enterprises have their own challenges. Since a number of for-profits (both independent and owned by others) were included in our interviews and survey, it is worth focusing on one case which seems to provide a benchmark for quality scaling. Our interviewee: Gary Hirshberg, President and self-styled 'CE-YO' at **Stonyfield Farm, Inc.**,<sup>32</sup> now part of the French food and beverage group **Danone**.<sup>33</sup> We asked what he had had to give up when Stonyfield was acquired by Danone.

'First,' he said, 'I don't feel that I gave up very much in doing this deal. They bought out all of my non-employee shareholders, which was something that I needed to do in any case. But even though they were going to own 80% (it is now 85% as I have sold some shares to them) of the company, they left me with majority control by granting me the right to vote three of the five board seats for as long as I remain active as Chairman and/or CEO. In fact, the only veto rights that I did give them were that they had to approve (a) any capital improvements over \$1 million and (b) any acquisitions of other companies'

## Panel 2.3 Critical challenges, 2007

- 1 Raising capital**  
Overwhelmingly, social entrepreneurs cited access to capital as one of their two primary challenges (72%), because capital is what enables the entrepreneurs to hire talent, market, rent space, pursue pilot projects, and carry out other activities related to growing their organizations.
- 2 Promotion and marketing**  
Promoting or marketing their organizations and offerings was the second most frequently mentioned challenge (41%). The focus: making consumers, businesses, funders, and other relevant stakeholders aware of the good work that the organization is doing. Like mainstream entrepreneurs, however, social and environmental entrepreneurs are usually ahead of the curve and it takes time for the rest of the world to catch up, including funders, government policy makers, and potential mainstream business partners.
- 3 Developing organizations**  
Key issues here include: recruiting, developing and retaining talent; and balancing professionalism with entrepreneurialism and passion for the mission. Attracting talent was cited by most entrepreneurs as a priority challenge, but more specifically, social enterprises are challenged to find the right kind of talent for their ventures — a blend of entrepreneurship and professionalism, coupled with an ability to: (1) work as effectively with the communities served by the enterprise (often very poor and marginalized) as with corporate management/boards; (2) bring leading edge technical capabilities to bear; (3) have business know-how; and (4) buy into the enterprise's mission and vision. A tall order, especially without competitive salaries.

<sup>32</sup> www.stonyfield.com

<sup>33</sup> www.danone.com

'We must find the right leaders for the next phase of growth. We need entrepreneurs who have the business skills, social dedication, and sense of humor that are essential to success.'  
Education Sector

'Otherwise, things today are pretty much the way they've always been, except that we now have access to a global network of resources and talents, and of course we are engaged with that network to create organic enterprises in many other countries. Parenthetically, I have proposed three investments/acquisitions since the partnership began and they have approved all three.'

Danone has stuck to the spirit — not just the letter — of the bargain. 'Danone has not wavered at all from the original deal, even though there have been plenty of opportunities for them to do so,' Hirshberg commented. 'For instance, we have required far more Cap-Ex [capital expenditure] than anyone ever dreamt back in 2001, and they have fully funded our requirements without seeking any additional advantage or trade-off on my part. Reciprocally, we have grown faster than they or we expected and we have certainly delivered excellent results for them, so everybody has won something.'

'Additionally, I expect to see many more organic/bio launches in many other countries, and each one will be adapted not only to the local market conditions, but to the various Danone organizational structures. I also expect to continue to have a big influence on Danone's climate and organic policies around the world.'

This sounds like a virtual Nirvana, not only for non-profits but also for most for-profits needing an exit strategy to ensure a financial return on early investment. A more typical response from our survey was this: 'We would like to be free from the rat-race of fundraising and proposal-writing, and have our own private sources of income. They are the most stable and predictable.' Unfortunately, this is a distant dream for most of the entrepreneurs we spoke to — and likely to remain so, given the challenges they spotlight.

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### So what are the main financial challenges?

Business people wanting to understand and engage these entrepreneurs need to understand the world in which these people operate — and the challenges they face. 'Attracting top management and, in particular, providing sufficient compensation is a primary challenge,' said Linda Rottenberg, CEO of **Endeavor Global**. 'From NYC to Bangalore, people will make the trade-off between making a difference and making money at 2x earnings disparity, but not at 5x or 10x.' Time after time, research has shown that it is easy to start a non-profit or social enterprise, but very much harder to bring it to scale.

It was clear that raising money was the single greatest challenge that most entrepreneurs face — see Figure 2.3, where 'access to capital' ranks top at 72%. And there were no easy answers. 'All sources of money come with their own challenges,' was the way one entrepreneur put it. Four key issues surfaced in the survey and interviews:

#### 1 **Square pegs: social entrepreneurs don't fit the existing system**

There is a widely held sense that the unique approaches of social entrepreneurs are hard to fit into existing investor models and criteria, although the same point probably could be made about all forms of entrepreneurship. Foundations and governments are seen as siloed and conservative, with the result that they struggle to take on grantees that don't fit their narrower sense of solution options. More, these groups typically do not lend to for-profit organizations, which leaves out a significant segment of social entrepreneurs. Traditional debt instruments are sometimes used, but can present major challenges in terms of entrepreneurs' ability to service the debt. Current equity investments are seen as shorter term than what is needed — and are often too expensive for entrepreneurs with a social mission.

'We are a small organization that is up against the overhead wall. To get and retain qualified staff we need to pay more than we are able to. To be able to pay more we have to raise more funds, but to raise more funds we need more staff. A perfect vicious circle.'  
Poverty Alleviation Sector

## 2 Lack of consistent, flexible, and long-term financing

Nearly every entrepreneur interviewed noted the importance of time horizons. In particular, the work they are engaged in tends to have long time-frames (5–10 years to results was typical) and requires partnerships and funding that match these needs, i.e. is consistent and long-term. The need for flexibility was also a consistent theme: most entrepreneurs are able to access specific project financing, but have a harder time accessing funds that will support more general infrastructure needs. Some current funding sources that appear to be meeting these needs include:

### Innovation capital

This term was used to refer to unrestricted donations from high net-worth individuals that enable the entrepreneur to take risks, enter new markets, hire ahead of the curve or do pilot projects, ultimately helping to leverage additional funding, whether grants or loans. There is a sense that innovation capital only needs to be a small percentage of total funding, but offers the opportunity for incredibly high leverage.

### Angel investors

For profit-making enterprises, Angels (individuals who make very early-stage investments in start-ups) were cited as particularly helpful because they are often patient investors, sharing the vision.

### Funding from unusual foundations

Certain foundations, with Skoll often instanced, appear to 'get it,' providing longer term funding for entrepreneurs. Still, the maximum grant length is about three years, which falls short of longer term needs.

### International aid organizations

The Asian Development Bank, World Bank and IMF were cited as potential 'patient' investors. A downside to these sources, however, is that they mainly fund non-profits, so entrepreneurs set up as for-profits may fall through the cracks.

### Private investment funds

The New York City Investment Fund was cited as a helpful source. Its investments typically range in size from \$1 million to \$3 million. The Fund provides equity or debt, structured to meet the needs of the project. It will invest at any stage of business development, but seeks to exit in about five years. The particular focus here is on ventures that provide benefits to NYC.

## 3 Lack of knowledge about — and access to — capital markets

Like their mainstream counterparts, at least early on in their careers, most of the entrepreneurs we interviewed lack in-depth knowledge of capital markets and the best ways to finance their organizations. They rely on trusted advisors, mostly on their boards of directors, for this information as well as for access to investors. There is a strong sense, however, that social entrepreneurs could benefit from increased knowledge about the best financing options, as well as better access to open-minded financiers.

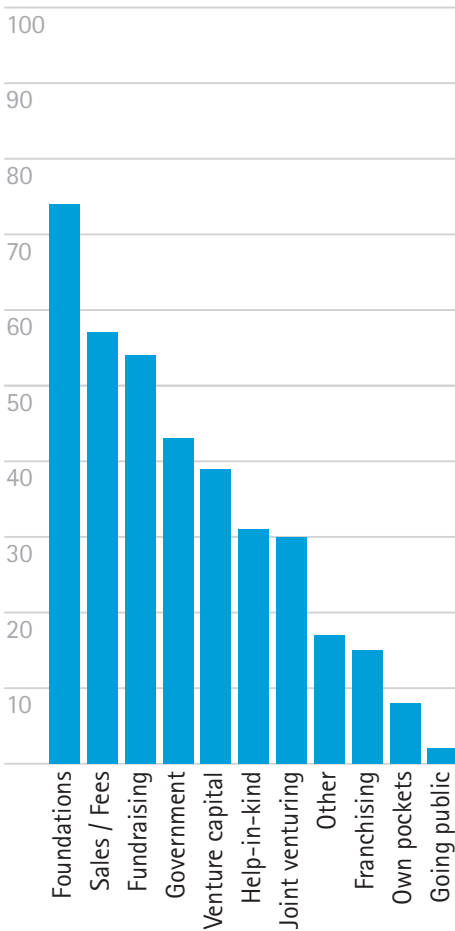
## 4 Sustainable sources of financing bring their own challenges

As entrepreneurs move toward more self-financing models, whether for-profit or non-profit, they encounter challenges. Companies considering 'Robin Hood' business models — where revenues from those able to pay for services subsidize provision to those who can't, or can't pay the full cost — face challenges in ensuring that as they provide services to customers with a higher willingness to pay, they don't lose sight of their mission.

### Fees and service-based approaches

to financial sustainability may appear promising, but can also pose challenges for some entrepreneurs. They run the risk of stretching too far afield from their core competencies, with the result that the poorest people, whose needs were the original spur to action, cannot access the service.

Figure 2.4  
**Preferred sources of financing**  
N=109  
%



**For-profit social enterprises** face challenges as both government and investors expect them to act like typical, for-profit companies, and so expect standard income tax payments and market rates of return. Restrictions also apply, such as an inability to access donations from the general public, apply for certain types of foundation/ government funding, and pursue more charitable elements of their businesses.

For some, the business case for support is easy to articulate, for others less so. Consider the **Partnership for Global Security**,<sup>34</sup> which lobbies for more effective action to control weapons of mass destruction. They noted that they are 'looking beyond foundations to joint ventures with local/state government and commercial entities that have a stake in our issues.' They also want to raise funds from the public and 'venture capitalists' who 'understand that preventing a WMD catastrophe is essential for global economic growth – and that government structures are currently insufficient for the task.'

Non-profits who have been able to clearly state the benefits of their work have, as a result of clarity of message, done spectacularly well at fund-raising. As an example, **Room to Read**, which aims to bring books and libraries to countries like Nepal and Vietnam, has gone 'from zero to \$12 million of annual revenue in seven years,' according to its Founder and CEO, John Wood. Room to Read has raised money through corporate relationships, high net worth individuals and over 200 public speeches per year.

There is, however, a potential fly in this ointment. Wood expressed concern that, 'some organizations tell us that we have gotten big, "so you no longer need us".' This reaction, he noted, 'is very different from the private sector, where success attracts capital. Why should an NGO be penalized for being successful, and why should any donor want an NGO they have funded in its early years to remain small?'<sup>35</sup>

He went on to note, 'Getting financing for your NGO is a bit like trying to compose a mosaic that is made up of thousands of tiles. Funder A wants to fund tiles #389 and #672, whereas Funder B wants to fund other tiles, but wants different reports on different timelines than those required by Funder A. It eats up a lot of management bandwidth to keep up with it all.'

Others were more positive, among them – in the same sector, but focused on the US rather than on developing countries – **First Book**, whose mission is to provide disadvantaged children with new books.<sup>36</sup> 'We have already developed the necessary mechanisms and the enterprises are already successful,' said Kyle Zimmer, the organization's co-founder and President. 'It is now a matter of scaling up.' Their business model is worth a close look, as a leading edge example of a financially sophisticated social enterprise, because they have worked out how to target an unmet need at a price point that works for all – and because they have developed a business model that fits in very well with the interests of the publishing industry.

The '10 Routes to Money' (below) are sequenced in the order that a composite entrepreneur might try them out, but the actual ranking by frequency of reported use was quite different, and is shown in Figure 2.4. The question asked here was: 'Thinking about financing your initiatives, which sources of funding do you feel will be the best avenues for you to pursue?'

<sup>34</sup> www.ransac.org

<sup>35</sup> As one of our interviewees noted in response to this point, 'Here is the elephant in the room. Let's talk about the nature of foundation boards. This question reflects the thinking of foundation boards about their own personal clout and their attention levels. When [a named] foundation took a capacity building approach, the staff found the biggest challenge was managing the board's boredom level. It just wasn't very exciting to see a list of performance indicators making an incremental and upward change. The board got bored. The program officer developed a way to utilize the board members as development consultants with the grantees and this helped to stem the boredom tide. Understanding the motivation and stimulation of foundation board members is key to working on this one.'

<sup>36</sup> www.firstbook.org/site/c.lwkjy8nvjvf/b.674095/k.cc09/home.htm

## 'It is now beyond urgent that we create a new social financial services sector.'

Bill Drayton, Ashoka

### Panel 2.4 10 routes to money

Our survey listed 10 potential routes to money and other resources typically pursued by social and environmental entrepreneurs, plus an 'Other' category, to ensure we did not miss anything.<sup>37</sup> In any event, the 10 Routes seemed to cover pretty much all the bases. They are listed here in the order that they are likely to be addressed by the typical social entrepreneur.

#### Funding from own pocket

This is where many mainstream entrepreneurs start out, tapping the resources of their families and friends – although only 8% ticked this box. Not surprisingly, given that few people have the money or inclination to finance a venture using their savings or credit card, this was the second least preferred for the future. It was clear that those who had considered tapping friends and family sources had concluded that it comes with intense personal pressure, so tends to be avoided.

That said, we spoke to several entrepreneurs who are developing hybrid enterprises (part for-profit, part non-profit) during the survey, and it was clear that this can be a pretty taxing route to funding. One entrepreneur noted that their latest round of funders was asking for such demanding personal guarantees that the family would 'probably end up selling our grandmothers' wedding rings – if not our kidneys!' More positively, the handful of people who had taken this route, for whatever reason, saw at least one key advantage: those using their own money tended to practice intense financial discipline.

#### Public fundraising

This (just) came in second, at 54%, with entrepreneurs underscoring the independence of action potentially derived from funding raised in this fashion. Fundraising events are more common in some countries than others, with US groups particularly likely to go this route, among them **Acumen**,<sup>38</sup> **Endeavor Global**,<sup>39</sup> and **WITNESS**<sup>40</sup> – with celebrities often being used to draw in potential givers or investors. The general point about the desire for unrestricted funding was underscored by **Phulki**,<sup>41</sup> based in Bangladesh, which noted that, 'donor priorities change almost every year, so our goals and objectives will not always match with those of the donors. To maintain our own individuality, it is necessary to have unrestricted sources of income.'

#### In-kind help

Perhaps surprisingly, this came in seventh, at 31%. That said, volunteering was a key resource for many. And some social enterprises – among them **CDI**<sup>42</sup> in Brazil and the **Furniture Resource Centre**<sup>43</sup> in the UK – create revenues by taking in goods or equipment that others no longer have a use for, reconditioning them, and then making them available, or selling them on. But volunteer labor and the donation of in-kind resources are not an automatic guarantee of successful outcomes. Consider the problems **Habitat for Humanity**<sup>44</sup> has faced in trying to rebuild homes in the wake of Hurricane Katrina, among them government regulations and insurance costs.<sup>45</sup>

#### Foundations and high net worth donors

Foundations came in first place in terms of preferred funding sources (74%). Despite some frustrations, those relying on foundations – in whole or in part – see them as a dependable funding source. One advantage in countries like the US was articulated by Jim Fruchterman, President of **Benetech**:<sup>46</sup> 'There are the advantages of size in the case of foundations and very rich people. An amount of effort is likely to land \$250,000.' A typical answer here was, 'Foundations will likely remain our mainstay.' Where market failures are being addressed, this obviously makes a good deal of sense. As **Summer Search**<sup>47</sup> put it, 'This is the landscape we know.' Moreover, they noted, 'We feel that it is highly sustainable.' Others felt a growing need to learn more about this sector. 'We need to deepen and expand our understanding of philanthropy,' said the **Global Fund for Women**.<sup>48</sup>

A small number of respondents mentioned that they were trying to expand their focus from foundations to high-net-worth individuals, partly because they felt this was an untapped source, partly because their expectation was that any funding might come with fewer conditions. It may take a good deal of effort, but successful cultivation of such relationships is seen as the bedrock on which other fundraising can proceed. 'Over 16 years, we have built up a donor base of foundation and individual funders who are very loyal to our organization, and give year after year,' said the **Nepalese Youth Opportunity Foundation**.<sup>49</sup>

<sup>37</sup> The 10 routes are derived from John Elkington and Pamela Hartigan, *The Power of Unreasonable People: How Entrepreneurs Create Markets to Change the World*, due out in January 2008 from Harvard Business School Press.  
<sup>38</sup> [www.acumenfund.org](http://www.acumenfund.org)  
<sup>39</sup> [www.endeavor.org](http://www.endeavor.org)  
<sup>40</sup> [www.witness.org](http://www.witness.org)  
<sup>41</sup> [www.phulki.org](http://www.phulki.org)  
<sup>42</sup> [www.cdi.org.br/portalcdi/indexeng.htm](http://www.cdi.org.br/portalcdi/indexeng.htm)  
<sup>43</sup> [www.frcgroup.co.uk](http://www.frcgroup.co.uk)  
<sup>44</sup> [www.habitat.org](http://www.habitat.org)  
<sup>45</sup> [www.nytimes.com/2007/02/22/us/22habitat.html?ex=1172811600&ten=5be31f901a3b80e6&tei=5070&temc=eta1](http://www.nytimes.com/2007/02/22/us/22habitat.html?ex=1172811600&ten=5be31f901a3b80e6&tei=5070&temc=eta1)  
<sup>46</sup> [www.benetech.org](http://www.benetech.org)  
<sup>47</sup> [www.summersearch.org](http://www.summersearch.org)  
<sup>48</sup> [www.globalfundforwomen.org/cms](http://www.globalfundforwomen.org/cms)  
<sup>49</sup> [www.nyof.org](http://www.nyof.org)

'Earned income is a mark of the value of your product – and provides feedback from your customers.'  
Jim Fruchterman,  
Benetech

Some social entrepreneurs have been successful in winning one or more of the growing number of corporate foundation awards. **Barefoot College**, for example, won the 2006 \$1 million **Alcan Prize for Sustainability**.<sup>50</sup> In addition to the annual Prize, nine shortlisted organizations for the 2007 prize will be awarded a \$15,000 Alcan grant to invest in capacity building training for the organization. Developed in partnership with IBLF, the Prize is awarded to 'any not-for-profit, civil society or non-governmental organization based anywhere in the world that is demonstrating a comprehensive approach to addressing, achieving and further advancing economic, environmental and/or social sustainability.'

Not all corporate foundations are heading into the social enterprise space, however. As Kurt Hoffman, Director of **The Shell Foundation**,<sup>51</sup> told us, 'Our main focus, as you know, is "enterprise solutions to poverty" in poor countries, where the lack of sufficient numbers of enterprises of all kinds is the major constraint on self-sustaining development emerging in those countries. Rich countries – and rich donors like **The Skoll Foundation** – are best able to afford to focus on promoting "social" entrepreneurs. Poor countries mainly need entrepreneurs. So we tend to avoid hooking up or into the social enterpreneur sector, as worthwhile as it is.'

#### Governments and public sector

This route was favored by a significant proportion of entrepreneurs, coming in fourth place at 43%. Even for-profits saw public sector agencies as a key funding source. 'They represent the shortest paths to the level of funding we require,' said one solar photovoltaics company, perhaps surprisingly. While some accessing government funding noted upsides, such as collaboration with leading scientists at government laboratories, public relations benefits, and access to government procurement avenues, others felt frustrated by the significant constraints associated with government funding and by its prescriptive nature. Not surprisingly given its accountability to citizens, government is often much less able to offer flexible funding guidelines that would match the needs of most social or environmental entrepreneurs.

#### Sales and/or fees

Over half (57%) of the respondents prefer to draw at least some of their revenues from this source, which came in third place.

Jim Fruchterman of **Benetech** noted that, 'Earned income is a mark of the value of your product – and provides feedback from your customers.' Easier to do, clearly, where markets are working to some degree, than where there are clear market failures. Some saw their sector as less suited to this model. 'Education is an area where there is a lower expectation of profitability,' as the **Fascinating Learning Factory**<sup>52</sup> put it.

A fair few respondents mentioned a tension at the heart of social entrepreneurship: on the one hand, there is a desire to give away information for free, while on the other there is a need to earn revenue to be sustainable. 'We've not yet worked out a way to earn income from selling our knowledge,' said **EarthLink**.<sup>53</sup> 'In the recent book, *The Spider and the Starfish*, the role of an intermediary, or catalyst, was described. Such people have a difficult time earning income from ideas they give away to anyone who will listen. Our aim is to create a hybrid, where we draw people from around the world to our website because the causes we address are important to individuals, foundations and people in industry, and we earn income by the types of services and tools we use to support the learning and interaction of these people.'

#### Franchising

Both in the qualitative, in-depth interviews and in the quantitative survey, this option seemed to be somewhat outside the mainstream, coming in eighth place (15%). A rare example of a social enterprise that is considering some degree of franchising is **Child Savings International**, which has at least thought of franchising its Aflatoun brand to banks and other financial institutions. Founder and Chair, Jeroo Billimoria, is pursuing a dual franchise model: one level addressing non-profits and one for-profits. On the for-profit side, where the target is to partner with banks, she is setting up **Aflatoun, Inc.**, which will own the brand and also, longer term, open up the option of raising money through capital markets.

On the non-profit side, Jean Horstman (CEO, **InnerCity Entrepreneurs**) reports that, 'We are in the process of testing out licensing as the way to scale our impact quickly while growing our organization at a reasonable pace. We are exploring creating branches in the state of Massachusetts to learn to scale at the state level, while licensing our curriculum and support services nationally.'

<sup>50</sup> [www.ethicalperformance.net/alcan\\_barefootcollege.html](http://www.ethicalperformance.net/alcan_barefootcollege.html)  
<sup>51</sup> [www.shellfoundation.org](http://www.shellfoundation.org)  
<sup>52</sup> [www.fascinating.tv](http://www.fascinating.tv)  
<sup>53</sup> [www.earthlink.net](http://www.earthlink.net)

'We have had a significant increase in companies wanting to sponsor us. The challenge is to remain selective and not to sell out.'  
Anonymous respondent

On the for-profit side, **Orb Energy** is also using the franchising model to scale its operations in India, preferring this route rather than raising additional capital. The franchise model, based on setting up branches, enables them to get closer to customers, while establishing a common 'look and feel' and affording greater economies of scale. A key challenge in this approach, CEO Damian Miller notes, is to ensure that franchisees do not sacrifice quality for revenues.

#### Joint ventures

Around a third (30%) of respondents mentioned joint ventures as a form of resourcing — and it was clear that a fair few entrepreneurs plan to develop such partnerships, though a surprising number expressed anxiety about their ability to identify suitable partners and strike a balanced deal. That said, they all felt they had significant value to add. And those taking this route saw many non-financial benefits. Such partnerships, said **Landmines Blow!**,<sup>54</sup> help both parties 'leverage their assets, such as their expertise and client base, with other advantages including sharing knowledge, the cultivation of new relationships, developing a continuum of care, working successfully in different cultural settings, and [gaining] approval from the United States Federal Government and the United Nations.'

Optimistically, perhaps, the vision is that, 'In a new world of virtual integration, the walls between enterprises crumble.' It is clear that those thinking about this option are concerned about the implications. 'We have had a significant increase in companies wanting to sponsor us,' said one, who asked to remain anonymous. 'The challenge is to remain selective and not to sell out. To maintain the purity of our program.' The need to find out how to do such due diligence was an issue often raised.

#### Venture capital

One respondent described his challenge as, 'raising money for ideas that others have not accepted as workable.' One way the mainstream economy deals with this challenge is via venture capital. Surprisingly, this came in fifth place, with more than a third (39%) of respondents saying they plan to draw to some extent on venture funding. If true, this is a striking result, though it may reflect the inclusion of a number of cleantech entrepreneurs in our sample and, possibly also, a misunderstanding on the part of at least some social entrepreneurs of what venture capital funding entails.

One respondent even spoke of 'venture capital gifts.'

More typically, **Drishtee**<sup>55</sup> — which aims to empower entrepreneurs in India, village-by-village — spoke for many social entrepreneurs in saying that they look, in all areas of funding, for 'sources of funds that look for a commercial and social return on investment (ROI), simultaneously.' The problem with the venture capital field, as normally understood, is that considerations about social ROI are likely to be even more squeezed than in the financial mainstream.

#### IPOs and market listings

This was very much bottom of the heap, coming in tenth place (2%) — and with a degree of unease about the implications and constraints expressed by a couple of the entrepreneurs we interviewed in depth. The relatively slow progress of initiatives like the **Global Exchange for Social Investment (GEXSI)**<sup>56</sup> hasn't helped.

As John Wood, Founder and CEO of **Room to Read** put it, 'The capital markets for NGOs are blatantly inefficient. There is no mechanism that has the efficiency of the private sector (e.g. NYSE, NASDAQ, private placements, venture capital) when it comes to raising large amounts of capital — especially unrestricted funding. This, of course, is one reason why SASE (Skoll Awards for Social Entrepreneurship) recipients are so grateful for the large, unrestricted, multi-year funding. The NGO world needs to have every large foundation seriously study — and hopefully emulate — this model.' And what is true for NGOs is also true for most social enterprises.

#### 'Other' sources

This category was selected by 17% of respondents. The main additional source of funding identified was corporate partnerships or sponsorship, although that could potentially wrap in under 'Sales and Fees' or 'Joint Ventures'. Most suited to this option are enterprises that address issues of interest to high-brand companies. Take **Sports4Kids**,<sup>57</sup> which argued that, 'because of our emphasis on youth and sports, we are uniquely well-positioned to establish significant corporate partnerships with a range of industries, including footwear/apparel, food, and professional sports.' Another enterprise, **ITNAmerica**,<sup>58</sup> which focuses on dignified transportation for seniors, noted that corporate sponsorship 'is our riskiest revenue stream — but we feel it has great promise, as we represent a large and growing market.'

<sup>54</sup> www.landminesblow.com

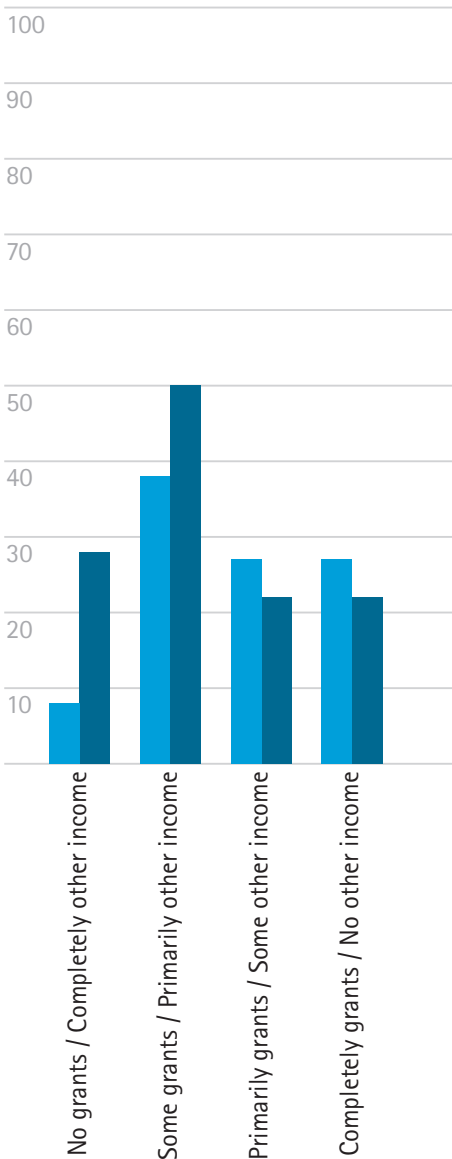
<sup>55</sup> www.drishtee.com

<sup>56</sup> www.gexsi.org

<sup>57</sup> www.sports4kids.org

<sup>58</sup> www.itnamerica.org

Figure 2.5  
**Manner of funding**  
Current N=92  
Expected in five years N=99  
%



**How will funding patterns change over the next 5 years?**

One of most striking findings was the remarkable collapse in the number of entrepreneurs expecting to be relying completely on grants in five years – from 27% to 8%. On the other side of the equation, there is an equivalent jump in those expecting to be funding their own operations, with no reliance on grants – up from 8% to 28%. In the middle ground, we see a somewhat less dramatic fall in the proportion of respondents saying that they expect to be still relying on grants, but with some income – 27% to 22% – and a more striking growth in the proportion expecting a significant rebalancing in favor of earned income – from 38% to 50%.

**What are the main organizational development challenges?**

‘Social entrepreneurship is still seen by some as a “niche market”,’ said Jacqueline Novogratz, CEO of **Acumen Fund**,<sup>59</sup> ‘comprised of a rather unique sort of individual who feels comfortable straddling business and social incentives. There are thus three main challenges around whether and how it will move along the adoption curve and be accepted by a much larger client base (translated into funders and foundations). First, the circle of visible social entrepreneurs needs to be expanded significantly so that experts are not always pointing to the same examples of success. Second, there need to be more social enterprises demonstrating scale in terms both of the number of people they reach as well as the number they impact indirectly – and this means better measures to communicate quantitative as well as qualitative impact. Finally, there need to be more enterprises moving toward financial sustainability – or at least having plans that demonstrate they will be around in the long-term. Associated with this is whether funders will be able to “exit” successfully, but this is more derivative of the last point.’

For our sample as a whole, the overwhelming challenge flagged up in relation to developing their organizations had to do with people and talent. Specific points raised included the following:

**Attracting talent when they can’t offer competitive salaries was cited by many organizations as a key development challenge.** But, while the dominant sentiment, it wasn’t universal. Some organizations cited high retention rates even though they offered lower than market salaries. They believe that this is due to their ability to offer a work environment that is challenging (including professional growth, learning opportunities), enabling their staff to focus on using their highest and best value skill sets (bringing in lower skilled labor to do less fulfilling work), and providing a culture that is mission-driven. A key advantage of the ability to retain and develop staff is that an organization keeps the tacit knowledge they have built up of the field and players.

**Balancing entrepreneurialism with professionalism and maintaining a focus on the mission and culture of the organization.** As social enterprises mature, they require more professional and business-oriented talent. But this poses challenges in at least two ways. First, existing staff may find it difficult to adapt to the changing environment, when their generalist skills are no longer sufficient. Second, new staff that bring more professional capabilities may not have the highest degree of sensitivity around the mission. Also, not everyone in an organization can or should be entrepreneurial; social enterprises struggle to find the right balance between those who should be creative and entrepreneurial and those (think lawyers and accountants) who need to support the entrepreneurial culture with more professional and structured approaches. Those entrepreneurs who appear to be getting it right are very focused on these elements during the recruiting process, foster a culture of entrepreneurship through storytelling in the organization, and make quick decisions about letting people go who don’t fit the desired culture.

**Succession planning/leadership development.** Many entrepreneurs cited challenges around grooming their successors, in particular around finding talent that shared their vision for growth/success of the organization. At the extreme, there were two fascinating responses from Afghanistan that touched on this issue of drawing talent from a pool of people that have been beaten down by war for nearly 30 years.

<sup>59</sup> www.acumenfund.org



<sup>60</sup> See *Buried Treasure: Uncovering the Business Case for Corporate Sustainability*, SustainAbility and UNEP, 2001; and *Developing Value: The Business Case for Sustainability in Emerging Markets*, SustainAbility, the International Finance Corporation (IFC) and Instituto Ethos, 2002. A 'Developing Value 2' project is now under way.

<sup>61</sup> For more, see the work of scenario planners Pierre Wack and Peter Schwartz.

**To have any chance of changing the world, entrepreneurial solutions must offer relatively high leverage, be able to replicate and scale, and – fundamentally – become part of the market mainstream. Pretty much without exception, the social entrepreneurs we interviewed were supportive of the idea of partnerships with corporations. They were also interested to further develop those partnerships they already had, and to develop more.**

But, why should business care? SustainAbility has covered the business case for corporate responsibility and sustainability elsewhere,<sup>60</sup> so what follows is a headlines-only brief.

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### It's time to think different

The first reason that business needs to engage is that the world is changing – and with it markets. Social and environmental entrepreneurs do not have all the answers, but they do see the world and markets differently, and the more innovative are experimenting with new business models that could potentially break out of their niches and help transform key elements of the global economy.

There is a real risk that many business people will chalk this up as another fluffy, feel-good fad. There is every reason to be skeptical of any new movement or agenda, clearly, but our industry analyses (summarized in Chapters 4 and 5) uncovered a variety of ways that social entrepreneurs are doing things differently, realizing exciting sustainability outcomes and offering innovative opportunities for business.

Just as software morphs through successive generations, 1.0, 2.0 and so on, we conclude that the time has come for what we call 3.0 thinking in relation to sustainability challenges. If 1.0 was driven by regulators and promoted a compliance mindset in business, 2.0 has been more about corporate citizenship, based on transparency, accountability and a growing array of voluntary initiatives (Figure 3.1). By contrast, 3.0 thinking, strategy and ventures is different in that it seeks transformative market and sustainability outcomes. It is about creative destruction, as Joseph Schumpeter called it, and about creative reconstruction.

In essence, Mindset 3.0 is about seeing – 'reperceiving'<sup>61</sup> – immense challenges, such as the growing risk of abrupt climate change, as potential opportunities to leverage the power of markets and business to reboot entire economic and political systems. This is exactly what is beginning to happen in the energy field. In some cases the time-scales involved may be generational, but the transformation is under way. While the cleantech landscape is now largely populated with pure-play profit seekers, the industry was pioneered by individuals who saw the opportunity to leverage market drivers – such as energy security, stability, and cost – to realize significant environmental outcomes.

The situation is different in the developing country healthcare field, where pulling on market levers does not work in the same way, largely due to weak end-markets. But the overwhelming unmet need for good, well-funded, state-provided healthcare systems has not prevented social entrepreneurs from experimenting with cross-subsidized business models (rich patients' fees covering the costs of the poor, large companies' assets and talents being loaned for health outcomes). Though their efforts often expose the limits of current market-based social enterprise approaches in areas like poverty, they are spotlighting potential new markets, experimenting with new business models and modeling new leadership approaches.

Significantly, social entrepreneurs are experimenting not only with business models but also with how value is defined and created.

Five building blocks

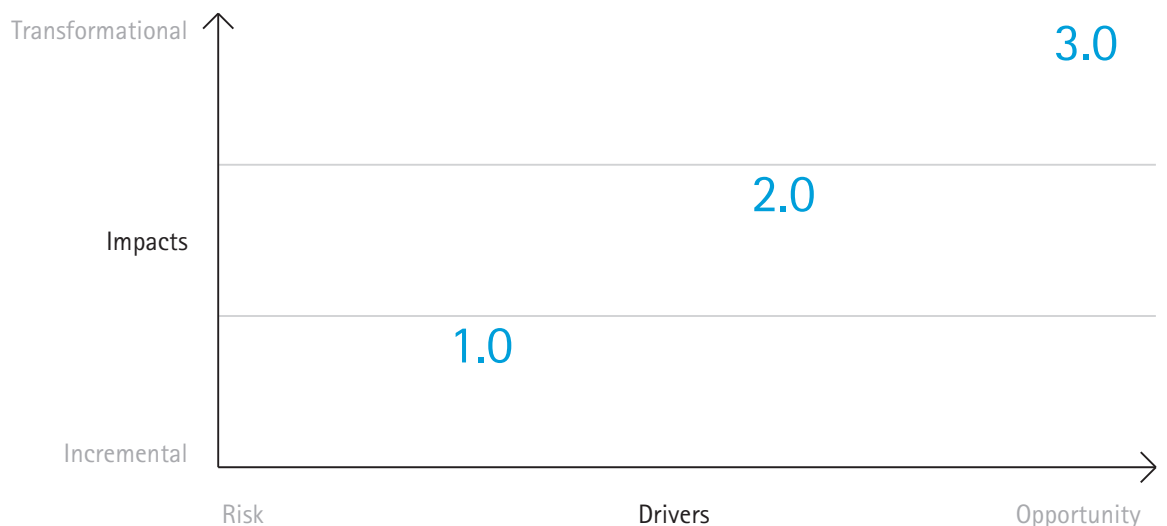
If you stand back, Mindset 3.0 thinking and practice seems to have five main components:

- 1 **Systems thinking and design**  
Leading social and environmental entrepreneurs are fabled for taking a systems approach to major challenges and related design issues. Like Michael Braungart and Bill McDonough of **MBDC**,<sup>62</sup> they pursue 'cradle-to-cradle' solutions. Such systems thinkers ask deep questions with the customer in mind, e.g. how do I provide transportation services to my customer rather than how do I sell more oil?
- 2 **Consumer engagement**  
Market solutions depend on consumers – but social entrepreneurs have a rather different take on customers. They work with potential customers and consumers to co-create new markets and new product or service categories. In the health field, they champion the rights of consumers to hold service providers to account, even if they are not paying for the service. **Villagereach**, for example, makes explicit its aim to mobilize communities to take greater ownership of health systems to promote a social atmosphere of higher expectations and greater accountability. They understand that most people, most of the time, want to do the right thing. But things need to be made easier for them. Take a look at what **Easy Being Green**<sup>63</sup> is doing in Australia. It was founded to help people actively tackle climate change. A crucial key to success here is understanding the power of a million small actions to add up to truly significant outcomes.

- 3 **Business models**  
Much talked about during the New Economy era, an understanding of business models is now central to the debate about how to create tomorrow's value. Significantly, social entrepreneurs are experimenting not only with business models but also with how value is defined and created. Many are pioneers in the social return on investment (SROI) space.<sup>64</sup> They are also maximizing reach with 'Robin Hood' business models that enable services and products for poor citizens to be subsidized by those with a greater ability to pay. Examples here include the **Aravind Eye Hospitals**,<sup>65</sup> **Narayana Hrudayalaya Hospitals**,<sup>66</sup> and **Freeplay Energy**.<sup>67</sup>
- 4 **360° accountability**  
Any business – mainstream, SME, or social enterprise – increasingly needs to work out how to be transparent and accountable to a growing range of real and self-elected stakeholders. Think of the work of such entrepreneurial organizations as **Transparency International**<sup>68</sup> and the **Global Reporting Initiative**<sup>69</sup> to increase corporate accountability and transparency.
- 5 **Emerging economies**  
At a time when there is growing mainstream interest in base-of-the-pyramid markets, these people are in the thick of the BoP action. They aim to evolve new strategies to harness a wider range of resources to the task, while simultaneously experimenting with new ways of meeting the myriad needs of poor people. Their hands-on knowledge of such markets and of the political and regulatory environments potentially offers hugely valuable market intelligence to mainstream business. Consider the strategic alliance between **Danone** and the **Grameen Bank**<sup>70</sup> to bring valuable products and services to poor communities.

<sup>62</sup> www.mbdc.com  
<sup>63</sup> shop.easybeinggreen.com.au/categories.asp?cid=71&fromhome=true  
<sup>64</sup> www.redf.org/results-sroi.htm and www.svtconsulting.com/pdfs/sroi\_analysis\_1%5b1%5d.0.pdf and http://sroi.london.edu/  
<sup>65</sup> www.aravind.org  
<sup>66</sup> www.narayanahospitals.com  
<sup>67</sup> www.freeplayenergy.com  
<sup>68</sup> www.transparency.org  
<sup>69</sup> www.globalreporting.org  
<sup>70</sup> www.danone.com/wps/portal/jump/danonecorporateintl.press.commun2004.pressreleases?ref=cms.danonecorporateintl.press.2006pressreleases.trimestre1.cp\_160306

Figure 3.1  
Towards Mindset 3.0  
Sustainability impacts  
against market drivers



'We already are seeing a changing zeitgeist among many employees of big corporations.'  
Jacqueline Novogratz,  
Acumen Fund

**Paths to partnership**

When we asked **Acumen Fund** CEO Jacqueline Novogratz how she saw the interface developing between business and social entrepreneurs, she replied, 'In many ways. First, we will see more corporations reaching out to social enterprises and traditional NGOs to facilitate the strengthening, expansion, and deepening of their own supply chains. Corporations are designing and developing affordable, useful products for the poor but they lack the real understanding of how poor communities work and, in some cases, lack the flexible distribution systems (and trust) to reach those communities effectively. NGOs and many social entrepreneurs, on the other hand, can have a deep knowledge around markets serving the poor but may lack the infrastructure, resources, or management depth to bring needed products to them. A marriage – or at least negotiated relationship between business and social enterprises can bring significant synergies with benefits to both parties' objectives. Second, we already are seeing a changing zeitgeist among many employees of big corporations, so we will likely see more activity from employees at all levels of a MNC that are focused on serving social enterprises and the poor directly. NGOs also see that their funding is increasingly dependent on concrete – reliable – results, and so we will see increasing activity on that front as well.'

Still, the paths to meaningful engagement and partnership are far from clear. The best work we have found to date on partnerships in this area comes out of **Harvard University**, and was produced by Jane Nelson and Beth Jenkins.<sup>71</sup> Below, we briefly look at two different types of partnership currently being tested: (1) 'Enhanced Corporate Responsibility' and (2) an approach that Ashoka calls 'Hybrid Value Chains.'

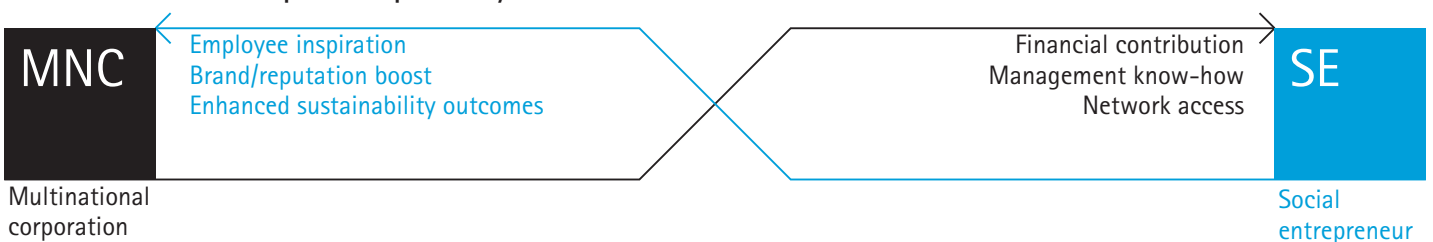
The first, sketched in Figure 3.2, is where the company makes investments in social entrepreneurs who are focused on sustainability areas of interest to the company, such as climate change, poverty, or health care. The company provides financial resources to the social entrepreneur, as well as talent and access to the company's networks. In turn, the company potentially achieves enhanced sustainability outcomes and has the opportunity to boost its brand through the promotion of its support for the social entrepreneur. Employees of the company who work with the social enterprise are often inspired by the experience and bring this morale boost and creative thinking back to the company.

Given the lack of capital and other critical business resources available to social entrepreneurs, this enhanced philanthropy role is an important one for companies to consider. As an example, the **John Deere Foundation** recently provided \$3 million to **KickStart**, an innovative social enterprise that creates and markets tools to help end poverty in developing countries.

Despite the undoubted attractions of the Enhanced Corporate Responsibility approach, however, a second partnership approach – the Hybrid Value Chain™ (Figures 3.3 and 3.4) – is emerging as potentially even more promising. Anecdotal evidence suggests that greater strategic engagement with social entrepreneurs offers the potential for greater returns to both parties.

<sup>71</sup> www.ksg.harvard.edu/m-rcbg/CSRI/publications/workingpaper\_20\_nelson\_jenkins.pdf

Figure 3.2  
**Benefits of enhanced corporate responsibility**



## Unexpected lessons from emerging markets can be applied in more traditional markets.

With continuing globalization, the potential for social and environmental entrepreneurs to help multinational and more local companies is growing all the time. **Ashoka's** program aims 'to develop a framework for sustainable commercial partnerships where business and social organizations join forces to make critical products and services available to low-income citizens around the world without being limited by the artificial divide between both sectors. Each partner creates economic and social value by leveraging each other's core competencies. Differing from traditional corporate social responsibility relationships, Hybrid Value Chains™ are commercial in nature with each partner receiving economic benefit according to their role and transaction in the partnership.' Ashoka's goal for the approach is to 'tip the system' and to 'create a mind-shift among business leaders and social entrepreneurs.'<sup>72</sup>

As sketched in Figure 3.4, potential benefits to the company partner include:

- **Outsourcing risk:** By outsourcing research into sensitive or unfamiliar areas, such as pharmaceuticals for emerging markets, new energy alternatives, or enhanced foods, companies can minimize potential brand risks, yet ensure that they stay close to emerging trends. They also may be able to bypass strict internal controls around return on investment criteria that would prevent the company investing internally in high risk, entrepreneurial ventures. **PATH** and **GSK Bio** and their joint development of a malarial vaccine is just one example of how a corporation can benefit from collaboration on research and development.

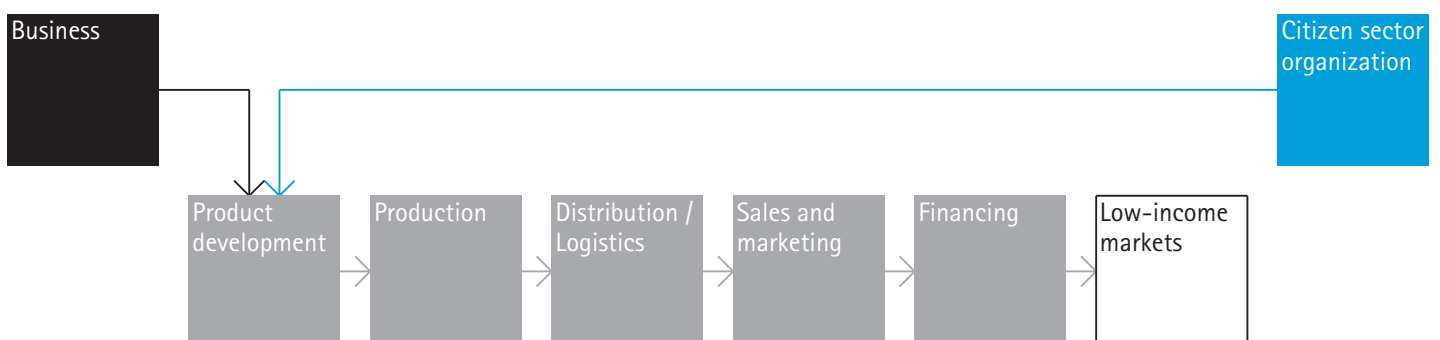
- **Access to information, markets, and networks:** Many social entrepreneurs are working with populations and in communities unfamiliar to large corporations. Collaboration offers companies access to information about potential consumers and partners and in many cases, lends additional credibility. In addition, many entrepreneurs have an interest in helping build markets for affordable and accessible mainstream products. They can provide marketing support for the company. The partnership between **CEMEX**, a cement manufacturer, and **SISEX**, a sexual education organization, to create affordable housing solutions for low-income Mexican women is indicative of the unique approaches being devised between entrepreneurs and corporations.

Interestingly, unexpected lessons from emerging markets can be applied in more traditional markets. Pre-pay mobile phone payment structures applied first in developing countries due to the lack of bank accounts proved imminently transferable to the youth market in the industrialized world. A knowledge and understanding of developing country markets has the potential to yield lessons for the development of new business models, based on the interconnected world, such as health tourism or the use of technologies in healthcare compliance or market data for internet sales.

- **Inspiration:** Collaboration with social entrepreneurs can help companies to tap – or recharge – their entrepreneurial and creative spirits, resulting in innovative new product development (e.g. microinsurance, 'green' products). Consumer goods companies, such as **Nike** and **Marks & Spencer**, are looking to social entrepreneurs as a source of innovation and competitive advantage in developing new products.

<sup>72</sup> www.ashoka.org/hvc

Figure 3.3  
Ashoka's Hybrid Value Chain™



'The potential for cross-fertilization between social enterprise and mainstream corporations is huge – it's utterly revolutionary.'  
Sara Olsen, Social Venture Technology Group

Employees can also be remotivated when working on inspiring projects. Many people within companies (in particular the technical experts, engineers, doctors, scientists, etc.) want to feel they are contributing to wider social needs, and support for or engagement with social entrepreneurs can be a way of permitting them time to do so. Through partnerships, employees at big companies get 'infected' with a mindset and energy. Some companies are already aware of this – witness **GSK's** commitment of staff to a number of developing country initiatives, or **Shell** lending engineers to work on hydrogen-powered mobility with pioneers at **Formula Zero**.<sup>73</sup>

Those who have worked in this field for some time are excited by the pace of developments at the interface between business and social enterprise. 'The sleeping giant is awakening,' says Sara Olsen of **Social Venture Technology Group**. 'The potential for cross fertilization between social enterprise and mainstream corporations is huge – it's utterly revolutionary.'<sup>74</sup>

Rules of engagement

While our survey revealed willingness on the part of social entrepreneurs to engage corporations, it also highlighted concerns about the potential for mission creep, brand erosion and power imbalances. Feedback from more seasoned entrepreneurs in our sample offered insights into what would make corporate partnerships most likely to work.

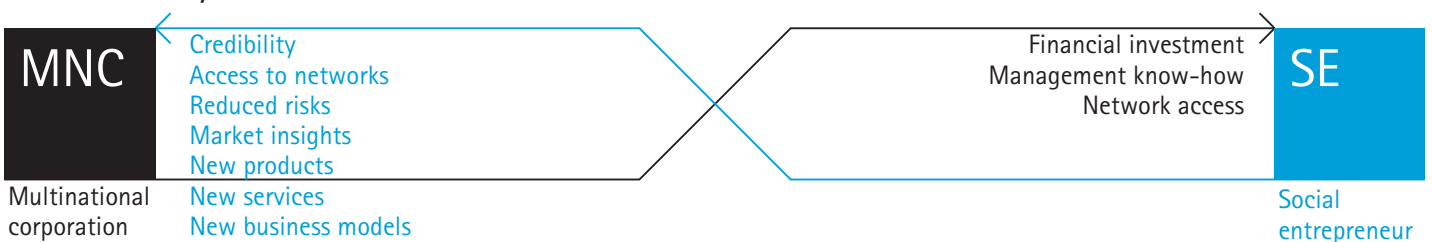
- A number echoed the advice of more traditional NGOs,<sup>75</sup> noting that partnerships work best when there is a **clear set of principles and expectations** guiding the partnership (e.g. we only work on projects related to our mission, we respect commercial confidentiality, we understand our business partner's need to pursue ventures that allow them to make a profit).
- They also stressed that the entrepreneur and partner must have **comparable levels of interest in the partnership**. Where there is an imbalance of power or interest in the partnership, all-too-likely given the relative scales of the partners, the partnership is very unlikely to achieve intended outcomes.
- **Longer term partnerships** are typically preferred, with social entrepreneurs seeing their organizations – and the environments in which they operate – as complex, requiring time for an outsider to learn. Cleantech companies, in particular, want to bring in corporate partners early to ensure later options for potential acquisition, what they describe as a 'locked-in exit strategy.'
- The role of **internal champions** in partner companies is cited as essential to building good partnerships. For Gary Hirshberg of **Stonyfield Farm**, this has been Danone CEO Franck Riboud. Clearly, however, this approach poses real dangers when the individual moves or leaves. Even with engagements that occur at the senior management / corporate level, there are concerns about partners pulling out, indicating a need for entrepreneurs to be adaptable, have a Plan B, and avoid relying too heavily on any one individual or department for support.

<sup>73</sup> www.formulazero.nl

<sup>74</sup> The results of a study by Sara Olsen and Paul Herman on the environmental and social performance of 21 mainstream corporations are due to be published in *Fast Company*, April 2007.

<sup>75</sup> See, for example, *The 21st Century NGO: In the Market for Change*, SustainAbility, The UN Global Compact and United Nations Environment Programme, 2003.

Figure 3.4  
Benefits of the Hybrid Value Chain



'New faces, new energy ventures, are beginning to dominate the debate — and leaving the incumbent big energy companies in their wake on the issue of innovation around sustainable energy.'  
Colin Le Duc, Generation Investment Management

Next, deeper dives

Whatever the sector, global challenges mean that it's time to s-t-r-e-t-c-h (see coverage of **X Prize Foundation**, Panel 3.1). To get a better sense of how all this is playing out, Chapters 4 and 5 take a closer look at two key sectors: healthcare and energy. Our twin aim is to deepen the dives in these sectors in the future — and to expand the approach to look at more sectors.

There are striking contrasts between the two sectors. As **Acumen Fund** CEO, Jacqueline Novogratz, put it, 'Health tends to be a more distorted market when speaking of the poor. It is highly subsidized and largely government-driven. There are huge opportunities to create social enterprises in this sector given the significant resources available, but it takes harnessing large government contracts, measuring output effectively and navigating often tricky political terrain. Energy, on the other hand, often overlooks the poor entirely and so markets for the poor are often not distorted, but instead are simply out of reach for poor people. Look at solar energy as an example where many effective technologies exist but very few, if any, are truly viable at household level. At the same time, there seems to be a tremendous surge of resources into alternative energy, including for the poor. These resources still seem to be coming more from private sources and so this differentiating characteristic — where funds come from — is still the critical differentiator.'

Most social enterprises tackling healthcare continue to operate as charities (i.e. foundation-funded non-profits). While highly outcome-oriented, these organizations — with a few notable exceptions — struggle to secure more sustainable modes of financing. Energy start-ups, at least in the developed world, tend to have the benefit of robust capital and consumer markets for their products and services. That said, exceptions remain, in large part among entrepreneurs focused on bringing energy to the world's poorest. Here, too, however, promising examples are emerging, such as **Orb Energy**, a venture-capital-backed enterprise selling inexpensive solar systems to Indian customers, ranging from farmers to technology companies. Interestingly, much of the business was previously part of Shell India's renewables business, but was spun out.

As background to our analysis of the worlds of social and environmental entrepreneurship, we talked to Colin Le Duc, Head of Research at **Generation Investment Management**,<sup>76</sup> and itself a form of social enterprise, about the differences between the energy and healthcare sectors. He noted that they 'see a huge amount of innovation in both sectors, from the full range of companies — large public to small cap to private. And globally, too.'

On healthcare, he stressed that, 'biotech is where all the innovation is. We see a huge amount of interest in DNA and genomics generally. Plus, we see a major trend around the cross-over between health, food, and energy. The trade offs in biofuels — i.e. land for food or land for energy — are well documented, but we also see innovation around nutraceuticals and new genetic materials. In addition, we track companies like **CIPLA** in India, who are innovating around new HIV drug delivery systems. And **Novo Nordisk's** work around diabetes continues to be stunning, too.' This view from the emerging mainstream illustrates the difficulty faced by social entrepreneurs in the field, because their ventures and predicted returns (where they exist) fall far below the radar of even the most progressive of investors.

On the energy front, he noted that, 'The cleantech boom of recent years is manifesting in various ways: large corporates are buying an unprecedented number of private cleantech companies. For example, in 2005 alone **Danaher** bought 78 cleantech companies. I believe the same dynamic that has happened in the Big Pharma sector — where all the innovation is coming from biotech companies and Big Pharma gets ever less return on its R&D spending — is also now happening in Energy. New faces, new energy ventures, are beginning to dominate the debate — and leaving the incumbent big energy companies in their wake on the issue of innovation around sustainable energy.'

<sup>76</sup> www.generationim.com

## 'Revolution Through Competition' X Prize Foundation

### Panel 3.1 Time to s-t-r-e-t-c-h

A significant proportion of those we spoke to outside the fields of social and environmental entrepreneurship see a key impact of all this effort as being a useful spotlighting of the need for all parts of business to be more innovative and entrepreneurial in meeting social, environmental and governance challenges. But for a real stretch, try the **X Prize Foundation**, which really encourages innovators and entrepreneurs to think outside the box.<sup>77</sup> They create and manage prizes that encourage innovators to solve some of the greatest challenges facing the world today. Their motto: 'Revolution Through Competition.' Now the Foundation is moving beyond aerospace (its original area of focus) to tackle some of the challenges that social and environmental entrepreneurs are concerned about.

We asked Tom Vander Ark, the Foundation's President, what lay behind this shift. First, how did the decision to move beyond aerospace happen? 'Larry Page, Google co-founder, believes in the power of prizes and joined after we awarded the Ansari X Prize for space,' Vander Ark recalled. 'He then encouraged the board to consider a broader mission.' And how are the next generation priorities being selected? 'We're attempting to identify the world's biggest problems, particularly those susceptible to innovation through competition, where it's possible to set a difficult but achievable objective, and where it's likely that we can secure a prize purse.'

Evolving at the moment is the Automotive X Prize, which will encourage car designers worldwide to design, build and sell super-efficient cars that — crucially — people want to buy. Why?

There are at least five reasons, they say. First, 'because 40% of world oil output fuels the automotive industry — and, in the US, 65% of oil consumption is in the transportation sector.' Second, because 'automotive emissions contribute significantly to global climate change.' Third, because 'there are no mainstream consumer choices for clean, super-efficient vehicles that meet market needs for price, size, capability, image, safety, and performance.' Fourth, because the automotive industry is stalled — legislation, regulation, labor issues, manufacturing costs, legacy costs, franchise laws, obsolete technology, consumer attitudes, and many other factors have combined to block breakthroughs. Fifth, because 'increases in engine efficiency have been "spent" on increased vehicle power, acceleration, and weight, rather than on increased fuel economy.' And sixth, and fundamentally, 'because we believe there is great opportunity for technological change.'

The obvious next question: is it any harder to pick suitable targets for social and environmental challenges? 'Setting goals and writing rules is hard in all cases — it's the secret to a great prize,' Vander Ark answered. 'The difference between innovation and revolution is large scale adoption. We attempt to create goals, rules, competitions, and public campaigns that result in revolutionary change, not just awards for good ideas.'

Any guesses as to where all this is going to take the Foundation? 'By next year,' he said, 'we will have launched prizes in four areas (space, genomics/medicine, transportation/energy, and education/poverty reduction), will have full prize teams, and well-developed shared services. By 2009, we will have developed several revenue engines that will make it a sustainable world class prize platform.' Watch this space.

<sup>77</sup> www.xprize.org

Good health is an important goal in itself – a key human right.

Few things are as important as our health and the health of our families. A hundred and fifty years ago life expectancy at birth in the rapidly industrializing and urbanizing countries of Europe was just 40 years. Since then, income growth, better nutrition and housing, medical advances, and – overwhelmingly – access to clean water and effective sanitation, have revolutionized public health so that life expectancy has risen to between 75 and 80 years in the industrialized world. In contrast, for an unacceptably long list of developing countries, including Afghanistan, Angola, Botswana, Lesotho, Liberia, Malawi, Somalia, and Zambia, the needle still wavers stubbornly around the 40-year mark.

Three diseases, HIV/AIDS, TB, and Malaria, disproportionately impact mortality and morbidity rates, though many developing countries have seen a rapid rise in the incidence of so-called western diseases, including diabetes, cardiovascular disease, cancer, and hypertension. Figure 4.1 illustrates the incredible gap that remains between critical health needs and the current offering.

Good health is an important goal in itself – a key human right – and, equally important, a pre-requisite to allowing individuals, families, communities, and nations to achieve the economic development that permits access to better nutrition, housing, sanitation, and healthcare.

That said the provision and delivery of healthcare services in all their many guises is immensely complex. Critically important are preventive measures such as health education, good nutrition, and access to clean water and sanitation services; research and development into medicines, diagnostics, vaccines, and other healthcare products designed to diagnose, prevent, and treat illness and other conditions; healthcare delivery – the complex interplay between community and hospital care, patients and medics, supply and demand, governments and markets, expectations and realities. It generates strongly held and hotly defended views about the role of public bodies in setting standards, a strong regulatory environment, safety, and above all equitable access to healthcare.

# 4 Deeper Dive: Health

Figure 4.1  
**The treatment gap**  
 Total current  
 Total needed



Source: Global Health Fund and WHO



For good or ill, there is a widespread and deeply held public unease at the role of private enterprise at the heart of healthcare delivery.

The kaleidoscopic nature of these tasks and the immediacy and importance of the end goal has attracted hundreds of social entrepreneurs into the health space where they have applied ingenuity, determination, and creativity to the huge challenges of meeting healthcare needs of the some of the poorest people in the world. Figure 4.2 highlights some of the challenges facing the healthcare sector.

The result is an enduring belief in medicine as an entitlement, coupled with a resistance to arguments about commercial realities such as profit maximization. However real such considerations are for companies delivering healthcare in poor markets, they are all too readily interpreted by critics as 'profiteering' from sick, poor people in the case of drug companies or, in the case of water utilities, putting profits ahead of a basic human right.

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#### Relevance to business

Even to frame the relevance to mainstream business of what social entrepreneurs are doing in the health arena in terms of a business case can be fraught with difficulties. For good or ill, there is a widespread and deeply held public unease at the role of private enterprise at the heart of healthcare delivery, and any high profile reminder of commercial drivers can lead to an outpouring of moral outrage about distorted priorities. One key reason: since the Greek philosopher and 'Father of Medicine', Hippocrates, launched his Hippocratic Oath in around 350 BC, medical ethics have sought to put the best interests of the patient above all other considerations.

Although this attitude may provide a mighty disincentive for companies to engage in these markets, paradoxically – and here's the rub – demand for their active engagement as a partner in solving some of the more intractable health-related problems in the developing world continues unabated and is likely to grow.

In a globalized economy, emerging markets are increasingly critical to mainstream firms – as a source of growth opportunities, cost efficiencies and political risks. Forecasts for drug and overall health expenditure increases in China and India between 2007 and 2009, for example, are predicted to rise from \$30 to 40 billion and \$132 to 163 billion, respectively.

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Figure 4.2  
**Challenges**

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#### Prevention

Low levels of health education  
Lack of clean water  
Low vaccination rates

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#### R&D

High cost of medicine  
Drug development focused  
on 'profitable' markets

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#### Delivery

Poor transportation infrastructure  
Insufficient numbers of health workers  
Inadequate government infrastructure

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In Africa, men, women, and children are dying of easily preventable diseases, simply because they cannot be reached.

How healthcare firms respond to the need to balance market realities with access issues is likely to have an impact on their license to operate in all markets; to have a bearing on the attraction and retention of talented staff; to offer opportunities to develop the critical skill of partnering; and may even come to be seen as a proxy for competencies relating to the management of that core value driver of many industries: innovation.

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### Health sector milestones and entrepreneurial solutions

Below, we highlight just a few of the remarkable examples of how Mindset 3.0 entrepreneurs are breaking log-jams and advancing healthcare provision. While none of the models – unsurprisingly – delivers direct returns to shareholders comparable with operating in mainstream markets, they do provide examples of how out-of-the-box thinking can turn at least some challenges into opportunities.

### Systems thinking and design: PATH to global health

As already noted, healthcare delivery is a highly complex system of prevention, research and development and delivery. When one element of this system breaks down, it can have devastating consequences.

Take vaccination for example. In developed countries where vaccinations are inexpensive and accessible, diseases such as polio and measles have been all but eradicated. Not so in poor countries. Roughly one child in four does not receive the vaccines s/he needs despite the fact that it only costs \$30 to immunize a child against the greatest childhood threats. The value of vaccination – preventing disease before it takes root and protecting children at their most vulnerable – and the advances in technologies has led to the development of large scale immunization programs such as **GAVI** and **IAMI**, and has made possible national immunization programs which the **World Health Organization (WHO)** estimates averts around 2 million deaths a year. Yet, despite these advances, issues such as poor transportation infrastructure, inadequate delivery vehicles, and lack of funding still keep vaccines out of reach for most poor children.

**PATH**, a not-for-profit organization specializing in global health, is taking a systems approach to addressing these challenges. Identifying critical gaps in healthcare systems, PATH establishes unique partnerships and leverages technology to develop 'resilient and enduring' solutions. Examples include the adaptation of food industry technologies to develop a means of telling health workers whether the polio vaccine they plan to use has gone bad on its long journey from Europe to Africa. The vaccine vial monitors (**HEATmarker™**), developed with **TEMPTIME Corporation** and the WHO, are printed directly on vaccine vial labels and darken with exposure to heat over time. This simple technology means no more uncertainty, no more waste.

The organization's vaccines work also involves partnership based initiatives dedicated to helping vaccines from the laboratory into clinical development efficiently and quickly, both to combat malaria and the deadly *Streptococcus pneumoniae*, or 'pneumococcus,' which causes the deaths of up to one million children under age five each year.

Elsewhere systems thinkers are considering a key missing link in relation to healthcare delivery: transportation. In Africa, men, women, and children are dying of easily preventable diseases, simply because they cannot be reached. **Riders for Health** – born out of the world of motorcycle racing – tackles the problem by putting in place reliable, preventative maintenance systems for two and four wheeled vehicles used in healthcare delivery. This innovative work is managed by wholly African teams, and means that healthcare in these areas is very much less likely to be undermined by vehicles failing, no matter how harsh the conditions.

**Villagereach** is another social enterprise attempting to 'go the last mile' in healthcare delivery, according to founder Blaise Judja-Sato. Its business is focused on the logistical challenges and infrastructure gaps facing those who want to take affordable, safe, and effective healthcare delivery into very poor environments – be they transportation, issues of cold storage, quality control, or staffing.

'Sadly, the health field still seems dreadfully stuck. Structurally, it has incentives for innovation in a few limited areas (certain pharmaceuticals and medical appliances) but virtually nowhere else in the system. In fact, the human delivery dimension of health care is an appalling mess. The current high-tech-led focus on the technical elements of health delivery for a few diseases in a few places continues this unhelpful imbalance.'  
Bill Drayton, Ashoka

Like many of the social entrepreneurs featured here, Villagereach dedicates considerable time and effort to developing strategic partnerships and mobilizing communities to take greater ownership of health systems to promote a social atmosphere of higher expectations and greater accountability. Critical to its work is a desire to promote local economic development as a means of developing sustainable healthcare delivery and the support of weak government health systems.

#### Empowering consumers: teaming up

Despite its ethical tradition, the health care sector struggles with the concept of consumer (patient) focus. As one US-based social entrepreneur put it 'health care companies don't develop products and services with consumer needs in mind and often financial incentives run counter to the notion that patient health is paramount'. Health education is one way that social entrepreneurs are helping to empower consumers to demand decent healthcare. From Afghanistan to America, entrepreneurs are emerging in this space with myriad creative and cost-effective solutions.

**EduSport**, which runs programs like 'Go Sisters' and 'Kicking AIDS out!' is a community-driven NGO based in Lusaka, Zambia. It uses sport to tackle issues like HIV/AIDS, poverty alleviation and child rights in underprivileged communities in Zambia. Sport is becoming a powerful tool for change as entrepreneurial thinkers have realized activities like soccer are also vehicles for communication and youth empowerment. More interestingly, this unique approach is recruiting highly influential players onto the field. In particular, **Nike** is teaming up with **GlobalGiving.com** — an internet donation site — to raise awareness and money for, social entrepreneurs who take a sport for social change approach.

#### Business models: an Indian Robin Hood

Creating a market-based solution to bring essential services such as water and healthcare to poor citizens is a sensitive proposition. How does a company balance the rights to basic services with the need to make money to sustain the enterprise?

And, how do they ensure that they provide sufficient quality given customers' inability to pay premium prices. The most successful entrepreneurs in the field are those who have developed a hybrid model appropriate to the market in which they are operating.

Mainstream firms have found it impossible to meet these needs and meet required margins. Those same firms, however, in partnership with social entrepreneurs and with some financial support from government, have developed means to bring services to people, at profit margins, appropriate to the market environment. Critically, this means that the service expands to meet the needs of more people, at prices they can afford. The initiatives highlighted here are illustrative of how entrepreneurial thinkers are taking on this challenge:

— **Challenges around secondary care**  
India is a market that offers impressive opportunities, alongside considerable challenges. With annual growth rates of 8%, the growing middle class is now made up of 150 million Indians. A further 300 million people live on less than a dollar a day and 50% of all Indian children are malnourished. The majority of healthcare services are provided by the private sector. Government coverage — despite the abject poverty of so many people — only accounted for 25% of total health spend in 2003. Out-of-pocket health expenditure — as opposed to social security or private insurance — accounted for 97% of total expenditure in the same year. The net result is that secondary care — treatment in hospitals — is way beyond the reach of millions of Indians.

In response to this exceptionally grim picture, Dr. G. Venkataswamy (Dr. V) created **Aravind**. What started in 1976 as an 11-bed eye clinic in an old temple-city has grown into the largest and most productive eye care facility in the world. Unlike many social enterprises, it is completely self-sustaining and now treats over 1.7 million patients each year, two-thirds of them, for free. From its beginning it developed a 'Robin Hood' business model of 'borrowing' from richer eye patients to fund operations of the poor. The business model is stated up front and built into discussions about fees. It has proved entirely socially acceptable to those who pay.

A company's license to operate may come to depend on managing such expectations by supplementing its business model with creative, non-market or partial market-driven responses.

Likewise, **Narayana Hrudayalaya Hospitals** are using a similar model to provide cardiac surgery and other health care services to patients in India. The company has also worked with the government to adapt this model for health insurance provision.

- **Clean water and sanitation services**  
The strong link between improved human health and access to clean water and effective sanitation is now incontrovertible and explains why halving the proportion of the world population without access to safe drinking water and basic sanitation is a target of the Millennium Development Goals (Goal 7, target 10). Despite this, 1.1 billion people still lack adequate access to clean water, 2.6 billion have no basic sanitation and government action to meet these needs falls far short of what is needed to get even close to the 2015 target.

The privatization of many public utilities in the 1990s, followed by the enthusiastic expansion of western-based water utilities into developing countries, did not deliver promised results either to the companies themselves or to water consumers. The complexities of increasing poor people's access to water in highly fragmented markets (where they face a bewildering array of service providers including public utilities, private stand-pipe operators, water trucks, vendors in kiosks and agents) proved insurmountable to some. Profit margin predictions, based on increased use following expansion of the service to more consumers, proved wrong as the price meant people consumed less water.

Faced with political opposition to privatization — irrespective of the poor standard of much public service provision — and the difficulties of establishing a license to operate, many companies concluded that the provision of water to poor people under the existing business model was not going to work. Some firms have withdrawn altogether. Others, have absorbed the somewhat bruising lessons from the experience and, drawing on the complementary skills of a range of partners to deliver water and sanitation services, have tried to shift to a model that focuses on delivering returns at the same time as fulfilling a social contract and sustainability.

In an innovative attempt to address these lessons, **WSUP** (Water and Sanitation for the Urban Poor) brings together companies (RWE, Thames Water, Halcrow Group, & Unilever) with NGOs (CARE, WaterAid, WWF) and government to develop commercial projects that: deliver a return (at around 7% to 10% designed to guarantee sustainability, not maximize profits) to commercial participants; promote community health; have a positive environmental impact; and are sustainable over the long-term.

### 360-degree accountability: open kimono

For any company with global aspirations — wherever it may be domiciled — the challenges of doing business in markets of great wealth disparity and weak state regulation are considerable. In many sectors, countries at the upper end of the development scale offer important prospects for future growth. At the same time, the needs of poor people for products and services — especially those with a strong social component, such as water or health, and where state provision is inadequate — will likely translate into direct demands of companies. A company's license to operate may come to depend on managing such expectations by supplementing its business model with creative, non-market or partial market-driven responses.

Even in developed markets, the skyrocketing costs of healthcare are challenging companies' traditional blockbuster approach to profits.

**One World Health** (OWH) and its 'open kimono' approach to drug development is one to watch in this space. Pharmaceutical chemist, Victoria Hale — now an icon of the social entrepreneur movement — used her skills and expertise to create the world's first not-for-profit pharmaceutical company. OWH is dedicated to the development of safe, effective, and affordable medicines for people with infectious diseases in the developing world.

As companies consider these markets, they have much to learn from social entrepreneurs who have developed successful cross-subsidized business models that serve those who can and cannot pay simultaneously.

OWH takes dormant intellectual property, owned by academia or companies in the pharmaceutical and biotechnology industries, and develops it into medicines to treat infectious disease in developing countries. Its flagship project has successfully taken paromomycin through clinical trials as a treatment for Visceral Leishmaniasis. Partnering with the Indian government has secured OWH a distribution agreement to guarantee the treatment's availability for those who need it most – India's rural poor. The company's transparent and collaborative approach to drug development provides an intriguing model for traditional pharmaceutical companies and their stakeholders to consider. Interestingly, following interest from investors, the company is considering the potential of a for-profit approach.<sup>78</sup>

### Emerging economies: smart solutions

Until now, the priorities for the global health community have been infectious diseases, and in particular, HIV/AIDS, malaria, and TB. Public-private partnerships, and much of the work of social entrepreneurs, have focused on these infectious diseases. However, disease profiles in developing countries are changing as a result of urbanization, a more sedentary lifestyle, less physically demanding work, changing diets and an increase in smoking. Even among poorer communities, so-called 'diseases of the affluent' – diabetes, cardiovascular disease, cancer, and hypertension – are increasing at alarming rates.

Many pharmaceutical and healthcare companies see the emerging markets as important sources of future growth. For example, in 2006 cardiovascular drugs already sold more than any other therapeutic category in the Asia-Pacific market. But the complex interplay of medical need and capacity to pay pose significant challenges. As companies consider these markets, they have much to learn from social entrepreneurs who have developed successful cross-subsidized business models that serve those who can and cannot pay simultaneously. In addition, they can gain significant insight into cultural and socio-economic factors that contribute to successful operations in these markets.

Consider the work of Vera Cordeiro in Brazil, who understands that the success of patient care is undermined by the severe poverty in her country. Children often leave the hospital and return to inadequate housing, poor nutrition, and other conditions that prevent them from healing. Her organization, **Associação Saúde Criança Renascer**, is addressing this problem by providing post-hospitalization assistance to the families of poor children recently discharged from the hospital. The work of its network of volunteers means that at Hospital da Lagoa – a large public hospital in Rio de Janeiro, where the flagship Renascer is based – paediatric re-admissions have dropped by 60%. The Renascer model has proved easily transferable and ideal for locations in which disease is exacerbated by socio-economic factors. It has spread to an additional 17 hospitals in Brazil and served more than 26,000 people to date.

Or take Laura Peterson, Executive Director of **Hands to Hearts International (HHI)**, a nascent operation in India that promotes early childhood development. HHI combines economic development/empowerment for disadvantaged women with desperately needed health services for orphaned children. Their simple model is yielding impressive results. Further, HHI is learning important lessons about how to work effectively in India. HHI goes beyond simply improving the conditions for the children in orphanages – HHI takes aim at the root causes, forwarding women's access to education and economic empowerment. 'The world has come to recognize that the health of our world's children is inextricably tied to the empowerment of our world's women,' says Peterson. 'Smart solutions need to address societal factors to reach core causes. By looking at issues in a holistic context, entire communities reap long-term benefits and unpredictable and profound health outcomes follow.'

<sup>78</sup> [www.ssireview.org/site/printer/victoria\\_hale](http://www.ssireview.org/site/printer/victoria_hale)

<sup>79</sup> www.un.org/millenniumgoals

# 5 Deeper Dive: Energy

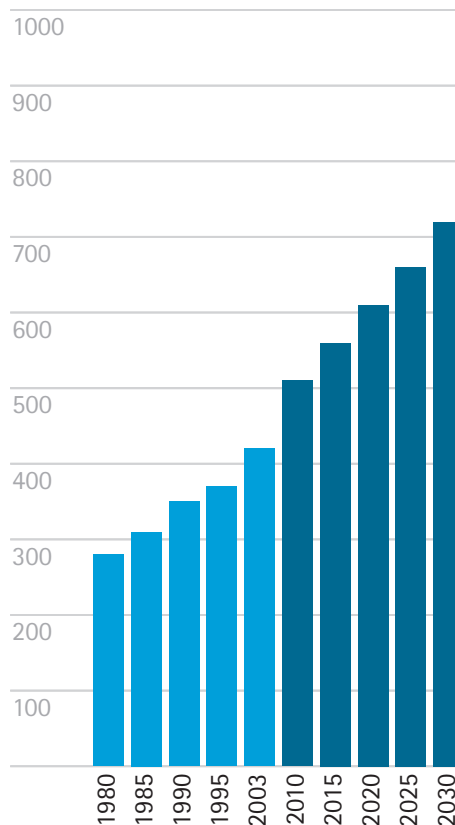
**Surprisingly, and unlike health, energy is not mentioned explicitly in the top level of the UN Millennium Development Goals.<sup>79</sup> Yet its availability, its pricing and the environmental sustainability of its production, supply and use are absolutely intrinsic to meeting all the other Goals. Meanwhile, even if activists see access to clean, affordable energy as increasingly akin to a basic human right, the prospects for providing a predicted global population of 9–10 billion people by mid-century with adequate, sustainable energy to meet their needs — let alone their wants and desires — seems remote.**

That said, there are some grounds for hope in the recent coincidence and convergence of three megatrends: oil price rises, growing concerns about energy security in the context of a political uncertainties around several major oil production regions, and the profound longer-term threat of climate destabilization.

Taken together, these three factors could well aggravate the energy picture, driving many forms of fuel out of the reach of the world's disadvantaged communities and populations.

As with the previous Deeper Dive into health, the purpose here is to investigate the potential contribution of social and environmental entrepreneurs in relation to a critical area of need, from several different angles. The first thing to say about the potential of such entrepreneurship is that this is still very much a micro-David and macro-Goliath situation, with any one of the major energy groups — among them the world's great petrochemical companies — doing more in a single day to meet human energy needs than all social and environmental entrepreneurs do in a year, although the vast majority of these energy flows are based on carbon-intensive gas and oil that is consumed in rich markets. But the key point is that much of the potential of social entrepreneurship flows from a new mindset that these people model.

Figure 5.1  
**World marketed energy: consumption 1980–2030**  
 Quadrillion BTUs  
 History Projection



**Sources for figures 5.1–5.5**  
 History: Energy Information Administration (EIA) *International Energy Annual 2003* May–July 2005.  
 Projection: EIA System for the Analysis of Global Energy Markets, 2006.  
[www.eia.doe.gov/iea](http://www.eia.doe.gov/iea)

'The biggest challenge? Educating potential customers regarding the need for, and advantages of, sustainable solutions. Essentially, making the business case for our services.'  
Environment Sector

As suggested in Figure 3.1, the way mainstream business frames sustainability issues is moving from an early focus on compliance (involving a largely defensive business positioning), through a period of corporate citizenship (with a growing degree of engagement and beyond-compliance, voluntary effort) to a now-emerging phase, involving a fundamental shift to competitive strategies built around innovative technologies, entrepreneurial solutions and potentially disruptive business models.

Interestingly, energy is under-represented in current memberships of leading social entrepreneurship networks. By our analysis, only eight **Ashoka** Fellows (out of over 1,800) are operating in this sector, with two **Schwab Foundation** network members and no **Skoll Foundation** entrepreneurs, to date. By contrast, the **Cleantech Venture Network** has a major focus on clean energy and 1,300 affiliate investor members. One venture capital fund told us it now has over 2,000 cleantech firms on its database.

<sup>80</sup> The Global Reporters 2006 was an early stepping stone in SustainAbility's evolving Skoll Program.

The business case

So what is the mainstream business case for looking at social entrepreneurship in the energy sector? Clearly it has varied as the agenda for the energy sector has moved beyond the basic compliance stage through various forms of citizenship to a new generation of sustainability-focused competitive strategies.

But the critical mass of the energy sector is still mired in unsustainability. Even the best energy sector companies are largely operating versions 1.0 and 2.0 (see Figure 3.1) of the business case. In SustainAbility's 2006 *Global Reporters* survey of international best practice in sustainability report, a number of energy companies made it into our Top 50, including **BP, Enel, Shell, Statoil, and Suez**.<sup>80</sup> The sort of issues such companies are currently focusing on include: environmental and social footprints (BP); provision of micro-loans to help businesses develop cleaner indoor cooking stoves (Shell) and microfinance (BP); access to new forms of energy (Statoil); and the pursuit of sustainable development through better integration of different service offerings, including energy, waste management, and water (Suez).

Figure 5.2  
World marketed energy:  
OECD and non-OECD consumption  
1980–2030  
Quadrillion BTUs  
History Projection

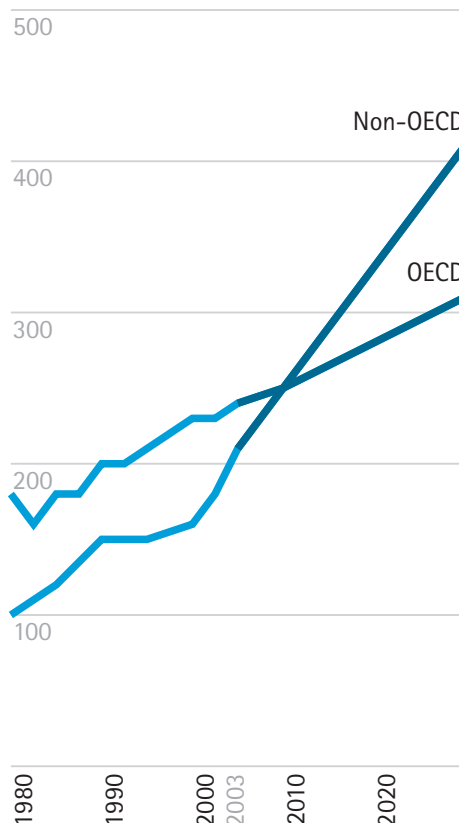
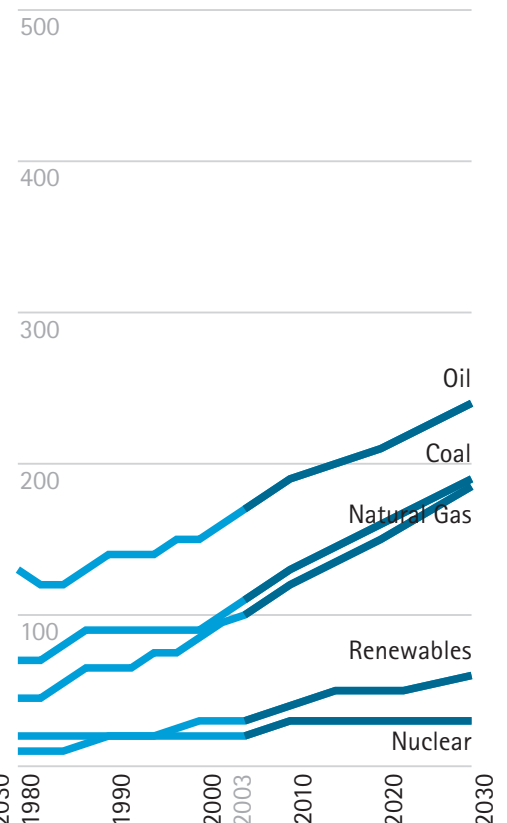


Figure 5.3  
World marketed energy:  
consumption by fuel type  
1980–2030  
Quadrillion BTUs  
History Projection



'Our biggest challenges? First, managing the quality of our programs while scaling them. Second, hiring private sector talent on a not-for-profit budget.'  
Environment Sector

Overall, it is clear that even leading companies — and BP is a leader despite its recent catastrophic slip-ups — still have a long way to go in addressing the sort of issues that are second nature for most leading social and environmental entrepreneurs. To achieve anything like the 3.0 version of the business case for sustainable development in the energy sector, such companies would need to address three key areas that are central to the work of such entrepreneurs:

– Access

For many social entrepreneurs, the issue of access to energy is crucial. Billions of people still lack access to reliable supplies of affordable, clean, and sustainable energy. And this is also an issue for mainstream businesses. To grow, markets need energy: no energy, no growth. Figure 5.1 underscores the predicted significant continued growth in energy demand worldwide,<sup>81</sup> with non-OECD demand overtaking OECD demand within the next decade (Figure 5.2), even given the uncoupling of energy demand from GNP growth (Figure 5.4).

The current consensus is that markets for products designed with energy efficiency, renewable energy and/or clean energy in mind are set to explode, but the projections in Figure 5.3 suggest that renewables will still meet a relatively small proportion of world marketed energy demand in 2030. In the meantime, while renewable businesses and other cleantech ventures scale up, there will be a continuing, growing demand for affordable, clean fossil fuels.

– Security

With continuing uncertainty around the future of a number of key oil producing regions, energy security considerations are very much in the ascendant. Among other things, this has been a critical factor driving the growing interest in biofuels and other forms of cleantech. The access-to-energy agenda is closely linked. At the extreme, picture an oil company operating in West Africa, the complex's lights blazing in the night while all around there is a world in which reliable, affordable electricity remains a distant dream. This could be a metaphor for the developed world sailing on in an 'ocean' of energy-poverty, a reality that raises many longer term security issues.

<sup>81</sup> These figures are taken from the *International Energy Outlook 2006*, prepared by the US Energy Information Administration. [www.eia.doe.gov/oiaf/ieo/world.html](http://www.eia.doe.gov/oiaf/ieo/world.html)

Figure 5.4  
**World marketed energy: consumption in three economic scenarios 1980–2030**  
Quadrillion BTUs  
History Projection

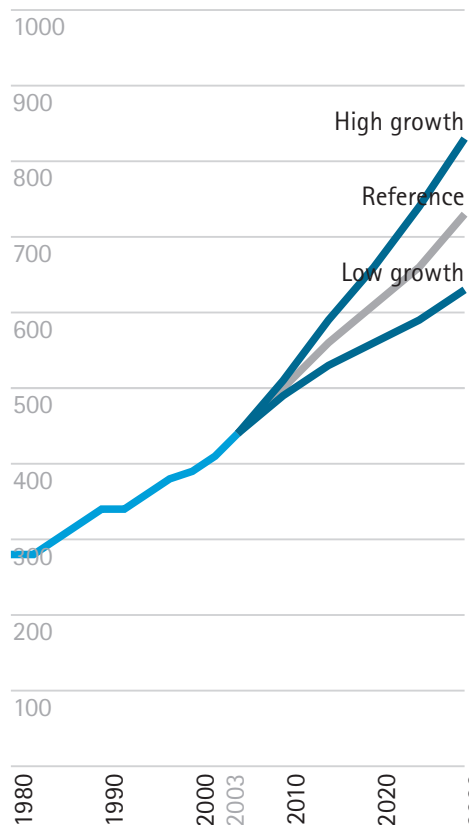
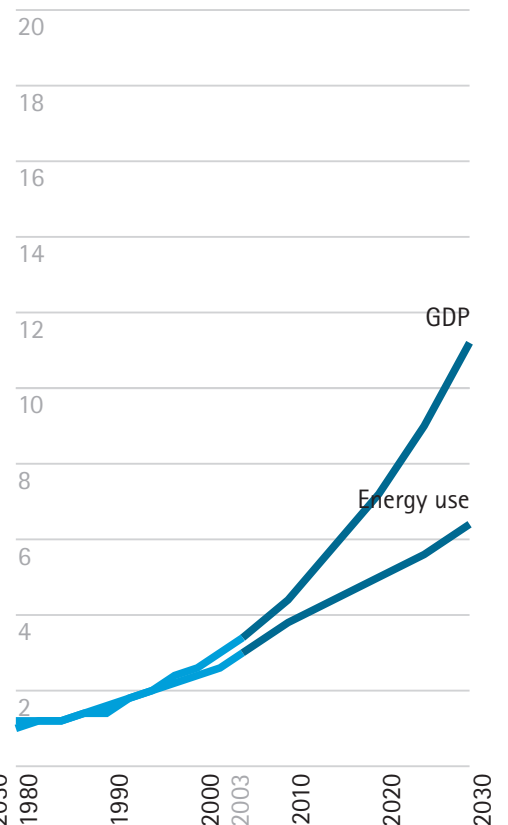


Figure 5.5  
**Growth in energy use and GDP in non-OECD countries 1980–2030**  
Index: 1980 = 1  
History Projection





'We have tracked more than \$10.6 billion invested in cleantech ventures since 1999 in North America and \$2.6 billion invested in Europe since 2003!'  
Cleantech Venture Network

– **Climate and environment**

The skies over China have darkened in the past five decades, thanks to a nine-fold increase in fossil-fuel emissions.<sup>82</sup> Around 80% of China's electricity comes from coal, and there are plans for well over 500 new coal-fired power stations to meet an apparently insatiable demand for energy. The country is expected to overtake the US in terms of greenhouse gas emissions in 2009, yet the surge of investment in heavy industry is undermining China's ability to achieve its energy efficiency targets.<sup>83</sup> Even without growing concerns about the implications of energy consumption trends for the stability of our climate, the likely increase in many forms of pollution linked to energy in the emerging economies can only increase the squeeze on energy producers worldwide. Once seen as a softer set of drivers, environmental factors are now seen to be of crucial importance.

**The cleantech surge**

Given the sheer scale of the challenges we face in the energy realm, it is important to maintain a sense of relative scale when thinking about the potential contributions of social and environmental entrepreneurs. The sort of social and environmental entrepreneurs who are pioneering new approaches include Fabio Rosa of **IDEAAS**,<sup>84</sup> Brazil, Nic Frances of **Easy Being Green**,<sup>85</sup> Australia, and Maqsood Sinha and Iftekhar Enayetullah of **Waste Concern**,<sup>86</sup> Bangladesh. But however successful such people may be in scaling up what they do, and however much they may now deserve to be properly funded, we should note that they have a very long way to go in order to make a significant impression on tomorrow's energy challenges. Still, as IDEAAS and Waste Concern demonstrate, the best among them are having major impacts at the national or regional level, and there are ambitions to go international in some cases, as with Easy Being Green.

<sup>82</sup> earthobservatory.nasa.gov/naturalhazards/shownh.php3?img\_id=13333

<sup>83</sup> Richard McGregor, 'China set to miss target for energy efficiency', *Financial Times*, 17 February, 2007.

<sup>84</sup> www.ideaas.org.br/id\_equipe\_eng.htm

<sup>85</sup> http://shop.easybeinggreen.com.au/categories.asp?cID=71&fromhome=true

<sup>86</sup> www.wasteconcern.org

Figure 5.6  
**Challenges**

Access

Rising prices  
Limited infrastructure  
Ineffective government regulation

Security

Geopolitical considerations  
Growing divide between rich and poor  
'Resource curse'

Environment

Climate change  
Unbanization  
Population growth

'The energy sector shows signs of real systemic breakout. A host of new technologies are marching their way up their learning and down their cost curves – responding to a dramatic social risk and pretty clear price signals.'  
Bill Drayton, Ashoka

The truth is that most of the significant developments to date have been happening elsewhere, for example in the cleantech space. Indeed, this is where definitions begin to blur. If social entrepreneurship covers environmental entrepreneurs, for example, does that mean it also covers cleantech enterprises? And given that most cleantech entrepreneurs are for-profit, very much in it for the money, does this rule them out in terms of social entrepreneurship status? In the end, it probably doesn't matter much – though we see them all as part of a broad entrepreneurial landscape (see Figure 1.1). The really important question is where the truly breakthrough technologies and business models are now evolving. For the moment that would largely appear to be in what, since 2002, has been dubbed the 'cleantech' space.

It is clear that, as energy analysts **CERA** put it, 'The race is on to invest in renewables and clean energy technologies, yet the outcome is far from clear. Considerable uncertainties exist over the policy context, the technologies themselves, and the broader energy competitive landscape. Who will be the winners and losers, and what will the implications be for company strategies and the competitive landscape?' CERA is running a multiclient study focusing on the role of clean technologies in the future. The process will involve building scenarios out to 2030, the date already mentioned in relation to *International Energy Outlook*.

Meanwhile, however, many mainstream energy groups remain relatively cool on renewables. Some, like **Exxon**, pretty much ignore the field altogether. Others are investing significant sums – such as **BP's** half-billion-dollar investment in a new biofuel research center that will link the University of California at Berkeley with the University of Illinois and the Lawrence Berkeley National Laboratory.<sup>87</sup> BP says that, in addition to the new Energy Biosciences Institute at Berkeley, it plans to spend \$8 billion over 10 years on its own alternative energy efforts, which include building solar cells and wind farms. The company also has a major biofuels partnership with **DuPont**.<sup>88</sup> But for the big oil companies that have been reaping record profits from high oil prices, such research typically remains a small component of their overall R&D portfolios. Donald Paul, who oversees alternative energy programs at **Chevron**, explains that the infrastructure needed to mass produce and distribute any type of fuel takes years to develop, and millions, if not billions, of dollars to build. And, longer term, it is inevitable that such biofuel investment will generate second-order social and environmental impacts.<sup>89</sup>

When we asked Samer Salty of London-based venture capitalists **zouk ventures**, whether he expected the clean energy sector to follow the trajectory of the New Economy, he agreed that there were similarities – but stressed that, whereas Internet companies typically took relatively little capital to establish and could be sold for high multiples at the peak of the boom, energy technologies and infrastructures typically require massive investments. That doesn't remove the risk of a bubble developing, he argued, but it does lessen the likelihood somewhat.

<sup>87</sup> *Crossing the Divide? The Future of Renewables and Clean Energy*, see [www.cera.com/asp/cda/client/knowledgearea/servicedescription.aspx?kid=199#39251](http://www.cera.com/asp/cda/client/knowledgearea/servicedescription.aspx?kid=199#39251)

<sup>88</sup> David R. Baker, 'Big Oil cautious about clean-energy spending', *San Francisco Chronicle*, February 9, 2007.

<sup>89</sup> [www2.dupont.com/Biofuels/en\\_US](http://www2.dupont.com/Biofuels/en_US)

<sup>90</sup> [www.opendemocracy.net/globalizationclimate\\_change\\_debate/fixes\\_4311.jsp](http://www.opendemocracy.net/globalizationclimate_change_debate/fixes_4311.jsp)

Not only are billions of people denied reasonable energy services, but the planet is running a fever simply by meeting the needs of those who are currently served.

### Mindset 3.0

In carrying out this Deeper Dive, we spoke to a range of companies and organizations, from big petrochemical companies through to early stage start-ups like **Innovalight**.<sup>91</sup> This is a fascinating Silicon Valley start up which is using nanotechnology and silicon inks to create ultra-low-cost solar photovoltaic modules. It has developed a silicon nanocrystalline ink that could cut the cost of flexible solar panels to a tenth of current solar cell solutions — using a solvent-based silicon process that lends itself to low-cost production and high-throughput manufacturing. Just one more example of the cleantech surge now building. But in what follows, we will draw on the experience of the full spectrum of non-profit to for-profit organizations, from foundation-funded social enterprises to market-driven cleantech ventures.

Standing back, what these entrepreneurs have to teach the wider world has less to do with how to develop a given technology or how to put together a particular product, than with how they think, act and lead. So, for anyone wondering where the Mindset 3.0 agenda (Figure 3.1, page 24) might take us, here are five points which struck us in looking over the shoulders of different types of entrepreneur working in the energy field.

#### 1 Systems thinking and design: inefficiency is the enemy

One striking thing about leading social and environmental entrepreneurs is that they are dedicated to changing the system, not just to making marginal improvements. Whether or not they succeed in such ambitious aims is quite another matter, but there is no question that the global energy system is dysfunctional: not only are billions of people denied reasonable energy services, but the planet is running a fever simply by meeting the needs of those who are currently served.

Take a taxi example. Jim Harris, Managing Partner with the evolving **Cleantech Innovation Institute**, is working out how to get those who influence choices on what sort of vehicles qualify as taxis — the auto-makers, taxi companies, leasing companies, regulatory agencies, insurers and others — to focus on changing Toronto's (and then Canada's and then North America's) taxis to hybrid propulsion systems.

'Converting North America's 200,000 taxis to hybrids,' he explains, 'would have tremendous financial, economic, health, and environmental benefits. Hybrid cars reduce smog emissions by more than 70%. Taxis drive 10 times the distance of average vehicles every year. Changing 200,000 taxis to hybrids would have the same impact as converting 2,000,000 cars!'

The uncoupling of GDP from energy consumption — shown in Figure 5.5 — is by no means a foregone conclusion: it has to be fought for every step of the way. That's what makes the work of people like Amory Lovins (of the **Rocky Mountain Institute**<sup>92</sup>) and Bill McDonough (of **MBDC**<sup>93</sup> and **William McDonough + Partners**<sup>94</sup>) so important. Whether or not particular designs like Lovins' hypercar<sup>95</sup> (designed to achieve a three- to five-fold improvement in fuel efficiency) actually get built any time soon, the spotlight has been placed squarely on the need to drive out energy from our economies, value chains and businesses.

#### 2 Emerging economies: use bigger BRICs

Given the scale of the energy demand of the BRIC economies (Brazil, Russia, India, China) and other emerging markets, the world needs to focus its attention here — and as soon as possible. Bill McDonough has already been working on a number of planned eco-cities there, an opportunity space that has also attracted **EcoCities**.<sup>96</sup> Ask the organization's Chairman, Lawrence Bloom, why he is focusing on China, and he is very clear on the point. 'Fundamentally, the first EcoCities project is under way in China (in Dongtan, near Shanghai) because the first opportunity was created there.'

He explains, 'China has both the "stick" and "carrot" in large measure to drive her from her present polluting paradigm to cleaner and more secure solutions. Currently, one dirty coal power station comes on stream every eight days to fuel China's continuing economic growth. When I was last in Beijing, we took off from Beijing Capital International airport on a cloudless day, but could not see the sun until the plane was at 12,500 feet. The pollution is nearly two-and-a-half miles high and is currently considered to be costing the country 8% of GDP in asthmatic and bronchial conditions and lost working days. With 400 million people expected to migrate from the countryside to the cities in the next 30 years, that is a very big stick.'

<sup>91</sup> [www.innovalight.com/index.html](http://www.innovalight.com/index.html)

<sup>92</sup> [www.rmi.org](http://www.rmi.org)

<sup>93</sup> [www.mbdc.com](http://www.mbdc.com)

<sup>94</sup> [www.mcdonoughpartners.com](http://www.mcdonoughpartners.com)

<sup>95</sup> [www.hypercar.com](http://www.hypercar.com)

While it is easy to over-estimate the readiness of consumers to take big steps to save the planet or help other people, it can also be precariously easy to underestimate their willingness to take smaller steps.

But, he notes, 'the carrots are also profound — China could be a future world-leader and major global player in "green" industries and services — so from solar-panel manufacture and consequent intellectual property streams to carbon trading markets, her opportunities are awesome.' Part of the EcoCities plan is to 'create the EcoCities Foundation, sharing all the information we obtain on feedback loops from our developments, and we anticipate that it will become the centre of a major resource offering sustainability-advice to individuals, corporations and NGOs.'

Not everyone is building cities and other infrastructure on the scale — or in the semi-orchestrated way — that China is. Elsewhere in the emerging economy and developing country worlds, social and environmental entrepreneurs are having to wrestle with multiple forms of chaos brought on by over-rapid, ill-planned urbanization. Among them are organizations like **Waste Concern**<sup>97</sup> in Dhaka, Bangladesh. In rural regions, meanwhile, energy needs are being developed by pioneers operating in India's Gandhian tradition like Bunker Roy of **Barefoot College**,<sup>98</sup> who train barefoot solar engineers, and his countryman Ashok Khosla with his **Development Alternatives**.<sup>99</sup> Similarly, in Kenya, Martin Fisher and Nick Moon of **KickStart** now — remarkably, directly or indirectly — account for 0.6% of the country's GDP, with their appropriate technology solutions.<sup>100</sup>

### 3 360° accountability: let the sun shine in

Given the extent to which bribery and corruption distort energy production and supply systems, against the backdrop of the so-called 'Curse of Oil' that so often turns a natural resource treasure into a socio-economic tragedy, the role of transparency and accountability cannot be exaggerated. That's what makes the related work of organizations like **Transparency International**,<sup>101</sup> **Publish What You Pay**,<sup>102</sup> the **Global Reporting Initiative**,<sup>103</sup> **Ceres**,<sup>104</sup> **AccountAbility**,<sup>105</sup> and, yes, **SustainAbility**<sup>106</sup> so important.

A parallel initiative in the climate change field is the **Carbon Disclosure Project (CDP)**,<sup>107</sup> which provides a secretariat for the world's largest institutional investor collaboration on the business implications of climate change. CDP represents an efficient process whereby many institutional investors collectively sign a single global request for disclosure of information on Greenhouse Gas Emissions. More than 1,000 large corporations report on their emissions through this website. The CDP 5 information request was signed by more than 280 institutional investors with assets of more than \$41 trillion and sent out on February 1, 2007 to 2,400 companies. The responses will be made available in September 2007.

### 4 Consumer engagement: lower the entry ramps

While it is easy to over-estimate the readiness of consumers to take big steps to save the planet or help other people, it can also be precariously easy to underestimate their willingness to take smaller steps — that collectively can add up to some form of revolution. One man who has taken the step of moving out from the campaigning world to engage consumers head-on is Jeremy Leggett, once a Greenpeace campaigner, and more recently CEO of **Solar Century**.<sup>108</sup> He is also a director of the world's first private equity renewable energy fund, Bank Sarasin's **New Energies Invest AG**.<sup>109</sup>

Solar Century's vision is immodest: 'Our aim,' they say, 'is to revolutionize the global energy market. The sun bathes the earth in an incredible amount of energy — in a day, enough arrives to power the whole world for several years. Humanity can now effectively harness the power of the sun. The 21st century must be the solar century. We envisage solar systems on the roof of every building, backed up by a family of other micro renewables, supplying clean power and achieving deep cuts in emissions. As the global market for renewable energy grows, thousands of jobs will be created in research, installation, and manufacturing.'

<sup>96</sup> www.ecocities.com  
<sup>97</sup> www.wasteconcern.org  
<sup>98</sup> www.barefootcollege.org  
<sup>99</sup> www.devalt.org  
<sup>100</sup> www.kickstart.org  
<sup>101</sup> www.transparency.org  
<sup>102</sup> www.publishwhatyoupay.org/english  
<sup>103</sup> www.globalreporting.org  
<sup>104</sup> www.ceres.org  
<sup>105</sup> www.accountability21.net  
<sup>106</sup> www.sustainability.com/insight/research-article.asp?id=865  
<sup>107</sup> www.cdproject.net  
<sup>108</sup> www.solarcentury.com  
<sup>109</sup> www.newenergies.ch/index\_ei.html

'It was difficult for us to negotiate with large corporations to begin with. They have more lawyers and a different style. I would like access to training to "speak their language" and access to board-level contacts.'

Energy Sector

Another venture that aims to make sustainable energy choices more accessible to ordinary people is **Easy Being Green**, founded in Australia by Nic Frances and Paul Gilding, but with plans to go international.<sup>110</sup> In 2004, they set a goal for 70% of Australian homes to be 30% more energy and water efficient within 10 years. Since then they have implemented programs that have provided almost half a million homes with 'Climate Saver Packs'; reduced 620,000 tonnes of CO<sub>2</sub> pollution per year, equivalent to taking 150,000 cars off the road; saved 5.8 gigaliters of water, equivalent to 2,500 Olympic-sized swimming pools; and saved households A\$32.3 million on their energy bills.

Whether from the basic needs angle or because of systemic challenges like climate change, energy is central to the sustainable development agenda. The UK Stern Review, which described climate change as effectively the biggest market failure of all time, calculated that the dangers of unabated climate change would be equivalent to at least 5% of GDP each year.<sup>114</sup> Overall, it estimated that the dangers could be equivalent to 20% of GDP or more. In contrast, it argued that the costs of action to reduce greenhouse gas emissions to avoid the worst impacts of climate change could be limited to around 1% of global GDP each year. People would pay a little more for carbon-intensive goods, but our economies would continue to grow strongly. According to one measure, the benefits over time of actions to shift the world onto a low-carbon path could be in the order of \$2.5 trillion each year. Markets for low-carbon technologies will be worth at least \$500 billion, and perhaps much more, by 2050 if the world acts on the scale required.

### 5 Business models: take climate into account

Disclosing greenhouse emissions is one thing, putting a price — and a value — on them is quite another. Two organizations have been working in this area: Richard Sandor's **Chicago Climate Exchange (CCX)**<sup>111</sup> is the world's first, and North America's only voluntary, legally binding rules-based greenhouse gas emission reduction and trading system; and James Cameron's **Climate Change Capital (CCC)**<sup>112</sup> is a leading investment banking group that specializes in the commercial opportunities created by a low carbon economy. CCC advises and invests in companies that recognize combating global warming is both a necessity and an economic opportunity. Its activities include investment management and financing emission reductions, and its aim is to make the world's environment cleaner while delivering attractive financial returns. Longer term, it will be interesting to see what happens to such players when the Chinese get serious about greenhouse emission trading.

The potential impact of social and environmental entrepreneurs in this area was dramatically illustrated by the success of **Ceres**,<sup>115</sup> led by its President Mindy Lubber, in helping stall plans by **TXU** to build 11 coal-fired power stations in the USA. Even though 150 coal-fired power plants are currently proposed in the country, TXU's \$10 billion coal expansion plan drew intense criticism in terms of the likely climate impacts. When the plans were announced, Ceres convened some of TXU's largest shareholders, including **CalPERS**, **CalSTRS**, and the **New York City Comptroller's Office**, to bring pressure to bear. Some time later, it was announced that two private equity firms — **Kohlberg Kravis Roberts & Co** and the **Texas Pacific** — would buy TXU for \$45 billion, and would drop eight of the proposed power stations. Strikingly, the private equity firms consulted Ceres and other critics ahead of the deal being signed. We expect a lot more of this sort of power politics.

Then there are the 'Robin Hood' models. Whether or not such a figure ever stole from the rich to give to the poor, different people certainly place a different value — and are prepared to pay very different prices — for anything from their health to clean fuels. In the energy sector, the most outstanding example of this is probably **Freeplay Energy**,<sup>113</sup> which started out offering wind-up radios and expanded to a wide range of other human-powered products.

<sup>110</sup> <http://shop.easybeinggreen.com.au/categories.asp?cID=71&fromhome=true>

<sup>111</sup> [www.chicagoclimatex.com](http://www.chicagoclimatex.com)

<sup>112</sup> [www.climatechangecapital.com](http://www.climatechangecapital.com)

<sup>113</sup> [www.freeplayenergy.com](http://www.freeplayenergy.com)

<sup>114</sup> [www.hm-treasury.gov.uk/independent\\_reviews/stern\\_review\\_economics\\_climate\\_change/sternreview\\_in dex.cfm](http://www.hm-treasury.gov.uk/independent_reviews/stern_review_economics_climate_change/sternreview_in dex.cfm)

<sup>115</sup> [www.ceres.org](http://www.ceres.org)

<sup>116</sup> www.calvertfoundation.org/<sup>117</sup> www.goodcap.net

# 6 Conclusions & Next Steps

We are entering a new era in which today's apparently insoluble problems spawn tomorrow's transformative solutions. The new breed of social and environmental entrepreneur is part of a new global order that is dedicated to new levels of equity, quality of life and sustainability. Far from accidentally, there is a buzz around innovation — for example, it was chosen as the theme of the 2007 Skoll World Forum in Oxford. Indeed, the growing appeal of social entrepreneurship was illustrated by the turn-out in 2006: nearly 700 delegates from more than 40 countries. And the 2007 event 'sold out' well in advance.

But, in the midst of all of this excitement, we should ask: Is there a danger that the social entrepreneurship industry will end up intoxicated by virtue, to use a colorful Americanism, of 'breathing its own exhaust'? Overall, our conclusion is that the optimism about these entrepreneurs is well placed, but that they are experiencing a range of growing pains — and there is an urgent need to steer more capital and business resources into this area.

If this can be achieved, we very much agree with Tim Freundlich (Director, Strategic Initiatives, **Calvert Social Investment Foundation**<sup>116</sup> and Founding Principal, **Good Capital**<sup>117</sup>) that the outlook is bright. 'I see the social enterprise landscape rapidly prototyping strategies that corporations will incorporate, replicate — or just plain steal. These entrepreneurs act as fearless and fast actualizers, taking the uncertainty and lack of imagination out of the equation for mainstream business. Global warming and poverty especially are conspiring in an accelerating way to sensitize society towards considering and experimenting with the integration of new models of doing business, focusing on a different and more nuanced sense of value — call it double bottom line, triple bottom line or blended value.'

So here are our conclusions and a summary of some of the next steps we propose.

## Conclusions

### Social entrepreneurship is on a roll

- Social entrepreneurs are part of a much wider spectrum, or continuum, of entrepreneurial effort dedicated, directly or indirectly, to addressing key sustainability challenges.
- Social entrepreneurship is emerging as a potential catalyst and powerful lever of the sort of change that governments and business are increasingly committed to — but rarely know how to deliver.
- While there may be elements of a boom in interest in social entrepreneurship, the risk of an entrepreneurial bubble bursting appears low — and the opportunity space can only grow.

### The potential for breakthrough solutions is considerable — and growing

- The timing is more or less perfect, given that systemic change is increasingly needed. 'Sure, entrepreneurs need to be mavericks working outside the box,' said **SustainAbility Faculty** member Sir Geoffrey Chandler, 'but they have an important voice which — if it can be properly channeled — could help break open the box.'
- The fundamental challenge, said 'blended value' champion Jed Emerson who works closely with **Generation Investment Management**, is not so much to scale the enterprise as to 'scale the solution.'
- Among the routes to scale discussed by our respondents, the following surfaced repeatedly: (1) grow individual social enterprises; (2) establish multiple enterprises; (3) get big organizations — whether companies, public agencies or NGOs — to adopt the relevant models and approaches; and (4) spur public policy legislation designed to fix market failures.

Nothing changes without individuals, but nothing remains without institutions.

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### The field is growing, but is still relatively small

- As in any area of entrepreneurial activity, the risks of actual or perceived over-promising are real. The wider community needs to find ways to monitor, measure, evaluate, and report on progress in ways that build understanding and support.
- Our analysis of the funding flows into social entrepreneurship suggest that, while the overall levels have increased significantly in recent years, the current funding total is a small fraction of that currently devoted to cleantech investments – let alone wider philanthropy.
- To put rough numbers on these three areas, to give a sense of orders of magnitude, we estimate that less than \$200 million is going into social enterprise worldwide from dedicated foundations each year, compared with over \$2 billion a year into cleantech in the USA and EU and well over \$200 billion into philanthropy in the USA alone.

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### Money is the main headache

- Accessing capital is the No.1 challenge for the entrepreneurs we surveyed, with almost three-quarters (72%) putting this at the top of their priority list. While this is also true of mainstream entrepreneurs, the pressures on social and environmental entrepreneurs to grow are resulting in significant growing pains.
- 'There is a lot of seed capital available, angel-equivalent, for social entrepreneurs,' said Linda Rottenberg of **Endeavor Global**. 'But there is not a lot of later-stage funding available – series B and C equivalent – to take social entrepreneurs to scale. There's a huge gap in the social capital market that's preventing many of the best models from replicating and fulfilling their potential.'
- Foundations are still the favorite source of funding for social entrepreneurs (mentioned by 74% of respondents), but there is a wide recognition of the need to diversify funding sources.
- At least among our sample, there was a striking trend in their projections about where their funding would come from in the future. The proportion expecting to be relying wholly on grants in five years was down to 8%, compared with 27% today.

### Panel 6.1

#### Paradigm shifts don't come easy

Various entrepreneurs talked in terms of the need for a paradigm shift in their field. But such shifts rarely come easy. So what needs to be done? Some answers began to surface during the 2007 Schwab Foundation Summit in Zurich, where the focus was on the business case for social entrepreneurship – and for strategic business involvement with social entrepreneurs. One business leader told the social entrepreneurs present that within a decade 'everyone is going to fall over themselves in a race to get your business.' But at least three things need to change if we are to see a paradigm shift.

The first, according to Pamela Hartigan of **The Schwab Foundation**, is that 'the infrastructure to support these ventures has to be put in place much more quickly than is occurring if they are to scale – and live up to their potential to achieve systemic economic and social change. The creation of social ventures is ramping up at breakneck speed as more and more talented, innovative, passionate, and caring individuals come together to address widening and ubiquitous inequities, but the financial, legal, and political support is still crawling along by comparison, stuck in antiquated institutional frameworks.'

The second is that we need to expand the spotlight to illuminate not just heroic individuals but also the organizations behind them. 'Too much rides on the founder of the venture,' Hartigan argues. 'Much more has to be done to support the founder and the leadership team's transition through their growth phases. In the words of John Monet, "Nothing changes without individuals, but nothing remains without institutions."' We need to focus on their No. 2, 3 and 4 colleagues.

Third, a need constantly flagged up by our respondents, there need to be better ways of linking the worlds of social enterprise and mainstream business. 'The degree of interface will depend on a host of factors,' says Hartigan, 'namely: the power of the business case argument for working together; the extent to which people on both sides are committed to making the relationship work and the nature of the social enterprise itself – so, for example, leveraged non-profits might work best with the philanthropic arm of a corporation, whereas hybrids could be more in sync with the core business of the corporation.'

'We need to be brokering relationships now in the social enterprise/business interface. Currently much of this is done around cause marketing, but we need more guides who can identify possible partners and take entrepreneurs through the courtship needed to create real partnerships of broad value.'  
Anonymous respondent

– On the other side of the coin, the proportion of those expecting to be funding their own operations, with little or no dependence on grants jumped from 8% to 28%. Many still expect to rely on a mix of funding types, but a significant proportion (up from 38% today to 50% in five years) expect a substantial rebalancing in the coming years.

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#### Other growing pains

– Linked to the funding challenges, many entrepreneurs noted the problems they face in offering competitive salaries to staff – with professional staff, in turn, often a key to attracting sufficient funding.

– As these social enterprises grow, they increasingly face a tension between the need for professionalism and efficiency on the one hand and, on the other, the need to maintain a focus on the mission, values and culture of the organization.

– Succession planning is another area of difficulty. The entrepreneurs themselves are very aware that for their organizations to succeed, they themselves need to change. This is true even of the most successful entrepreneurs. Bill Strickland of the **Bidwell Training Center Inc. (BTC)**, a Pittsburgh-based organization for urban change, once said that the biggest barrier to his organization growing was him.

– Novelty is an enormous strength, but like so many traits could also become a weakness. Many others have been tackling the challenges social entrepreneurs are dealing with, at other times, in other places, in different ways. There is a danger that in their enthusiasm to embrace – and be rewarded for developing – radical new solutions that a number of new wheels are unnecessarily invented.

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#### Partnering with business

– Social and cleantech entrepreneurs turn out to be equally interested in developing partnerships with business, but with different expectations. Social entrepreneurs, in particular, are acutely aware that they often lack the experience and skills needed.

– A constant refrain in the interviews was the growing need for brokering between the entrepreneurs and those they need to persuade or recruit.

– 'We need to be brokering relationships now in the social enterprise/business interface,' said one interviewee. 'Currently much of this is done around cause marketing, but we need more guides who can identify possible partners and take entrepreneurs through the courtship needed to create real partnerships of broad value. So many industries have matchmakers – where are they in this sector, beyond what has been called the in-club of white male social entrepreneurs?'

– There is a risk in all of this that we become overly focused on narrow definitions of social entrepreneurship. For example, it's easy to get excited about small start-ups in the renewable energy field, but we should remember the huge contributions already being made by much larger companies like **Acciona**<sup>118</sup> in Spain, **Vestas**<sup>119</sup> based in Denmark, or **GE** based in the USA.

– Listen to José Manuel Entrecanales, Acciona's Chairman and a Spanish businessman with big ambitions in sustainable energy. We asked whether this ambition would require trade-offs? 'No,' he replied. 'Mainstream businesses must deliver shareholder value. But Acciona has significantly increased its sustainability profile and investment in areas like renewable energy in recent years, while recording substantial growth and exceptional shareholder value. For example, in 2005 our use of renewable energy sources avoided the emission of 4.5 million tonnes of CO<sub>2</sub>. I believe that there may be opportunities for a forward-thinking energy player to create small-scale village-based renewable energy provision which truly breaks the mould.'

'Indeed I see interesting parallels between the provision of energy to these areas and the situation in commercial credit two decades ago which led Nobel Prize winner Professor Yunus to set up the Grameen micro-credit system. The application of a decentralised, bottom-up approach to providing electricity to remote or impoverished areas is one we have been long interested in at Acciona. It is one our team is currently exploring, knowing well that there are situations and locations where the provision of clean and sustainable energy will not be commercially viable. That is why we are currently fundraising for projects which may not prove profitable in the immediate future. We welcome dialogue with NGOs and others who share our vision.'

<sup>118</sup> www.acciona.es

<sup>119</sup> www.vestas.com



'Over the last 25 years, the citizen sector has become as entrepreneurial structurally as business in most of the world – and, as a result, it has been closing the productivity gap with business very rapidly. We now have the opportunity to end the accidental divorce of the last three centuries. Doing so represents a gigantic productivity opportunity for business, for the citizen sector, and for the ultimate customer and citizen!  
Bill Drayton, Ashoka

### Don't forget the social intrapreneur

- Several interviewees also noted that we need to recall the potential of social intrapreneurship,<sup>120</sup> with change agents working inside big organizations to drive similar agendas. One example of a social intrapreneur we interviewed was Gib Bulloch, Programme Lead at **Accenture Development Partnerships**.<sup>121</sup> He has been part of a team for nearly five years that has been working to switch this major consulting firm on to the potential to help NGOs, social entrepreneurs, and major businesses to understand and manage the world's great social, environmental, and governance challenges.
- Many people still see such efforts as part of corporate citizenship. This, as Bulloch puts it, means that they think 'in terms of grooming donkeys, sponsoring the opera or, at best, painting schools. Rather than, say, helping **Oxfam** to become a high performance organization! In the context of Accenture's 145,000 employees worldwide, ADP's 70-going-on-100 may seem small beer, but the potential to catalyze change – both inside Accenture and among its clients – is considerable.
- The key point, however, is that one way of achieving scale with entrepreneurial solutions is to switch large organizations onto the new challenges and exploit their much greater leverage to further evolve and deploy the solutions.

### A growing need to focus on government responsibilities and roles

- Governments need to do more to shape public policy, public sector targets and wider incentives – for example, in relation to tax breaks for the funding of social enterprise – if the sort of ventures covered above are to reach their full potential. This is an area that has been covered by people like **Linklaters**,<sup>122</sup> but where considerable further thinking – and action – is needed.

### Panel 6.2 Next steps

Among the next steps planned for SustainAbility's Skoll program are the following:

- **Skoll World Forum 2007**  
We will present the results of this first survey, and also test some of our conclusions for the health sector in a dedicated session.
- **Feedback**  
We will send the final report to all those who took part, inviting their comment. This will be used to shape further projects.
- **Roundtables and workshops**  
During 2007–08, we will organize roundtables and workshops to debate, evolve, and communicate the conclusions.
- **Further deep/deeper dives**  
We aim to conduct at least two further explorations into our target sectors during the coming 12 months.
- **Explore potential for developing 'Wiki-Manual'**  
Given the interest in understanding how to develop partnerships with mainstream business and other partners, we will consider developing either a published Manual or even an online manual along the lines of Wikipedia<sup>123</sup> on related themes.
- **Brokering**  
Further develop our thinking, and over 12–18 months, our offerings in this area.
- **Capital flows**  
Investigate ways to increase the capital flows into the social enterprise space.
- **2008 survey**  
Test themes for the next survey.

<sup>120</sup> [www.iese.edu/research/pdfs/op-04-16-e.pdf](http://www.iese.edu/research/pdfs/op-04-16-e.pdf)

<sup>121</sup> [www.accenture.com/global/about\\_accenture/company\\_overview/corporate\\_citizenship/philanthropy/accenturepartnerships.htm](http://www.accenture.com/global/about_accenture/company_overview/corporate_citizenship/philanthropy/accenturepartnerships.htm)

<sup>122</sup> [www.schwabfound.org/docs/web/linklaters\\_schwab\\_report.pdf](http://www.schwabfound.org/docs/web/linklaters_schwab_report.pdf)

<sup>123</sup> [www.wikipedia.org](http://www.wikipedia.org)

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 Annex 1  
 Survey Instrument
 

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1 **As a principal responsible for the future direction of your organization, please select two areas that present the greatest challenge:**

- Recruiting & retaining talent.
- Accessing capital.
- Developing a more mature/professional organization.
- Adapting to a changing external market/landscape.
- Promoting or marketing your organization.
- Something else (please specify).
- Nothing else.
- These issues are not my responsibility.

2 **Please briefly explain your biggest challenge.**

3 **Please briefly explain your second most important challenge.**

4 **Which of the following statements best describes your organization?** (Please select one)

- We completely rely on grants, donations or other sponsorship.
- We primarily rely on donor funding, but have other sources of income.
- We have sources of earned-income/customer revenue, but also rely on grants and other funding.
- We fund ourselves through customer revenue and mainstream capital markets and do not rely on grants or donations.
- Something else (please explain).
- Unsure.

5 **Five years from now, which of the following statements best describes how your organization expects to fund itself?** (Please select one)

- We will completely rely on grants, donations or other sponsorship.
- We will primarily rely on donor funding, but will have other sources of income.
- We will have sources of earned-income / fees, but also will rely on grants and other funding.
- We will fund ourselves through customer revenue and mainstream capital markets and will not rely on grants or donations.
- Something else (please explain).
- Unsure.

6a **Are you attempting to track non-financial performance for your organization?**

- Yes.
- No.
- Unsure.

6b **How are you tracking this performance? What metrics have you developed or what other approaches are you taking?**

6c **How are you finding this process?** (On as scale of 1 to 5)

- 1 This is not working at all
- 2
- 3
- 4
- 5 This is working very well
- 6 Unsure

7 **Thinking about financing your initiatives, which sources of funding do you feel will be the best avenues for you to pursue?** (Please select all that apply)

- Dipping into your own pockets.
- Raising funds from the public (fundraising).
- Attracting help-in-kind (donated time/products).
- Foundations (grants or program-related investment).
- Tapping government (grants, loans).
- Making sales/charging fees.
- Franchising.
- Joint venturing.
- Venture capital (including angel investments).
- Going public.
- Something else (please specify).
- Unsure.

8 **Why do you think these sources are the best avenues for you?**

9 **In what ways do you think large corporations could be better partners for you?** (Please tell us about experiences that have worked well or poorly in this arena).

10a **Will you allow SustainAbility to associate your name with your comments?**

- No, I would like to keep my comments confidential.
- Yes, you may associate my responses with my name and organization.

10b **Please tell us the region of the world where you primarily operate.**

- Africa
- Antarctica
- Asia
- Europe
- Middle East
- North America
- South America
- South Pacific

10c **Please select your organization's primary area of focus.**

- Economic and social equity (development and poverty alleviation).
- Education.
- Environment (including energy and water).
- Health.
- Housing.
- Institutional responsibility and transparency.
- Peace and security.
- Tolerance and human rights.
- Something else (please specify).

## Annex 2

## Participants

Below are the names of individuals who took part in our research. A number of survey participants requested that their responses be kept confidential and, as such, have not been included in this list.

John Daniels	ABT Insulpanel Limited	Dave Pearce	Miasolé
Sakena Yacoobi	Afghan Institute of Learning	Dr Devi Shetty	Narayana Hrudayalaya Hospitals
Trevor Cree	Agmachine.com Ltd	Mia Hanak	Natural World Museum of Environmental Art
Cyndi Rhoades	AntiApathy	Anil Pansari	Naveen Gram Agrotechnologies
Keerti Pradhan	Aravind	David Nuttle	Needful Provision, Inc.
Lisa Fitzhugh	Arts Corps	Olga Murray	Nepalese Youth Opportunity Foundation
Kamal Bawa	Ashoka Trust for Research in Ecology and The Environment	Damian Miller	Orb Energy
Barbara Hofmann	Association for the Children of Mozambique	Dr Davida Coady	OPTIONS Recovery Services, Inc.
Chris Underhill	Basic Needs	David Gordon	Pacific Environment and Resources Center
Jim Fruchterman	Benetech	Faisal Islam	Padma
Karl Mundorff	BioReaction Industries	Becky Crowe Hill	Partners in Schools
Daniel F Bassill	Cabrini Connections	Kenneth Luongo	Partnership for Global Security
Sylvia Aruffo	Careguide Systems	Dr Chris Elias	PATH
Jim Rough	Center for Wise Democratic Processes	Daniel Salcedo	PEOPLink, Inc.
Thankiah Selva Ramkumar	Centre for Social Reconstruction	Suraiya Haque	Phulki
Jeroo Billimoria	Child Savings International	Lynne Patterson	Pro Mujer Inc.
Greg Ruebusch	ColdBlast	Scott Pearson	Protonex
Art Lilley	Community Power Corporation	Peter McFarren	Quipon Cultural Foundation
Satyra Mishra	Drishtee Dot Com Ltd.	Brett Jenks	Rare
Christopher London	Educate the Children	Andrea Coleman	Riders for Health
Bunnie Strassner	Fascinating Learning Factory	John Wood	Room to Read
Kyle Zimmer	First Book	Heidi Kühn	Roots of Peace
Marv Baldwin	Foods Resource Bank	Dennis Sizemore	Round River Conservation Studies
Marcus Colchester	Forest Peoples Programme	Dr Antonia Neubauer	Rural Education and Development, Inc.
Nick Salafsky	Foundations of Success	Vera Cordeira	Saúde Criança Renascer
Rory Stear	Freeplay Energy	Graham Macmillan	Scojo Foundation
Martin Burt	Fundación Paraguaya de Cooperación y Desarrollo	John Marks	Search for Common Ground
Daniel Taylor-Ide	Future Generations	Cyril R Raphael	Shri Bhuvneshwari Mahila Ashram
Richard Wong	Gifts In Kind International	Russell de Lucia	Small-Scale Sustainable Infrastructure Development Fund, Inc.
Kavita Ramdas	Global Fund for Women	Ibrahim Natil	Society Voice Foundation
Shashi Tyagi	Gramin Vikas Vigyan Samiti	William H Conklin	SolarAMP, LLC
George Wagner	Harvest Wind	Jill Vialet	Sports4Kids
Nevzer Stacey	HasNa Inc.	Sharon Walden	Stop Abusive Family Environments, Inc.
Gary Cohen	Health Care Without Harm	Mark Borchers	Sustainable Energy Africa
Josh Tosteson	Hydrogen LLC	Jay Jacobs	Summer Search
Rick Surpin	ICS	Ron Smith	Verdant Power
Leland Stewart	Independent Energy Corporation	Charles Knowles	Wildlife Conservation Network
Karen Tse	International Bridges to Justice	Gerald Chertavian	Year Up
Randall Hayes	International Forum on Globalization	Ali Raza	YES Network Pakistan
Garry Neil	International Network for Cultural Diversity		
Katherine Freund	ITNAmerica		
John Tarvin	Jumpstart		
Elana Rosen	Just Think Foundation		
Sharron Rush	Knowbility, Inc.		
Alison Bock	Landmines Blow		
Deborah Meehan	Leadership Learning Community		
Linda Hahner	Literacy Center Education Network		
Talia Aharoni	MAALA (Business for Social Responsibility in Israel)		
Paul Holthus	Marine Aquarium Council		

**Allianz** 

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**DuPont**

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[www2.dupont.com](http://www2.dupont.com)

**skoll**  
FOUNDATION

**The Skoll Foundation**

The Skoll Foundation was created by Jeff Skoll in 1999 to pursue his vision of a world where all people, regardless of geography, background or economic status, enjoy and employ the full range of their talents and abilities. Skoll, who was the first employee and first President of eBay, believes that strategic investments in the right people can lead to lasting social change. The Foundation's mission is to advance systemic change to benefit communities around the world by investing in, connecting and celebrating social entrepreneurs.

[www.skollfoundation.org](http://www.skollfoundation.org)

**SustainAbility**

**SustainAbility**

Established in 1987, and based in London, Washington DC, and Zurich, SustainAbility combines consulting, research and public interest activities.

[www.sustainability.com](http://www.sustainability.com)