Scaling Up Social Businesses

THEORY AND APPLICATION

Practical Project in Development Cooperation

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Abstract

This paper attempts to give advice for the scaling up of social enterprises. The project is twofold: At first a theoretical overview of growth is introduced; then the focus shifts to concrete challenges for growth of social businesses. This second part is supposed to be of applicable value for the practitioner. In the first part the process of scaling up is being analyzed in a general way, introducing the classical definitions of growth and presenting the according strategies. After analyzing the general concept of growth, the theory of growth is being applied to social businesses, focusing on the specific ramifications that result from the different goals and settings of a social business. Most explicitly of which is the change in intention: from *profit* to *impact*. This necessitates a new and complex look at growth when it comes to social businesses – even if profit remains an important aim of most social businesses. In order to be of most practical value, the second part presents the most common challenges to scaling up a social business. Each challenge is being analyzed in a general fashion, then remedies are being introduced and finally examples from practitioners and social businesses around the world are given to visualize the challenges and remedies. Both external and internal challenges are considered. The external challenges of most importance are: understanding the concept of a social business; the access to markets; the problems of measuring impact; building and making use of networks; the legal confusion surrounding social businesses; financing a social business; increasing sales. The internal challenges of a social business focused on are: the right and working business model; and the right mindset, spirit and capabilities within the business.

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1. Introduction: scaling up social businesses – one dilemma, many challenges.

A new concept has electrified scholars and scientists of business studies and development studies alike: the bottom of the pyramid. The new concept promises to unite the final intentions of both fields of study: to make profit and to help the poor. The concept is not entirely new however and "social businesses" have been around for a long time one way or the other – as has been the conflict of making profit while at the same time being social. How can both be accomplished? How can businesses grow, but still be social? Questions raised and discussed many times and tackled by a cohort of organizations like Ashoka, the Schwab foundation and MSD and that are on the table of public development agencies like DEZA now too.

This paper attempts to add to the research of these questions - and more specifically to the question of how to scale up social businesses - but also wants to be able to be of practical relevance for social businesses. Therefore it will not only provide the reader with a conceptualization of growth, it will also supply a collection of the most common challenges for scaling up social enterprises in line with suggestions and examples of solutions for those challenges. It is intended as a work of overview and relevance and to help the practitioner, who wants her social business to grow. With reading this paper she shall know whether growth is even possible with her particular social business or what might need to be changed and what possible obstacles to scaling up her social business might be. This work focuses on the particularities of growth for social businesses, not on the general concepts of making a company grow. And it does so for any social business; not particularly those that relate to the concept of the bottom of the pyramid – even if most of the new social enterprises do.

It also highlights the underlying conditions social businesses work in, and with that provides a framework for development organizations (like the DEZA) showing possible objectives that are in need of change from a third party.

This paper will not show the right route to growth, as that route depends on each and every business and attempts to generalize that route would by far go beyond the scope of this paper. However, the challenges and obstacles to growth, stemming from the basic dilemma of social businesses are overall similar and – if manifold – compilable. And that is what is attempted here, a compilation of the most common threats, hurdles to and possibilities for growth ("challenge" is to be understood in its opaque meaning) for social businesses and of the remedies.

The first part of the paper will introduce the general concept of growth and how it is treated in traditional business science and then apply the concept of growth to social businesses and the difficulties that come with the concept of “growth” when businesses are not only supposed to make profit but also to be socially profitable.

The second part consists of the compilation of challenges to growth and their remedies. These are further divided into external and internal challenges. This separation is not entirely clear however, as some challenges originate from both “spheres” and likewise the remedies are often to be found of internally even though external remedies might be provided by agencies like the DEZA as well. The external challenges are: *market access, sales, impact-measurement, networks, legal* ramifications and *financing*. Internal challenges are the business model or a lack of one and the managerial spirit and knowledge which is a prerequisite for growth.

With this work, the authors hope to foster the understanding of the perplexing complexity of the concept of social businesses and provide insight on two questions: what does growth mean for a social businesses and how can the most important challenges for social businesses be tackled?

2. Methodology

This paper is structured twofold; with a theoretical survey of growth in the beginning and collection of a certain set of challenges to growth and suggestions for remedies afterwards. Therefore the methodological undertaking had to be twofold as well; a purely qualitative focus in the first part of the paper and a mixed, qualitative and empirical, research design for the second part.

For the first part the leading scientific literature of business science focusing on growth in general and growth of social businesses in particular has been explored and discussed, in order to answer the questions “what is growth?”, “what is growth for a social business?” and “what are strategies for growth?”. The outcome of that analysis and discussion culminated in the chapter “Theoretical Analysis“. This chapter is a traditional analysis of literature and meant to inform the reader of the basic concepts of growth for regular businesses and for social businesses. No specific type of social business is being considered, but rather this work relates to all types of social businesses in a general fashion. However, in many cases the social business with most relevance for the process of scaling up were those that work with or in the bottom of the pyramid. These cases certainly are of most interest.

The second part of the paper “Challenges for Scaling Up Social Businesses” is of practical nature. It attempts to clarify the most important challenges and to show according remedies. This applied part of our research is the product of a literature survey on the topic of scaling social businesses, of an analysis of cases and of informal talks and encounters with business professionals and experts. The outcome of these gatherings on the topic is intended to be in a consulting spirit, with a list of challenges and remedies to provide an overview of the possible challenges for growth and advices on how to face them. The challenges are being illustrated by cases. During the research the authors came to find seven challenges to be the most important external ones; they were tackled and structured according to the following scheme: first a theoretical analysis of the challenge, then a theoretical analysis of the solution and lastly a practical example for both. The four internal challenges have been taken on accordingly.

3. Theoretical Analysis

The theoretical analysis is, on the one hand, concerned with depicting the importance of growth for a company in general as well as with offering an insight on growth strategies that a company can follow. On the other hand, this part is dedicated to underlining the growth strategies that particularly social enterprises can utilize to scale-up their business fast and sustainable.

In the context of this paper, the theoretical analysis is intended to develop a common ground for the main investigation of the overall topic. This section constitutes the academic perspective on the practical issue social enterprises face when they intend to scale-up their business.

3.1 Growth and the Corporation

The following section is dedicated towards clarifying why growth is important for a corporation. Additionally, it will lay the academic foundation for the various forms that growth can take and this section of the paper is additionally concerned with illustrating different reasons why growth is significant for the well-functioning of a company of any kind.

Measuring overall organizational performance is fundamental to the academic and practical field of management, economics and business. The academic groundings for measuring the development of the state of an economy respectively of the state of a corporation are laid down in the literature of business cycles in the 20^{th} century (Schumpeter, 1935). It would be generally agreed upon that the primary economic function of an industrial firm is to make use of productive resources for the purpose of supplying goods and services to the economy. As the industrial firm needs to finance its operations to make use of its productive resources, the company uses divergent forms of financing options in order to reach liquidity. Since the firms or individuals that provide the company with liquidity although want to benefit from lending their money to someone else, they require the company to pay interest. Hence, in the long run, the company is demanded to increase its performance for the purpose of repaying its moneylenders accounts. Thus, following this short logical extract reveals the importance that growth plays for a company.

In addition to the logical thought experiment, internal and external causes exist that demonstrate reasons for a company to seek growth. On the one hand, the external market competition within the respective industry of the firm requires a company to seek growth. As economic theory is based upon the assumption that resources are scarce, companies compete for a diminishing store of assets to do business (Varian, 2009). Accordingly, in order to secure survival and viability, growth is inherently needed in order to successfully strive in competitive markets. Furthermore, Porter (1980) depicted that a change in his five forces framework requires a company to re-assess or even better to innovate itself in order to stay competitive. Porter's "Threat of New Entrants" and "Threat of Substitutes" demonstrate that a corporation is constantly forced to develop itself further in order to be and stay successful. Hence, growth, from a company's external point of view, is an inherent objective.

Internally, on the other hand, employee competition demands the corporation to allocate its resources to the members of staff showing an increasing set of skills. Subdividing a consistent or declining amount of funds tremendously amplifies the internal pressure on the corporations' management board. Thus, growth is aimed at in order to harmonize amplitudes of employee competition (Kumar, 2010). Additionally, the "War for Talents", especially in the western world, requires firms to be attractive to new employees. Studies underline that the most important points for winning the "war for new talents" are the prosperity and growth perspective of a firm (Nagpal, 2013). Finally, as "Change is the only constant in life" as *Heraclitus* is quoted, innovation driven employees advance a company internally and thereby drive growth.

Accordingly, organizational deployment and the overall development of a company's performance are the main points of concern for corporate executives and a company's stakeholders, since growth plays a decisive role in the nature of a corporation (Penrose, 1995). However, managers can choose from a wide array of performance measures in order to analyze the growth of their company. Hence, for the purpose of ensuring a transparent understanding of the forms growth can take, Hutzenschreuter's (2001) four growth patterns are introduced in the following part.

Hutzenschreuter (2001) introduces four directives that one can utilize to measure the progression of a company. Measuring the *quantitative* performance, EBIT or overall profit, is the first directive the author presents. Especially publicly listed companies are forced by competition law to publish their quantitative performance indicators which represent the key information that investors seek for providing these companies with their funds. According to Hutzenschreuter (2001), company growth is mainly determined by the progression of a corporation's key quantitative indicators.

The second group of growth determinators introduced by the author are *qualitative* performance measures. Product and delivery quality, employee satisfaction, managerial competences, or a company's brand image are primarily qualitative measures to assess the overall performance of a company. Even though quantitative directives dominate the performance assessment for measuring growth of a company, especially from an external point of view, the qualitative performance plays an increasingly important role for companies (Quelle, 2012).

In addition to the qualitative and quantitative growth measures, Hutzenschreuter (2001) introduces a third measure – *Reach*. The author argues that in the wake of globalization a number of companies analyzed their growth path by concentrating on increasing the number of countries, respectively on increasing the number of markets, they are able to reach with their product offerings. The author's study reveals that especially restaurant chains and computer software companies steer their growth story towards extending their global reach. Apart from these two industries, social enterprises regard growth of their businesses mainly in terms of enlarged reach (Lyon & Hernandez, 2012). The succeeding analysis will portray what implications this type of growth measurement has for social enterprises.

Finally, growth of a corporation can also be measured in terms of how much *impact* a company generates. Hutzenschreuter (2001) underlines that measuring impact is highly questioned by academia as no generally accepted measurement exists in order to determine growth in terms of enlarged impact. However, for social enterprises, which represent this paper's investigational touchstone, growth is primarily characterized by scaling-up their company's social impact (Uvin, Jain, & Brown, 2000). Section 3.3 of this paper reveals social enterprises' growth strategies focused on extending impact.

The preceding analysis underlines the importance of growth for corporations and depicts the various forms how growth can be traced. However, even though the significance of scaling-up a company is clarified, the question remains how companies, and especially social enterprises, can pursue growth paths.

3.2 Growth Strategies

As section 3.1 depicts the importance of growth in general for a corporation, this part of the analysis is concerned with offering an academia-based insight on how companies can scale-up their businesses. Firstly, the Ansoff Matrix (Ansoff, 1957) is introduced. Secondly, an internal and external firm perspective is utilized to illustrate further growth opportunities that a company possesses.

3.2.1 The Ansoff-Matrix

Since its introduction in 1957, the Ansoff Matrix has become one of the most renowned generic concepts used to evaluate growth strategies for corporations (Johanesson, 2010). Ansoff (1957) introduced a two-by-two matrix deemed to support corporate growth objectives by combining existing and new products/services, and existing and new markets. Thereby the author presents four distinct strategic alternatives, regarded as a product-marketing mix, to generate business growth (See Figure 1). The first strategy derived from the Ansoff-Matrix is aimed at increasing the company's share of an existing market with its current products and is named *Market Penetration*. Following this strategic alternative implies to persuade existing customers to use more of a company's products, persuade non-users to start using, or to attract customers from competitors (Hill & Jones, 2012). Accordingly, by following this strategic alternative, a company directs its resources towards the company's marketing department, by either increasing its expenditure on advertising or by reducing its product prices, in order to gain market share. Furthermore, the second strategy to be pursued is *Market Development*. According to Johanesson (2010), following this approach means to identify and/or create new market segments for a company's current product offer. Utilizing the strategy in the lower-left corner means to take the company's existing products to new markets. Mainly this implies an internationalization strategy of product introductions into countries not yet served by the firm.

On the product side, the third strategy presented means to develop a new product to be sold in current markets. This *Product Development* plan is associated with other marketing management tools to assess a product's sales potential (Jobber, 2006). Based on the company's knowledge about the market they currently operate in, it decides to introduce a new, innovative or adapted product as a response to changing consumer demands or technological change. Finally, Ansoff (1957) theorizes the *Diversification* strategy, which involves producing entirely new product propositions for new markets, which is, according to Johnson, Scholes, and Whittington (2006), the riskiest of the four strategies as it is not build upon existing core competences. By following the strategy in the lower-right corner, a company introduces a new product to a not yet served market. This strategy involves a deep market and industry analysis of an unknown country to grasp consumer tastes in order to create a highly demanded product specifically for the new market.

	Existing Product	New Product
Existing Market	Market Penetration	Product Development
New Market	Market Development	Diversification

Figure 1: Ansoff-Matrix. Source: Own illustration based on Ansoff (1957)

The generic strategies derived from the Ansoff Matrix can be utilized by both For-profit companies and Social enterprise. However, the decision which strategy to follow depends on the individual company, its industry environment, and the company's overall resource base and thus, can not be done in general. In conclusion, the Ansoff-Matrix, as a tool used to examine a company's product-market mix, delivers the strategic fundament for a company to decide upon and to analyze its individual growth path.

As the Ansoff Matrix provides mainly generic strategies, that on the one hand create valuable strategic alternatives but on the other hand also leave various questions unanswered that have to be conducted by the individual corporation, the analysis of growth strategies for both for-profit and social enterprise based on academia is hereafter directed towards the internal and external firm-view.

3.2.2 Internal and External Growth Strategies

Another possibility to develop a company's growth strategy is to direct the firm's effort on growing internally and/or externally. The decision is not based on an either/or basis, as a firm can decide to follow both an internal and an external growth pattern (Nyiri, 2007). In the following part, a selection of internal and external growth options are introduced.

On the one hand, a company can grow internally by directing its efforts on *product development*. Increasing a company's Research & Development budget is correlated with product innovations that lead to diversification strategies which eventually support the company in growing its sales figures. Hence, by focusing the company's resources, financially and in terms of manpower, towards product development for the purpose of creating additional value for the firm's customers is a dedicated strategy to pave a growth path.

Another possibility to grow and strengthen a company internally in order to increase its size, is to *innovate the firm's management body*. The academic field of Management Innovation theory is best described by the definition of Birkinshaw, Hamel, & Mol (2008): "We define management innovation as the invention and implementation of a management practice, process, structure, or technique that is new to the state of the art and is intended to further organizational goals." Hamel (2009) underlines that the optimization and innovation of the management board as well as the improvement of the organizational structure of a company still offer a significant efficiciency potential to fortify a firm's growth path. In practical terms, Business Process Reengineering (BPR), a management technique used to realign a firm's disintegrated and disconnected process steps, is an example for a Management Innovation that has been used in various company's for the purpose of directing the company's business towards growth (Hammer, 1990).

As internal growth strategies are mainly not as visible to the public as external ones, the in-house growth alternatives are often not as prominent in a company's strategy department as their potential for progression would allow them to be (Hamel & Breen, 2013).

In addition to internal approaches, *business cooperations and building strategic alliances* constitutes external growth strategies for companies. The effective combination of strengths of companies aiming at entering new markets, exploring foreign investment opportunities and learning from each other depicts a targeted strategic decision for the purpose of enlarging ones company (Jakada, 2014). Alliances allow a company to enlarge its customer base, offer cross-selling solutions in cooperation with its alliance partners and it simplifies the funding of investment projects by joining forces (Doz & Hamel, 1998). Numerous practical examples support the academic advocacy towards business alliances, as most of these turned out to be quite a success for both alliance partners as studies of Bamford & Ernst (2002) depict. Even though risks have to be prevented from engaging in business cooperations and strategic alliances, the advantages for the purpose of growing fast and efficient are persuasive (Hennart, 2006).

Another external growth strategy that a firm can utilize, is growth via *Mergers and Acquisitions (M&A).* Growth by merging with another company or progress by acquiring a promising firm, represent growth options that on the one hand require a high amount of financial resources but that on the other hand pledge to develop the company a lot further (Gomes, Angwin, Weber, & Tarba, 2013). In order to grow a company fast but on a healthy basis, a merger with another company that ideally adds to the strenghts or rectifies the weaknesses of your company offers a valid solution. Even though the post-merger integration process requires a high amount of resources bound to adapt the two companies to one another and mainly clashes of diverging company cultures demand a focus on change management activities, the possible business advantages are manifold (Angwin, 2007). Merging two firms leads to a possible utilization of economies of scale and scope as firms can, on the on hand, use their higher procurement budgets to reduce purchasing prices and, on the other hand, offer their products for a wider market scope. Additionally, merging two companies in one industrial sector augurs them a dominating or at least favorable post-merger market position. This position can than be utilized to increase sales, negotiate favorable business conditions or to strengthen the company's position towards political influences (Galpin & Herndon, 2007).

Otherwise, the acquisition of another entity as a company's strategy to generate growth, is intended to fulfill differing targets in comparison to a merger. The main strategic rationale to acquire another firm is either to add a certain missing piece to a company's overall value chain or to eradicate an identified weakness by acquiring required capabilities (Ranft & Lord, 2002). As the focus of a merger is to join forces between two nearly equal entities, an acquisition follows the logic of taking over another firm that strengthens the acquiring company to grow further. Reasons for an acquisition of another entity can be to gain access to unserved markets, access to scarce resources, access to new technologies or specific capabilities as well as to diversify the company's portfolio by aiming to cover the entire value chain of a certain industry (Mahmood, Zhu, & Zajac, 2011). Thus, an acquisition allows a company to grow by introducing missing capabilities to the firm and by strengthening its resource base.

In conclusion, a company can follow a broad set of strategies to grow its business fast and sustainable. The decision which growth strategy to follow depends, on the one hand, on the type of company, its size, performance and financial viability and, on the other hand, on the company's industry, the industry's degree of competition, its legal framework and its future transition expectations.

3.3 Growth Strategies and Social Enterprises

The theoretical analysis, so far, illustrates why a company, in general, needs to grow, which forms company growth can take, and what kind of strategies a company can utilize to actually grow its business. Accordingly, this section is dedicated towards analyzing the specifics of social enterprises, the differences to for-profit companies based on its unique form of company, and towards answering the research question of how social enterprises are able to grow fast and sustainable on a theoretical basis. The hereafter following section is than concerned with underlying this theoretical perspective with real-life, practical examples.

3.3.1 The Social Enterprise

As formerly the main body of academic work has been based upon for-profit companies, a growing number of studies recently have concentrated on companies with a social aim. The UK Government defines a social enterprise as a business with primarily social objectives, whose surpluses are principally reinvested for that social purpose or in the community, rather than being driven by the need to maximize profits for shareholders (DTI, 2002). Hence, following this definition, which this analysis uses as the decisive characteristic for a social enterprise, a not-for profit company, is seeking a social aim by following a wider, more distinctive approach to support local communities or to sustainably eradicate social problems (Lyon & Hernandez, 2012). As policy makers place high expectations on social enterprises to provide their services on scale, these companies, which mainly tend to be localized and operate on small scale (Amin, Cameron, & Hudson, 2002), show considerable ambitions to scale-up their impact and grow their business. However, as social enterprises try to combine the efficiency, innovation, and resources of a for-profit firm with the passion, values, and mission of a not-for-profit firm, they often embed within the boundary of one organization multiple inconsistent goals, norms, and cultures that in fact hinder it from following a successful growth path (Battilana, Lee, Walker, & Dorsey, 2012; Smith, Gonin, & Besharov, 2013). The introduction to this section revealed the broad and open research focus on social enterprises and underlined the tensions that such a type of firm is exposed to.

In distinction from for-profit companies, whose main target it is to generate profits for its shareholders, social enterprises aim at a wide range of strategies for overcoming problems and opportunities in society (Alter, 2008). In the following part, a short but non-exhaustive overview of social enterprise business models is given. First, a number of social firms focuses on educating marginally employable citizens to achieve continued employment by offering them skill development trainings. Hereby the company serves social improvement and creates earnings from partnering employers (Tracey, Philups, & Jarvis, 2011). Second, another group of social enterprises seeks to improve human and environmental welfare through their product and service offers to, for example, increase energy efficiency. A third group is re-engineering manufacturing and product design for the purpose of offering products to people at the bottom of the pyramid. On the one hand, this market is difficult for profit generation, but on the other hand it is composed of a high number of people (Prahalad, 2006). Finally, fair trade organizations are dedicated to create a power shift away from profit-seeking multinationals towards those companies producing the goods in developing countries. Their focus is on widening their impact by spreading fair production agreements. Concluding, despite the variety of types of social enterprises, a unifying characteristic exists in all of these companies, which is to scale-up their company's impact and business in order to enlarge upon the social purpose they seek (Smith, Gonin, & Besharov, 2013).

3.3.2 Scaling-Up Social Enterprises

The application of the growth strategies introduced in section 3.2 of this paper to the social enterprise business model is the focus of the following section. Due to the nature of these firms that seperates them from for-profit companies, certain specific challenges prevail that make the scale-up process of social enterprises more demanding. These challenges are examined in the following section, while this part is dedicated to answer the research question how social enterprises can grow fast but sustainable.

As the Ansoff-Matrix is mainly focused on products, the tool needs to be adapted to social enterprises as most of these firms do not offer a marketed product as defined in classic theory. Even though the strategies derived from the Ansoff-Matrix are still applicable to social enterprises, our analysis is concentrated on internal and external growth strategies as introduced in section 3.2.2 as these offer a better foundation to scale-up social companies.

Accordingly, in order to increase their scale internally a social enterpise can focus on developing and differentiating its products. Following this *diversification approach* means to not solely focus the firm's effort on one service or solution only, but rather to diversify the social company's product offering (Doherty, et al., 2009). In relation to the basic strategy of fast-moving consumer goods companies, this approach is focused on the development of cross-selling products and services to expand the firm's impact and scale. Applying this highly theoretical strategy would mean to develop a second or third service that is highly related to the initial one in order to tackle another social purpose. Thereby, the social enterprise increases its reach and impact and due to the proximity towards its initial service, it scales up its overall business.

Another strategy to scale-up social enterprises internally is related to the introduced *Management Innovation* practice. Investigating whether all internal functions and processes are staffed correctly, examining whether they all are effectively aligned, and exploring whether the organisational and procedural structure is efficiently functioning, is a necessary task to realize quick-wins for growing a social enterprise's business (Vickers & Lyon, 2014). The growing importance of internal, dynamic resources in order to create and update competences by organisational learning, meaning to build dynamic capabilities, is especially important to social enterprises seeking growth (Teece, Pisano, & Shuen, 1997). As the market environment of social firms is mainly completely new or at least not comparable to other businesses developing dynamic capabilities, the capacity of a company to create, maintain, and renew its resources and capabilities in a dynamic environment (Easterby-Smith & Prieto, 2008), is essentially important for the purpose of developing the capability to grow. Hence, social enterprises have to make a substantial effort to align its internal processes and to develop management skills that are trained to operate successfully in an unknown market environment that is prone to institutional voids, government influences and cultural clashes. In order to be able to scale up their business fast and sustainable a well-trained and well-structured management body has to be developed.

Finally, social enterprises can also scale-up their business fast and sustainable by exploring innovative and more target-based ways to *demonstrate their impact* to others (Liu, Eng, &

Takeda, 2015). On the one hand, communicating products' benefits and delivering product offerings to potential customers represents a crucial step for the success of a company. Due to the product specifics of social enterprises, which are mainly situated in push-markets, understanding the company's potential customers' demand is even more important in order to communicate with him successfully (Murray, Gao, & Kotabe, 2011). Push-markets, in contrast to pull-markets in which for-profit companies normally operate, are characterized by a high effort to educate potential consumers as well as the need to actually establish a person's perception for a certain product. Contrasting pull-products that consumer automatically desire, push-products, mainly delivered by social enterprises, are designed to enhance the live of the consumer in a certain way, although the customer has to be educated how the particular product serves his well-being. Even though social enterprises aim at fulfilling social purposes, they often nevertheless directly compete against for-profit firms. Thus, social enterprises have to make an effort to understand their customers' needs. On the other hand, social enterprises need to find innovative ways to effectively communicate to the general public and to governmental authorities what impact they create with their businesses. The public image has to be understood as an important marketing tool for the purpose of scaling up a social firm's business fast and sustainable (Morgan, 2012). In conclusion, social enterprises that seek growth need to direct resources towards their marketing and public relations departments in order to fuel their growth strategies.

After a close examination of the internal measures to scale up social enterprises, these firms can in addition seek growth externally. A first approach for this purpose is to build *strategic alliances*. As social enterprises often operate in a market field that is charecterized by scarcity, they are confronted with a shortage of available resources of all kind. Additionally, as these markets are often not in the main focus of the public they lack political support. Hence, building strategic alliances either with other social enterprises, with public entities or with private companies allows firms with a social purpose to tremendously increase their reach and scope. Thereby, they can enlarge their impact, increase their sales potential, and strengthen their access to resources (Jakada, 2014). In theory building strategic alliances seems to be a *"no-brainer",* although in practice finding the right alliance partner and developing the collaboration into a win-win situation is often way more difficult.

Furthermore, as has been introduced before in section 3.2.2, social enterprises can also closely cooperate or merge with another social company for the purpose of scaling up their businesses. A merger would be most beneficial when the product offerings of the social enterprises match each other to a certain degree, in order to profit from cross-selling opportunities. Additionally, a merger can also move the merging companies into a market dominating position if their offerings would cover the entire value chain of a certain industry (Porter, 1980). This close cooperation would allow a social enterprise to overcome a lot of challenges to seek growth by joining forces. Moreover, a merger would allow the participating social enterprises to increase their financial credibility to find suitable financing options to fund a growth strategy (Rowan, Papineschi, & Taylor, 2009). However, this strategic approach is only rarely used in practice. Another highly discussed but even more difficult to practically implement strategy, is to geographically replicate a successful social concept. Hereby, a social enterprise would grow by taking its successful social business model from country A to another country B and replicate it there (Vickers & Lyon, 2014). A modification would be to introduce a social enterprise franchise model to the market as Johnson, Richardson, and Turnbull (2007) propose in their studies. In conclusion, following a cooperation and merger strategy to scale-up a social enterprises fast and sustainable promises to be theoretically a great success. However, in practice such a deep cooperation requires a dedicated comparison of the scalable benefits versus the potential complexities stemming from a merger (Angwin, 2007).

Finally, academia suggests that scaling up social enterprises can also stem from the development of quality standards, kite marks, and certificates in order to raise quality and increase attention to social issues (Lyon & Hernandez, 2012). To take the importance of such standards and symbols a step further, social enterprises might attempt to lobby policy makers to include such aspects into legal regulations. As the development of such quality standard certificates allows the social enterprise to enlarge its impact by setting certain quality criteria in their field of operation, it also spreads their reach significantly. Additionally, once these standards are implemented and generally accepted, they might also be modified into a revenue generating service by the social enterprise by offering quality consulting services or administrative charges (Paton, 2003). As this strategy requires strong relations to a legislative state body, these ties have to be build beforehand. However, the external strategic approach to develop certain quality standards is regarded as a promising concept to seek fast and sustainable growth for social enterprises.

The examination of the academic literature on scaling-up social enterprises has revealed a wide range of potential strategies to substantially enlarge a social corporation. Although how growth is reached may differ between social enterprises, in each case the overarching objective is to increase social impact. Hence, a sole focus on organizational growth falls to short when analyzing social enterprises. After the first research question of this paper has been answered by the foregoing theoretical analysis of scaling-up alternatives for social enterprises, the subsequent part is concerned with examining, based on real life cases, which practical challenges occur when these companies seek growth as well as how such corporations can overcome their obstacles.

4. Practical Analysis

Following the first chapter, which introduced a theoretical overview about scale-up processes and growth in general as well as the distinct features of growth for social enterprises, this section provides a comprehensive outline of concrete practical challenges for social enterprises that are attached to scaling-up their business. After first identifying central external challenges, the authors focus on the internal view of a social enterprise in order to distill the most important internal challenges as well. In total 11 challenges (7 external, 4 internal) are investigated throughout this chapter by focusing on academic articles as well as real world examples from social enterprises. Every challenge is introduced by theoretically defining their importance as well as their potential impact on scaling-up a social enterprise. A theoretical approach to a practical solution is introduced afterwards. Lastly, a case study or best practice example concerning the respective challenge is provided.

4.1 External Challenges

The following chapter serves to introduce external challenges attached to the task of scaling-up a social enterprise. In total, light is shed on seven crucial issue areas to consider when growing a business: the poor understanding of the social business approach, the challenge to find the right networks to support the scale-up, issues in the legal arena, access to market challenges, financial matters, how to measure the impact of a social enterprise and finally the challenge to increase sales.

4.1.1 Poor Understanding of the Concept of Social Business

Social business is a relatively new term, which was strongly influenced by Muhammad Yunus and described as a business model that is different to traditional ones. It does not fit into traditional schemes and is still a " [...] new concept, whose use and understanding remain limited to a circle of experts and social entrepreneurs [...]" (Defourny & Nyssens, 2008, p. 216).

i) Theoretical Introduction of the Challenge

The concept and the value of social enterprises remain unclear a variety of different actors. Especially policy makers, investors, prospective customers, public servants and partners of the social enterprise show a poor understanding for the concept of social business (European Union, 2014, p. 14; Hines, 2005, p. 16). Furthermore, it exists a difference in the perception of social businesses. In some areas they are rather associated with "[...] charity or work integration of disadvantaged and disabled people [...]" (European Union, 2014, p. 14; Hines, 2005, p. 16) and not as a business model itself. The misleading categorization as a voluntary or charity organization implies an obstacle for social businesses and causes that commercial businesses do "not take them seriously" (Hines, 2005, p. 21). Subsequently, stereotypes, misunderstandings and a certain lack of awareness slow down the development of many social ventures and their impact. Thereby, different stakeholders are subject to a limited understanding of social business (Figure 2).

Figure 2: Stakeholders with poor understanding, which hampers the scaling-up of social businesses

Source: Own illustration based on Department of Trade and Industry, 2002, p. 27

Policy makers are an important factor for a social business since they mainly influence the business environment. In contrast, policy makers often do not see social businesses as a supportive solution for social and economic problems within their own or in other countries (Department of Trade and Industry, 2002, p. 27). In policy circles the term social business has been used increasingly since the 1990s and the demand for clearer definitions has permanently increased (Lyon & Sepulveda, 2009, p.91). Furthermore, those politicians who know about the concept of social business often lack the awareness of suitable measures to promote it (Schwab Foundation for Social Entrepreneurship, 2013, p. 9). Exemplary for this circumstance is the fact that social enterprises are not part of the academic discourse or political agenda in many European countries (Defourny & Nyssens, 2008, p. 207). According to social entrepreneurs, it is of particular importance to develop greater understanding of the specific requirements for social enterprises compared to mainstream businesses among policymakers (Hynes, 2009, p. 123).

An important factor is to analyze which actors are involved in the discussions about challenges for social businesses, which drive the understanding of social businesses – so-called business support providers. Adequate literature would be a key in overcoming existing barriers for social businesses but researchers “[...] do not sufficiently engage in critical analysis or debate about the informal market environment, contending political influences, development obstacles, or other issues pertinent to the developing world context [...]” (Hackett, 2010, p. 215). Moreover, the existing research is done by western based actors who focus on key issues of their communities and countries (Hackett, 2010, p. 215). Similarly, most government literature about social businesses is commissioned from and directed to western economies (Hackett, 2010, p. 215). Therefore, stakeholders struggle to understand the specifics of social business in developing countries. An example for incomplete research is the British social enterprise action plan, which aimed to explain social enterprise at global scale but focuses on five Western countries:

> *“As part of the independent review of the social enterprise strategy, an analysis was conducted of research on social enterprise policy and practice at European and global scales. The study focused on developments in five countries: France, Germany, Italy, Poland and the United States.”* (Office of the Third Sector, 2006, p. 25).

Social enterprises in developing countries are surrounded by a different environment than those in western countries. Therefore, it is an additional challenge for them to transpose the findings of western research into their framework. But the social businesses play an important role in the development of a region and many success stories took place in non-western parts of the world (Asian Institute of Technology, 2009, p. 6). For social enterprises in developing countries it is difficult to achieve adequate advice because most analyses and literature are published by authors or institutions from western countries that focus on social enterprises in their home countries (Hackett, 2010, p. 215).

Furthermore, business support providers, such as consultancies or business networks, have not focused on social businesses in the past and were therefore not able to provide specific support for the targeted partners of development agencies such as the Swiss Agency for Development and Cooperation (see also challenge no. 2). (Department of Trade and Industry, 2002, p. 27)

Finance providers are one of the most important stakeholders since social enterprises often face difficulties to finance their ambitions for more growth. Many providers have been insecure about the risks that are related with social businesses and the appropriateness of lending to the sector (Department of Trade and Industry, 2002, p. 27). Social enterprises reported that they felt "precluded from many of the initiatives and supports provided for the more mainstream entrepreneurs" (Hynes, 2009, p. 121). This step is an important key factor for social businesses to become accepted in the business environment and to use the full potential they incorporate (Hynes, 2009, p. 121).

Additionally, three further players show a low comprehension for social business. For-profit-businesses have not recognized the potential for new partnerships and voluntary sector organizations have not seen the potential of the idea of social businesses to move from reliance on subsidies to a greater self-sufficiency and business partnering (Department of Trade and Industry, 2002, p. 27). Lastly, because of an incorrect imagination and unclear definitions, potential employees do not perceive social enterprises as valid career or business options (Department of Trade and Industry, 2002, p. 27). The poor understanding of the concept of social business of all these actors involved is an obstacle for social enterprises and hinders companies from being established or scaled-up.

ii) Theoretical Introduction of Solution Approaches

In order to pursue the aim of scaling-up, social business managers need to overcome the aforementioned restrictions and need to generate a common understanding for the purpose of overcoming this main challenge (Schwab Foundation for Social Entrepreneurship, 2013, p. 9). Thereby, communication is an important measure to achieve this goal. Certainly, a poor understanding of social business among politicians, investors, potential partners and financiers can be overcome through a clarification of the idea and the concept of the project. The social business expert Emmanuel Léger describes the circumstance as follows:

> *"You just cannot overcommunicate. You need to have the patience to spend countless hours listening and convincing."* (Kayser & Budinich, 2015, p. 134)

An appropriate organizational structure supports the exchange of ideas and incorporation of diverse perspectives (Schwab Foundation for Social Entrepreneurship, 2013, p. 9). Thereby, the excessive need of communication can be limited through the establishment and intensification of relations with specific representatives in order to benefit from previous clarifications. Therefore, communication is closely related to a functioning relationship management to stakeholders such as political representatives, banking foundations and other third parties. It improves knowledge about the type of social business in general and about the business of the regarded company. Regarding relations to public actors, strong relationships are also an important factor for the purpose of bringing about innovative welfare models apart from the obvious motivations lobbying and representation (Defourny & Nyssens, 2008, p. 219). Thereby, public and media relations are an efficient measure to leverage the national and public discussion about social enterprises (Schwab Foundation for Social Entrepreneurship, 2013, p. 9).

Moreover, social enterprises suffer under the lack of consultation structures and should point out the problem to achieve more support. Advisory and consultation, which is specified for social businesses, will improve the quality and diversity of accessible advice (Nelson, 2007, p. 27).

In public institutions a single person or a small group of people is delegated to manage the relations to social enterprises quite often. Therefore, the success of the enterprise highly depends on the knowledge of selected persons. Social enterprises need to encourage development agencies and funding institutions, which provide specific practical solutions and expertise, to select and train experts for the positions that are responsible for social businesses (Hynes, 2009, p. 123). Another way is to approach specialized local institutions such as the Muhammad Yunus' Grameen Bank or networks (See Chapter 4.1.2) for support because experts can understand the specific challenges for social enterprises better and are able to support them by finding suitable solutions.

iii) Case Study and Best Practice Examples

In 2002, the Impact Investing Working Group of the Presidential Investment Council was established in Senegal. The group's goal is to identify and address constraints faced by businesses. Additionally it pursues the aims to contribute to sustainable economic growth, poverty reduction and private-sector investment. Therefore the working group engages international and domestic investors, entrepreneurs and policy-makers. (Schwab Foundation for Social Entrepreneurship, 2013, p. 13)

A few years later and as a result of workshops that were organized for social entrepreneurs in West Africa by the Rockefeller Foundation, the Tony Elumelu Foundation - mainly in Ghana, Senegal, and Nigeria - volunteered to act as a hub for the impact investing community in West Africa. Since then it manages a database of the industry's stakeholders (Tranovich, 2011). A comprehensive overview of social businesses in the region did not exist prior to the engagement. The network helped to strengthen cooperation, visibility and perception of social businesses (Tranovich, 2011).

In 2011, the Conference of Senegal's working group focused on the impact of private investment. The participants of the conference were mainly impact investors, social enterprises and international development partners apart from the usual attendees. During the Conference, an Impact Investing Working Group was established to "[...] propose specific reforms to strengthen the social impact of private investment [...]" (Schwab Foundation for Social Entrepreneurship, 2013, p. 13). In the meetings of the working group, entrepreneurs gave speeches and presentations, which helped to understand the concept of social business and its value for a society. Among them were members of the Tony Elumelu Foundation who benefitted of the greater influence of the network. As a result specific recommendations and an action plan were agreed upon in 2012. They included the specific measures to strengthen social business in Senegal, such as the development of definition of impact investing, the creation of a fund to leverage existing organizations, the organization of a forum for exchange, and the implementation of a research center of expertise on impact investment (Schwab Foundation for Social Entrepreneurship, 2013, p. 14).

4.1.2 Network Challenge

After focusing on general attributes of a social enterprise, the authors identified a second challenge within the context of external challenges: the so-called *network challenge*. Networks are important for entrepreneurs when scaling-up. They can help to provide access to finance or markets, specific expertise or general practical support. Through its broad approach this challenge encompasses many different sub-challenges attributed to networks – including many major stakeholders' relations of social enterprises. Interlinking with many of the other challenges – external and internal – mentioned throughout this work, the network challenge shares overlap with some of them. However, it is still important to further investigate this challenge on a macro-scale since many micro aspects can only be understood after focusing on the bigger picture.

i) Theoretical Introduction of the Challenge

A first mosaic-like factor in the general cosmos of network challenges is identified by the European Commission as the *lack of professional business development support* for social enterprises (European Union, 2014, p. 18). Thereby it is referred to a lack of support from incubators, mentoring and specialist training services as well as financial support (European Union, 2014, p. 18). Again, this challenge interlinks with many other aspects mentioned throughout this paper. Many challenges find their core, at least partly, within the network challenge. Finding the right support for issues concerning finance, the legal system and market related challenges like accessibility and sales is very important for every social enterprise. Of course, no one expects a social business to encompass this wide range of expertise within its own entity. Instead, social businesses are strongly encouraged to adhere to experts in the various fields to benefit from their knowledge. This expertise can be provided through networks in which social entrepreneurs can interact with experienced partners and through collaboration with other businesses that face the same problem.

ii) Theoretical Introduction of Solution Approaches

Though, finding the right network or incubator poses a challenging however significant task for social enterprises. The network has to be suited for the needs of the social enterprise and these vary widely depending on the geographic location of the business, the industry as well as the size of the social enterprise. Since the network challenge is evident in many spheres, the solution has to consist of different networks that can be accessed by social enterprises. The following non-exclusive list provides an overview of certain networks for social enterprises:

1. Networks fostering exchange among social entrepreneurs
2. Foundation Networks
3. Financial Networks
4. Governance Networks

Building networks is not an easy task for social entrepreneurs, especially as it involves time and other resources that could be used to further develop the social business as well. However, investing in network relations is very important for social enterprise in the long run. Next to the Schwab Foundation, which will be introduced in greater detail throughout the next chapter, other networks exist to empower social enterprises. A non-comprehensive list can be accessed via The Impact Hub Westminster, a network London-based network of locally owned collaborative working spaces (see reference for direct access to the webpage) (Impact Hub Westminster, 2015).

iii) Case Study and Best Practice Examples

When it comes to offering direct networking support for social entrepreneurs the Schwab Foundation for Social Entrepreneurship is a prime source to be mentioned. Next to offering peer-to-peer exchange for social entrepreneurs, the foundation maintains a registrar of over 260 social entrepreneurs and their respective enterprises, which were identified as “Social Entrepreneurs of the Year” through a selection process by the Schwab Foundation (Schwab

Foundation for Social Entrepreneurship, 2015). Having identified the need for social entrepreneurs to interact amongst each other, the Schwab Foundation offers this networking ability not only for an inner circle of the so-called "Social Entrepreneurs of the Year": By publicizing the registrar of outstanding social entrepreneurs, a change is given to everyone to interact and learn from the various social entrepreneurs by browsing their respective profile or directly interacting with them. Next to introducing the entrepreneur itself, the registrar offers the chance to learn more about the underlining business model as well as to get basic information about funding and key financial indicators (Schwab Foundation for Social Entrepreneurship, 2015d). However, most benefits are offered to the group of awarded social entrepreneurs only. Next to getting the chance to participate on the many regional conferences of the World Economic Forum or even the annual meeting in Davos, the foundation offers direct support through its vast partner network.

The biggest advantage of the cases provided by the Schwab Foundation is its tough pre-selection process. All mentioned social entrepreneurs have to qualify through the "Social Entrepreneur of the Year Competition". Each year, 20-25 social entrepreneurs are awarded the title "Social Entrepreneur of the Year".

Social entrepreneurs looking for networking support while growing their business can benefit tremendously by collaborating with the Schwab Foundation for Social Entrepreneurship. Next to offering the ability to connect with partners, investors and mentors, the foundation offers an interacting opportunity between social entrepreneurs from all over the world. The foundation manages to address many of the needs identified in earlier parts of this chapter.

4.1.3 Legal Challenge

The third challenge identified is once more a macro-challenge social enterprises face on their growth path. This challenge is particularly twofold: First of all, *the legislative framework* in which the business operates is central to any social enterprise. Furthermore, *the legal status* of a social enterprise itself is also very important. Having a certain legal status will directly influence the ability of a social business to attract a broader range of financing sources to their business model (Deutsche Gesellschaft für Internationale Zusammenarbeit [GIZ], 2014, p. 22) (see also *4.1.5 Financial Challenge*). Due to the limited scope of this work, the authors will mainly emphasize the second aspect of this binary challenge.

i) Theoretical Introduction of the Challenge

Generally speaking social enterprises face a major disadvantage within the context of legal structures when compared to profit-maximizing companies or non-profit organizations. Most legal frameworks are tailored for profit-maximizing corporations or non-profit organizations but not for social enterprises. (Yunus, 2010, p. 117). As already outlined, social enterprises follow a dual return approach of financial and social returns. However, no legal structure can yet capture both dimensions at the same time (European Commission, 2013, p. 8). The legal structure either focuses on the social return part (e.g. special legal status for foundations, NGOs etc.) or on a traditional profit-maximizing approach (e.g. regulations concerning corporations). Next to the legal status of a social enterprise the legislative framework is a core issue as well. However, not many jurisdictions have established special frameworks for social enterprises yet. Since profit maximization is not the core objective social enterprises should receive some sort of financial relief and support from governments through new legal forms to operate a social enterprise (European Commission, 2013, p. 8).

ii) Theoretical Introduction of Solution Approaches

According to Yunus, three different ways to legally structure a social enterprise are currently available: (1) a traditional for-profit business structure, (2) a non-profit business structure and (3) newly emerging structures especially suited for social enterprises (Yunus, 2010, pp. 118). The first two opportunities can be found across most jurisdictions whereas the third option has emerged fairly recently and is therefore only available in a few jurisdictions as of yet – most of them are part of the developed world (Yunus, 2010, p. 124f.).

	For-Profit Business Structure	*Non-Profit Business Structure*	*Emerging Structures*
Major advantages	1. High flexibility 2. Attractive for financial investors	3. Focus on social impact	4. Explicitly suited for social enterprises 5. Dual focus of social and financial returns
Major disadvantages	1. No explicit mentioning of social return 2. Regular tax scheme applies	3. No focus on financial return 4. Limited flexibility	5. Limited availability 6. Available mainly in developed jurisdictions
Evaluation	*→ Major limitations in the area of social return but advantages in the context of flexibility and financial attractiveness.*	*→ Strong emphasize on social return but no focus on financial return. Not recommended for social enterprises.*	*→ State of the art alternative for social enterprises if available.*

Figure 3: Comparison of three legal structures for social enterprises. Source: Own illustration according to Yunus, 2010, pp. 117.

Table 1 summarizes the three different legal structures according to Muhammad Yunus, one of the most renowned social entrepreneurs and recipient of the Nobel Peace Prize in 2006. He himself made use of for-profit business structures when founding his own social enterprise (Yunus, 2010, p. 118). However, using a for-profit legal structure reveals an inherent conflict between social businesses and the for-profit legal structure. For profit-corporations focus on maximizing profits for their owners and investors whereas social enterprises are willing to sacrifice some of the profit for a social cause. Sacrificing some of its profits for a social cause, e.g. by offering over-the-market wages to employees, can result in legal obligations towards investors (Yunus, 2010, p. 119). In order to avoid any legal interference, social enterprises should sign specially designed contracts with their investors, stating that they will pursue a social return (next to financial returns).

Choosing the right legal structure is a crucial step – not only for social enterprises. However, social enterprises are confronted with a somehow more complicated decision than for-profit companies since they can choose from a greater variety of legal structures. Due to the inherent limitations of this paper, the authors cannot assess all possible legal structures available. This section serves to provide a first overview and to outline major differences between the legal categories. Due to the uniqueness of each social enterprise, the final decision concerning the legal structure of its business model has to be conducted by assessing all parameters of the individual case.

iii) Case Study and Best Practice Examples

As already briefly mentioned above, Muhammad Yunus founded all of Grameen's social businesses within a for-profit legal structure. Making use of the mentioned benefits, Yunus argues that a for-profit legal structure best suits the business approach of social enterprises as long as it keeps focusing on the social mission as well. (Yunus, 2010, p. 118f.). Founded in 1983 by Muhammad Yunus, the Grameen Bank is probably the most renowned microfinance institution combatting poverty through a loan system. The bank aims to foster poverty relief by issuing small loans to poor people. Using societal pressure and ongoing guidance, Grameen Bank manages to retain credit return rates of over 90%. The Bank was founded as a for-profit institution and is owned mainly by its own customers – the recipients of the loans. (Yunus, 2015). Using this business approach and legal structure was very successful leaving the bank with only three years of negative returns in their history (Grameen Bank, 2015).

For Yunus the for profit approach includes not extracting any profits from the social business. In his opinion, a social enterprise has to be profitable the same way for-profit companies have to be. The only difference is that the profit of social enterprises is used to pursue a certain social mission. (Yunus, 2010, p. 112).

However, this approach only sheds light onto a small part of the wide variety of social enterprise models (see also chapter 4.2.1 for more information about different approaches for social enterprises). Some might argue that a social enterprise based on a for-profit legal structure is inherently un-social.

4.1.4 Access to Markets

For all type of businesses it is a challenge to enter new markets. The enterprises have to establish themselves in the market. Social businesses often face additional difficulties to access new markets since they operate under challenging market conditions such as poor infrastructure or risk-averse costumers. Furthermore, the characteristics of social businesses make it harder for them to compete with for-profit enterprises on the market.

i) Theoretical Introduction of the Challenge

A very typical challenge for new companies is the difficulty to enter or access new markets. For social enterprises, access to markets is a factor that strongly "[...] affects their ability to sustain businesses and livelihoods in the long-term [...]" (Eskesen, Agrawal & Desai, 2014, p. 8). Furthermore, it is essential for them to develop, consolidate and become self-sustaining (European Commission, 2013, p. 13). Typical examples that hamper social business's access to markets are government regulations, economies of scale, customer loyalty, distributor agreements and the size of investments (Huybrechts & Mertens, 2011, p. 5). Additionally to the challenges that traditional types of business face, social enterprises have to address sector-specific challenges. Many social enterprises are active in developing countries and face the difficulty of weak or non-existing infrastructure. In both cases the challenges are to get existing owners to agree to share the infrastructure, to quickly gain sufficient customers and to win government support (Kayser & Budinich, 2015, p. 82). Another factor, which will be focused on in chapter 4.2.2, is limited managerial capacity to build effective strategies to enter a new market (European Commission, 2013, p. 11). Thirdly, social enterprises do not always benefit from measures that are applicable to SMEs. Therefore it creates a situation that makes them struggle on the market (European Commission, 2013, p. 11).

Social businesses could benefit from the access to public procurement markets but barriers due to the public policy are a fourth important factor that hampers social enterprises' market access (European Union, 2014, p. 14). Public procurement markets are among the "most important for supporting the development of social enterprise" (Spear, Aiken, Noya & Clarence, 2013, p. 12). Public procurement plays an essential role to acquire reliable revenues for companies but social enterprises face difficulties to receive an order because public purchases are designed to select the cheapest offer in most cases. This conflicts with the idea of social business to maximize the impact. For example, social enterprises frequently employ people with lower productivity due to disabilities but this target of integration usually reduces productivity and makes the enterprise less cost-competitive. Furthermore, social businesses are mostly small and have disadvantages in competing with greater companies, which benefit from scaling effects and the resources to meet the requirements of extensive contracts with public partners (European Commission, 2013, p. 11).

ii) Theoretical Introduction of Solution Approaches

The very different characteristics of markets make it impossible to establish a universal action plan and access to markets is dependent on many factors. Generally, in order to improve the managerial competence of decision-makers of the social enterprise they have to be educated and trained in this specific field (see chapter 4.2.2) (European Commission, 2013, p. 11). It is a task that public institutions could take but often governments do not provide the resources to support social business because of a lack of understanding, as aforementioned in chapter 4.1.1. Even if measures exist, many responsible actors are insecure how to realize them. For example, in the European Union there is the possibility to use social clauses in procurement procedures but public officials are often unsecure how to implement them (European Commission, 2013, p. 11).

If a social enterprise enters an existing market, the company needs to establish itself in the market and has to find enough costumers in order to reach the point of break-even. In this regard, it is important to consider the customers' needs and behavior. In developing countries social enterprises often operate in push-markets where consumers are risk-averse and need strong securities in order to be convinced to buy a relatively expensive product (Kayser & Budinich, 2015, p. 49). Social enterprises, which follow the needs will have less difficulty to find sufficient costumers and quickly generate revenues (see following practical example of this chapter). Furthermore, to overcome their cost-disadvantage and planning uncertainties compared to established great firms, social business can use labeling to sell their product for higher prices. For example, farmers in Sri Lanka and Ethiopia received better deals through the use of a fair-trade label (Kayser & Budinich, 2015, p. 85). Consumers are willing to pay higher prices when they are convinced to buy at a superior quality (Thompson, 2008, p. 151). On the managerial site, redefining consumer clusters that require special messages and management are an approach to solve this particular situation. Typically, marketing approaches, special brand promises and shifting to a proactive approach to social sector communications will support their ambitions (Brugman & Prahalad, 2007, p. 84).

Poor access to high-value and stable markets strongly affects the ability of social enterprises to sustain businesses and livelihoods in the long term. Therefore, companies have to establish stable and consistent market access but they often lack access to international markets due to their inconsistent quality standards, lack of transport systems, and unpredictable cross-border mobility (Eskesen, Agrawal & Desai, 2014, p. 9). High dependence on single actors, which can cause instability, can be avoided through networks, cooperations or other business models such as franchising to settle down supply. Poor physical infrastructure is a main deterrent for social enterprises to access a new market but can be overcome through the establishment of an own distribution network (see following practical example of this chapter). Therefore, successful social business managers must be "[...] creative both as goal-setting visionaries and in the implementation of their problem-solving ideas [...]" (Leviner, Crutchfield & Wells, 2007, p. 96) and use experiences of other businesses in the area.

iii) Case Study and Best Practice Examples

Market access for social enterprises can be limited through several factors. Often, social businesses are active in remote areas where they do not face pressure from competitors but where the lack of a solid infrastructure hampers their access to the market. An example that illustrates the establishment of an own infrastructure by using creativity and experience is Drishtee. The CEO Satyan Mishra worked for government projects before he founded the social enterprise in 2000. Thereby, he used the experiences of failed governmental projects to design a creative new approach how to provide the rural Indian population in remote areas with access to products, financial and health services as well as secure internet-based services through a kiosk system (Kayser & Budinich, 2015, p. 22). Drishtee is active in areas with very low literacy, high infant mortality and diseases (Hempel, 2007).

People in rural areas were suffering under the extra cost for multiple intermediaries and inefficient transport and also supply chains. The term bottom of the pyramid-penalty, which was promoted by C. K. Prahalad, describes this phenomena, meaning that poor people tend to pay more to buy, eat and borrow money. Drishtee's creative approach met the demand for easier access to priced consumer goods and was quickly scaled through creating a network with a direct delivery system. (Kayser & Budinich, 2015, p. 22)

Through the kiosk system, which offers a comprehensive supply of goods, Drishtee does not depend on a specific product and ensures profitability through permanent revenues of the various products offered. Furthermore, it is active in different country areas, which helps to compensate eventual demand fluctuations.

Drishtee became a successful and large social enterprise until today. It was regarded as the fastest growing social enterprise in India and currently runs thousands of kiosks (Hempel, 2007).

In Bangladesh highly informal rural marketing and distribution systems are in place, which hinder entrepreneurs from entering the market. Therefore, the social enterprise JITA Bangladesh established its own distribution network in order to realize their ambition to empower women, create employment opportunities and offer products to the poor population. The enterprise works with a rural distribution model that offers daily necessities of the categories information, education, household, energy and health. Through female door-to-door sales agents the enterprise managed to both convince costumers in person and initiate word of mouth marketing. The representatives of the company were present in the communities and could directly answer questions about the company and its products. (Rashid, 2014).

Starting with 25 female sales agents, who generate income through a commission based sales model, JITA grew quickly and employs more than 4000 women in sales and reaches over 2 million rural consumers. (Rashid, 2014).

4.1.5 Financial Challenge

The fifth challenge identified by the authors is most likely also one of the most important ones to consider in general. Reaching far beyond the central aspect of attracting sufficient *financial means* for social enterprises, this challenge interplays with many of the other mentioned challenges – especially all legal aspects (see also Yunus, 2010, p. 111f.). Sufficient financial means are in no way an end in itself for social enterprises. They are means to foster the very own business goals and to help expanding the impact of the social business. It is important to recognize social enterprises not merely as nonprofit, altruistic charity organizations. They have to be profitable as well. Scaling-up the business model will not be possible otherwise. (Bugg-Levine, Kogut, & Kulatilaka, 2013, p. 120f.). By expanding their financial abilities, social enterprises can increase their impact on society and offer better services at lower costs (Kaplan & Grossman, 2010, p. 112). According to Kaplan et al. (2010, p. 112) "In an effective system, innovative nonprofits with the best management and social change agendas would grow in scale and scope while less effective and efficient ones would diminish and eventually disappear." However, this is not the case: Most social enterprises stay small and operate only on a local level (Kaplan et al., 2010, p. 111f.). Lyon and Fernandez identify this growth-gap as the most present challenge for social entrepreneurs (Lyon & Fernandez, 2012, p. 64). Social enterprises cannot tackle this challenge without the necessary financial means.

i) Theoretical Introduction of the Challenge

The main issue for social enterprises when scaling up is to attract new financial sources for their business model (Hirzel, 2013). Most often, especially in the past, the initial phase of a social start-up was funded externally by foundations and aid agencies – or generally speaking: charity organizations (Bugg-Levine et al., 2013, p. 120). However, focusing on these kinds of financial sources will ultimately not be sufficient to grow the social enterprise beyond a certain point. Additional sources of capital are therefore needed inevitably. Conventional entrepreneurs can attract venture capitalists in an early phase of their business. This option is very often not available for social entrepreneurs (Schaper, Volery, Weber, Gibson, 2014, p. 112).

A major hurdle social enterprises face is the insufficient amount of capital directly available to them (European Union, 2014). Traditional businesses can attract a wide range of investors such as equity investors, banks, bond funds, venture capitalists etc. by offering a distinct combination of risk and return with the help of a balance sheet and a solid business plan (Bugg-Levine et al., 2013, p. 120). However, this approach is much harder for social enterprises or as Kaplan et al. (2010m p. 112) line out: "A nonprofit's financial report reveals virtually nothing about its effectiveness or efficiency in creating social value." However, giving in is not an option either. Muhammad Yunus (2010, p. 112), lines out that coming up with a sufficient and solid business plan is a central step also for social enterprises. If this plan is not neglected, social enterprises can make use of regular investment capital as well.

As already lined out in Chapter *4.1.3 Legal Challenge* the interplay between the legal status of a social enterprise and its ability to attract financial resources is a crucial aspect to be aware of when thinking about scaling-up a social enterprise. More generally speaking, social enterprises have to align the social and economic aims of their business since both, financial and social returns are vital for the success of the enterprise (Hynes , 2009, p. 118).

Next to these rather precise suggestions on how to cope with the challenge of attracting the necessary funds, the last proposal seems rather vague: Tillmar (2012, p. 44), lines out that being able to adapt is an important feature of the mindset of a social enterprise. Since more funding sources are theoretically available to them, it is the obligation of the social enterprise to make use of them.

ii) Theoretical Introduction of Solution Approaches

The underlining goal for social enterprises is to expand their pool of financing sources. If they manage to do so, social enterprises can make use of even more diverse financial sources than convectional businesses (Bugg-Levine et al., 2013, p. 120). On the one hand, they can rely on their traditional sources of finance – notably charity and donor organizations; on the other hand they can extent into financing sources for conventional businesses. One way to manage this approach may be illustrated by the following theoretical example (the example is taken from Bugg-Levine et al., 2013, p. 121 and slightly modified):

A social enterprise wants to invest 100`000 € in a production facility for Spirulina products in Asia. The initial investment is 100`000 € and the estimated return on investment is 5`000 € p.a. The enterprise faces two financing options: Option 1 would require raising all funds from conventional investors, focused mainly on the return on investment figure. Option 2 would enable the enterprise to split the funding between conventional investors, seeking to increase their return on investment and a charity or donation investor not focusing on any sort of financial return. When considering Option 3, all required funds are provided through charity or donation investors. Therefore no funds have to be provided by conventional investors. All three options are displayed in Table 1:

	Option 1	***Option 2***	***Option 3***
Total Investment Amount	100’000 €	100`000 €	100`000 €
Investment from Charity / Donation	--	50`000 €	100`000 €
Investment from Conventional Investor	100`000 €	50`000 €	--
Return on Investment in €	5`000 €	5`000 €	5`000 €
ROI for Conventional Investor in %	**5%**	**10%**	**--**

Figure 4: Financing options for social enterprises. Source: Own illustration according to Bugg-Levine et al., 2013, p. 121.

When considering Option 1, many conventional investors might not sign the proposed deal since 5% return on investment is not enough for them. Option 2 splits the required investment between conventional and pro-bono investors. However, all profits are channeled to conventional investors leaving them with a return on investment figure of 10%. For pro-bono investors the impact itself is a sufficient return. Pro-bono investors provide all funds in Option 3. This approach was most often seen in the past. However, this method comes with a big disadvantage compared to Option 2: In Option 3 all funds go into a single project whereas the pro-bono investor is left with 50`000 € free capital in Option 2. This capital can be used to support other social enterprises. Therefore Option 2 does not only attract conventional investors to support the business, it also helps pro-bono investors to focus on more projects and business ideas simultaneously. This example illustrates the inevitable need for social enterprises to have the ability to serve two objectives at the same time: First of all, social businesses have to create sufficient social impact. Next to this, they have to manage to be profitable enough to attract conventional investors next to pro-bono and charity investors. This second objective is rather crucial: Social enterprises should never lose sight of being economically profitable even if they receive major endorsements or grants from charity organizations (Yunus, 2010, p. 116).

A second example illustrates how social and monetary return can be combined. Therefore, the following figure displays various ways of funding opportunities for social enterprises as well as their respective social and monetary return:

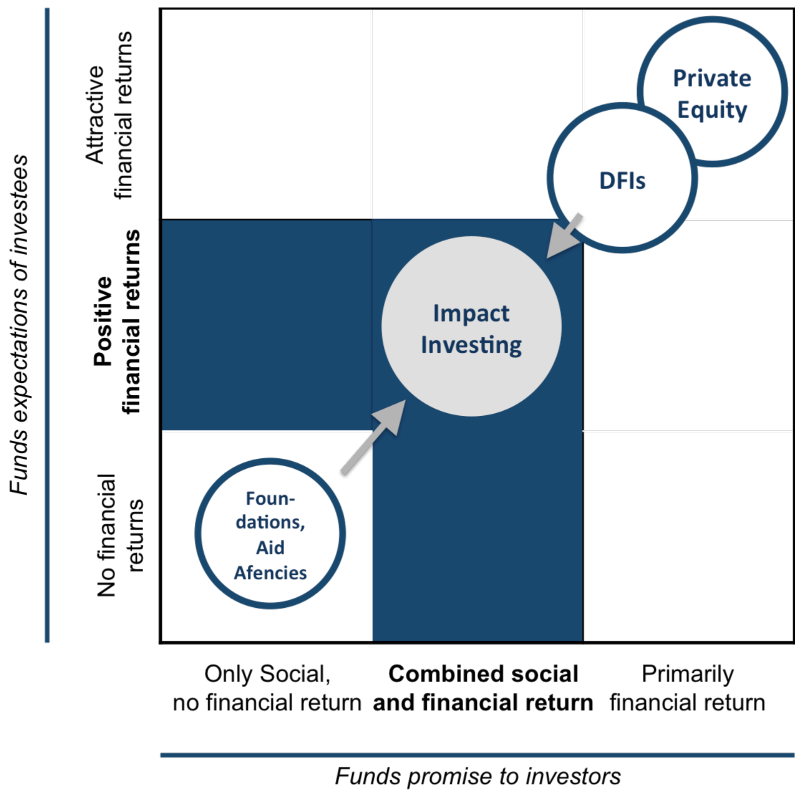

Figure 5: Non-comprehensive overview of possible financing sources for social enterprises and their respective monetary and social return. Source: Own illustration according to Kayser, & Budinich, 2015, p. 177 (Figure 9).

The vertical axis displays the expectations of an investor towards his investment in a social enterprise. On the horizontal axis the promise of the investor towards his own investors is mapped. On lower left pole of the chart foundations and aid agencies are located. These investors do not seek financial returns for their investment. The only return they care about is increased impact of the social business (compare this investment type to charities and denotations in Table 1). Private equity investors occupy the other extreme pole of the chart in the upper right corner. These investors seek mainly positive financial returns without any preference for any sort of impact or social return. Next to Private Equity investors Development

Finance Institutions (DFIs) are located. These institutions seek positive investments rents as well as some sort of social return. However, greater emphasize is given to the financial part of the equation. The so-called impact investment model is located in the center of the chart. This investment type combines both social and financial return approaches (see also Clark, Emerson, Belandina, Katz, Miligan, Ruttmann & Trelstad,, 2012, p. 4f.). Investors increasingly do not want to choose between social and financial return schemas – they try to find ways to focus on both simultaneously (Clark et al., 2012, p. 4). As depicted through the arrows in Figure 1, both Foundations and DFIs are converging – at least partly – towards impact investment.

Both presented examples offer new ways for social enterprises to finance their business model. Firstly, the investment amount can be split among conventional and pro-bono investors, creating a win-win situation for all partners: The conventional investors can achieve higher financial returns while pro-bono or charity investors have more financial resources for other social projects at hand. The second example introduces a new way of financing social enterprises. A new type of investor that focuses on social as well as on monetary returns may be willing to sacrifice higher monetary yields for an increased impact by the social enterprise.

The final part of this chapter will focus on the different financing instruments available for social enterprises. As already lined out, they extend beyond the types available for for-profit organizations since social businesses also can make use of philanthropic or pro-bono investments. The following table summarizes the most important financial instruments available for social enterprises as well as their implications for social enterprises:

		Implications for Social Enterprise	
Types of Financing	***Term Sheet***	***Positive Implications***	***Negative Implications***
Grants / Charitable	**D:** Short term **AP:** None **RP:** None **RT:** Social	▪ No repayment of the grant, no annual payments	▪ High fundraising costs ▪ Limited entrepreneurial flexibility in capital use ▪ Restricted use for predefined projects
Debt Capital	**D:** Long term (3-7 years) **AP:** Interest Payments (variable) **RP:** Yes **RT:** Low financial risk and return	▪ High entrepreneurial flexibility in capital use ▪ No dilution of ownership	▪ Annual interest payments require sufficient business model ▪ Far-reaching rights of capital providers in case of default

Equity Capital	**D:** Unlimited **AP:** Dividend payments (variable) **RP:** No **RT:** High financial risk and return	▪ (Social investor receives control and voting rights) ▪ Potential impact on corporate culture ▪ Social enterprise can profit from investor's expertise ▪ No repayment	▪ Dilution of ownership ▪ (Social investor receives control and voting rights) ▪ Profit participation of social investor
Mezzanine Capital	**D:** Long term (3-7 years) **AP:** Interest payment (variable) **RP:** Yes **RT:** Medium financial risk and return	▪ Dilution of ownership only when converted into equity capital	▪ Annual interest payments require sufficient business model ▪ Mandatory repayment ▪ Profit participation for social investor
Hybrid Capital	**D:** Long term (3-7 years) **AP:** None **RP:** Depends on Structure **RT:** Medium financial risk and return	▪ Inexpensive financial instrument ▪ No dilution of ownership ▪ High flexibility ▪ Risk-sharing with social investor	▪ Not as attractive for investors as other kinds of capital

Figure 6: Overview of financial instruments available for social enterprises. **Legend: D = Duration; AP = Annual Payment; RP = Repayment; RT = Return Type**. Source: Own illustration; content from: Achleitner, Heinecke, Noble, Schöning & Spiess-Knafl, 2011, p. 10; Bugg-Levine, Kogut & Kulatilaka, 2012, p. 122f.; Clark, Emerson, Belandina, Katz, Miligan, Ruttmann & Trelstad,, 2012, p. 8.

iii) Case Study and Best Practice Examples

The example focuses on a case where the state was the main driving force behind attracting capital to social enterprises. In 2002, the Presidential Investment Council (CPI) was founded in Senegal as a result of large debts inherited by policy measures introduced by the World Bank and the International Monetary Fund (Schwab Foundation for Social Entrepreneurship, 2013, p. 13). The goal of the council was to find ways to attract private capital to social enterprises and businesses in general. The council meets once a year at the highest government level to provide concrete policy measures in order to improve the situation for social entrepreneurs. Most of the actual work is done in small working groups focusing on specific aspects of the issue. Next to the government officials, representatives from over 60 different stakeholders take part in the work of the council to foster improvements for social enterprises in Senegal (Schwab Foundation for Social Entrepreneurship, 2013, p. 15). One of the major achievements of the CTI was to impose financial relieve measures for businesses (Schwab Foundation for Social Entrepreneurship, 2013, p. 13f.).

This example shows an interplay of different challenges identified throughout this paper: By establishing the CTI, Senegal basically created a network opportunity for social enterprises where they could speak out and introduce ideas of their own. This broad approach enabled all kinds of stakeholders to take part in the discussion concerning the development of Senegal.

4.1.6 Impact Measurement

Numerous social enterprises have been launched worldwide to promote social and environmental topics through their work. However, there a great difficulties for social enterprises to measure impact as a performance indicator.

i) Theoretical Introduction of the Challenge

The business model social business has become more prominent over the last decades. These enterprises often did not evaluate how effective their work was but nowadays, claims of social enterprises to create impact are not understood to be sufficient anymore among scholars and evidence is required (Ebrahim, 2013). Therefore, measuring results and quantifying performance are getting more prominent among social businesses but "[...] there is little agreement on what those metrics should be [...]" among the involved parties (Hanna, 2010).In practice, the respected actors approach the goal to measure impact with very different strategies (Ebrahim, 2013). The reason for this is that social impact is regarded with outcome rather than output, which for-profit businesses use as an indicator for their companies' success (Poynton, 2012). More precisely, traditional businesses are mainly concerned with profitability measures, whereas social enterprises need to operate profitably *and* reach their desired social outcome (Poynton, 2012). Additionally, outcome is more difficult to measure than output but it is essential to illustrate results to investors in order to legitimize the practice of social businesses (Social Impact Investment Taskforce, 2014).

When companies are asked or willing to undertake impact measurement, they are often confronted with high costs (Hanna, 2010). Exemplary, the required data collection and analysis is one of the aspects that causes substantial costs (Poynton, 2010). Extensive research is also needed to illustrate the isolated impact of an organization or business. Especially in developing countries the connections between social businesses are close, many players are involved and tasks are interwoven (Hanna, 2010).

> *"As you widen your scope to deal with a major social problem, the harder it becomes to measure your impact because it is tougher to isolate cause and effect. It's no longer a simple linear relationship, but a complex set of relationships."* (Hanna, 2010)

In contrast, in certain remote areas social enterprises are the only service providers and can therefore more easily measure their respective impact:

> *"They can assess their performance much further down the logic chain due to their relatively high degree of control and the length of their involvement in the same communities."* (Hanna, 2010)

Mainly greater social enterprises are have difficulties to isolate their impact from other actors. Usually, the greater their impact is the more connected they are to other actors. Therefore many social business mangers consider impact measurement as "[...] complicated, expensive, and often impractical [...]" (Ebrahim, 2013). However, financial resources are scarce for social enterprises and the achievement of impact is considered more important than the evaluation of it:

> *"Measuring one organization's contribution to earthquake relief may be possible, but it is less important than collective results,"* (Hanna, 2010)

Therefore, social business managers have to deal with the trade-off between using financial resources to achieve impact directly or through impact evaluation. The decision which strategy is more effective depends on the characteristics of the respective enterprise.

ii) Theoretical Introduction of Solution Approaches

Social enterprises seek to establish measures to point out the impact, which they have achieved. Quantifying the outcome is important regarding many respects:

> *Effective impact measurement generates value for all impact investment stakeholders, mobilizes greater capital, and increases the transparency and accountability for the impact delivered.* (Social Impact Investment Taskforce, 2014)

Overall, the dominating opinion is that not all enterprises need to implement measures to quantify their outcome (Hanna, 2010). It depends on the motivations and characteristics of the enterprise. For example, if donors require certain measurements, the enterprise will need to provide them information about the impact in order to sustain the donor's support but in other cases it may be too costly to establish impact measurement. However, researchers and politicians have to be approached in order to provide an impact measurement convention, which currently does not exist (Social Impact Investment Taskforce, 2014). Supporting measures to establish a convention of impact measurement are the embracement of impact accountability, application of measurement of best practices, establishment of an impact language, and the development of a shared impact measurement agenda (Social Impact Investment Taskforce, 2014).

Due to the great variety of measures and the uniqueness of every company, non-profit enterprises have the possibility to "[...] establish their own internal benchmarks to assess performance and determine whether they are achieving their mission [...]" (Hanna, 2010) because there is no universal framework for any type of social business's impact measurement (Hills & Pfitzer, 2013). Furthermore, social business and entrepreneurship is a learning process by nature (Schwab Foundation for Social Entrepreneurship, 2015b). After conceiving a strategy, social managers have to test and refine their first concept, use resources and partners to scale the model. Improving the offering through impact measurement and an openness to incorporate feedback are important instruments (Schwab Foundation for Social Entrepreneurship, 2015b). Enterprises whose action is strongly directed to politicians and advocates need to develop a clear strategy that shows how the enterprise plans to influence particular actors (Hanna, 2010). This approach has to be reflected and criticized periodically in order to adjust the strategy if needed. Set goals, develop a framework and select metrics, collect and store data, validate data, analyze data, report data and evaluate measures itself are seven best-practice guidelines that

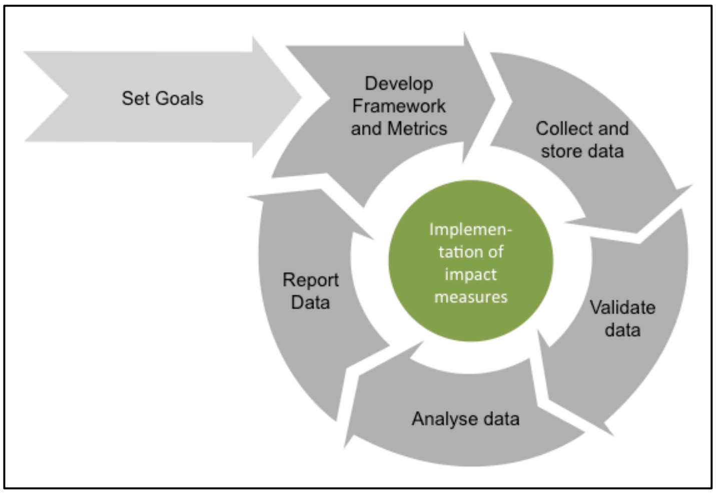

Figure 7: Guidelines to implement impact measurement.

Source: Own illustration based on Social Impact Investment Taskforce, 2014

help companies to structure their ambition to implement impact measurement measures (see figure 7). These guidelines are based on the findings of the British Social Impact Investment Taskforce (Social Impact Investment Taskforce, 2014). Furthermore, the principles are designed to support social entrepreneurs by managing performance, learning, improving outcome, and holding accountable to those they aim to serve (Social Impact Investment Taskforce, 2014). Ideally the measurement systems are designed in a way that an independent third party could verify the impact (Schwab Foundation for Social Entreprenuership, 2015b).

Additionally, proxy indicators may be used to measure data that cannot be regarded specifically to the activities of the social enterprise and to point out innovation capacity (Leviner, Crutchfield & Wells, 2007, p. 90). An example for proxies is the number of replications of a practice that was used by an enterprise. Others are the adherence of the original vision, impact on public policy, and the position in the field (Leviner, Crutchfield & Wells, 2007, p. 90).

It has been discussed whether impact measures are useful for social enterprises and how they should be implemented. Overall, measuring results is a valuable source for non-profit managers even if they do not find universal metrics for their social impact (Hanna, 2010).

iii) Case Study and Best Practice Examples

Investing in Communities (IIC) is both a social enterprise and an investor for social change organizations. It supports consumers to fund not-profit enterprises for free through their brokered real estate transactions and decided to implement impact measurement for their company. The company used the measurement internally for their own social business and externally for the enterprises that they provided with funds. Through IIC, businesses and IIC connect directly to real estate professionals who donate a share of their compensation through IIC to non-profit clients. IIC was tempted to remain to evaluation based on monetary operating numbers, which are easy to be measured. (Poynton, 2012)

The initial approach with personal follow-up was not scalable and another approach of building an own database with automated data collection was not financially viable. Furthermore there was no standardized response procedure so that feedback of partners could be effectively evaluated. IIC sought support and entered an open platform for support. There are several of these platforms – in this case Ashoka Changemakers Changeshop - which provide help to define the social enterprise's social impact goals, set milestones, and publicly track their progress towards milestone completion. The platform offers the service for free and helps their costumers to save money and time and thereby lowered the barrier for IIC to start measuring their impact. (Poynton, 2012)

IIC decided to expand their impact measurement with additional data and measures through the involvement of their partners. All funding recipients were expected to achieve defined milestones or goals and allowed IIC to tie their own output (charitable funding) to social outcomes and consequently increase the social impact. (Poynton, 2012)

A second example shall illustrate how proxy indicators have been used. Replication is not the only sign that an idea has spread but it is an important indicator to show how an idea has taken root. Successful social enterprises move beyond their direct impact and positively influence other groups in society and social problems. Vera Cordero's organization ACSR has supported replication of its medical treatment model in 14 public hospitals through establishing a network of sister organizations, which are all independent organizations. ACSR supports them through information exchange, capacity-building workshops, sharing of key contacts and occasionally fundraising support. By means of the network 20.000 people have been served so far (Leviner, Crutchfield & Wells, 2007, p. 100).

4.1.7. Increasing Sales

As outlined throughout the theoretical analysis part of this paper, growing an enterprise and therefore increasing sales is one of the central tasks to pursue for a social enterprise. Thus, this poses one of the key challenges for social entrepreneurs to focus upon. Sharing overlap with many other challenges mentioned in the course of this work, the ability to increase sales is mainly depended on market access and internal organizational factors as well as access to finance.

i) Theoretical introduction of the Challenge

Factors that increase the amount of services and products sold share interplay with quite many of the other challenges mentioned throughout this work. Focusing on every aspect equally poses a challenge impossible to cope with regarding the limited scope of this work. Therefore, the authors decided to focus on challenges on a generic level and complete this theoretical approach with various real-live examples of social entrepreneurs, especially from developing countries.

Generally speaking, increasing sales is always attributed to expanding one's own market reach (see also Kapur, Ahuja, Ramachandran, Chaturvedi, Mathur, Narayan & Rajnish, 2013). Efficient sales and distribution networks are necessary to achieve this concrete task. Especially, when operating business in rural areas the challenge is quite pressing. Often, social enterprises are confronted with customers at the base of the pyramid. Attributing conventional sales methods may therefore be not feasible.

Furthermore, Hynes (2009, p. 121) lines out, that finding the right price for a certain product or service poses one of the key micro-challenges in the general context of sales. If a social enterprise operates in a developing market facing customers with limited financial resources, this challenge is especially lively (Hynes, 2009, p. 121). But finding the right piece will ultimately not be sufficient. Customers, especially in rural areas, need access to the offered products and services of a social enterprise. One further attribute a social enterprise has to focus upon is therefore the right sales method. Since many different methods, such has franchise channels, a wholesales approach including partners or direct sales into the market by the social enterprise itself or via so-called village entrepreneurs are available, much thought should be devoted to finding the right method for the individual market environment.

ii) Theoretical Introduction Solution Approaches

Since the variety of micro-challenges in this particular challenge environment is quite extensive, the potential solutions must take into account that a specific solution has to be tailor-fitted to the actual situation of the social enterprise. Section three of this chapter (see *iii) Case study and best practice examples*) exemplary introduces five case studies where social enterprises acted according to their specific environment. However, providing specific solution recommendations on a theoretical level is unfortunately not possible. Therefore, the following table gives an overview of generic issues, social enterprises face when trying to increase their sales figures:

Issue Category	***Description of Issue***	***Solution Approach***
Sales Channels	▪ Grand variety of potential channels available ▪ Selection of channel has to specific situation of social enterprise	▪ Create sustainable sales channels ▪ Making use of various sales channels ▪ Focus on "last-mile" ▪ Expanding concrete points of sale
Marketing	▪ Market products or services	▪ Tailor-fitted marketing approach to foster market expansion. E.g. focusing on enablers (village-entrepreneurs)
Pricing	▪ Finding the right price in light of operating in developing countries ▪ Many potential customers cannot afford the true value of the offered good or service	▪ Collaboration with other entrepreneurs on a local level ▪ Making use of existing expertise networks ▪ Price differentiation according to sales channels.

Figure 8: Overview of issues attributed to increasing sales. Source: own illustration in accordance with Kapur et al., 2013 and Hynes, 2009.

According to Kapur et al. (2013, p. 5) social enterprises have to master three different steps to increase their sales and foster sustainable growth. Step 1 is to expand the reach of the social business or rather the offered products and services. The focus concerning this area lies clearly on developing sustainable sales channels and focusing on market expansion. Step 2 focuses on acquiring the right kind of stakeholders to increase sales. This includes focusing on the right set of influencers as well as sales channels in general (see example five for a practical approach). Lastly, retaining these connections and building on them is centrally important. Social enterprises can for example use one sales network to introduce a new one according to it. If, for example, the social enterprise works together with village entrepreneurs in a first phase, a franchise model based upon this first approach can be introduced in a next step using the existing expertise of the individual village entrepreneurs (Christiansen & London, 2011, p. 188).

iii) Case study and best practice examples

In the following part five different businesses are presented, which used different strategies to increase their sales. Firstly, social enterprises often face the challenge that they offer a product or service but their costumers do not have the financial resources to invest in their offering. Toyola, a Ghanaian producer for cooking solutions tried to combat this issue by decreasing production costs to make the investment barrier as low as possible and introduced an in-house financing instrument for the rural population. Toyola mainly sells efficient cook stoves, which use 40% less charcoal than ordinary ones. Customers receive the cook stove in advance of their payment and are supposed to put the daily savings into a can, which is colloquially called "Toyola box". After three months the sales representative or agent of Toyola returns to pick up the amortized investment costs. Furthermore, costumers obtain investment security since they only put aside their immediate savings and can complain if the product does not work as efficiently as it was promised. Toyola managed to react effectively to the challenge to offer a measure that helps their costumer to realize the investment. Supported by a loan that provided Toyola with necessary working capital for the purpose, sales jumped from 3.000 to 20.000 items in one year. (Kayser & Budinich, 2015, p. 38)

JAVARA is currently considered to be the leading social enterprise in Indonesia, which is active across agricultural value chains in order to bring community-based, organic products to broader markets and to preserve Indonesia's biodiversity. Among other tasks, JAVARA helps local farming-entrepreneurs to establish their business and supports them to develop high market potential. As soon as the farmers meet the necessary requirements, JAVARA purchases, markets and distributes their products. Today, over 80% of the sales are exported to Europe, North America, Asia & Australia. For the market expansion, JAVARA uses co-branding with import partners as part of their growth strategy to benefit from existing brand awareness and market knowledge together with help for target group identification (Schwab Foundation, 2015c).

	RETAIL PRICE	SOLAR POWER	DAILY RUN-TIME	BRIGHTNESS	BATTERY TECHNOLOGY
ECO LEARN MORE	$ 15.99	500MW>	30 HOURS	25 LUMENS	5 YEAR LFP Battery
SOLO LEARN MORE	$ 19.99	700MW>	24 HOURS	50 LUMENS	5 YEAR LFP Battery
PRO LEARN MORE	$ 44.99	3.3W>	45 HOURS	100 LUMENS	5 YEAR LFP Battery

Figure 9: Overview of Greenlight Planet's product portfolio
Source: Greenlight Planet's Website http://greenlightplanet.com

Greenlight Planet is a social business that uses product differentiation to scale up. Founded in 2006 the social enterprise has aimed to provide poor people in India and China with healthier and brighter lamps compared to the kerosene lamps they were mainly using. For Greenlight Planet's purpose to increase sales and impact, the social business started to offer lights with different power for different prices. Today the enterprise sells three different types of lights, which differ in price, power, battery capacity brightness and technology (see figure 9).

Product differentiation is an important factor for Greenlight Planet in order to increase sales by meeting the requirements of a variety of costumers. Until today, Greenlight Planet sold over 7 million lamps and employs more than 600 people. (Greenlight Planet)

Additionally, Marketing measures are a prominent factor to increase sales. Often these instruments are regarded to be costly but especially in developing countries easy measures usually already help to increase sales by entering a new market or scaling sales within a market. SELCO is a social business that offers solar home systems. In order to make these systems more prominent SELCO relies on patient marketing strategies. Firstly, it established small offices at public places in the communities to increase the enterprise's visibility. Secondly, SELCO preferentially served public customers such as schools, offices or hospitals, where a great amount of people gets in touch with the product. Thirdly, the word of mouth-strategy was used to address the concerns of risk-averse and poorer people who hesitate to make an investment. Since SELCO's founding in 1995, the social enterprise has sold over 200.000 solar home lighting systems. (Kayser & Budinich, 2015, p. 45; SELCO India, 2015).

Lastly, the authors opt to introduce a comprehensive example where a social enterprise pursued a multi-channel sales strategy including price differentiation between the various channels. VisionSpring India, a social enterprise focused on selling reading glasses to customers at the bottom of the pyramid, first established a sales channel network based on so-called local vision entrepreneurs (VE), which received basic training by VisionSpring India and where then attributed to a local market to sell the glasses (Christiansen & London, 2011, p. 183). Furthermore, VisionSpring India focused on two other sales channels to offer their products: a franchise partner network as well as a wholesale channel. Building on the VE network, the franchise approach leveraged existing distribution networks on a local basis to expand their own points of sale (Christiansen & London, 2011, p. 186). Lastly, a wholesale approach was pursued by VisionSpring India. This approach mainly included selling the glasses through small retailers and pharmacies mainly located in urban or semi-urban areas (Christiansen & London, 2011, p. 188). Whereas the first two approaches mainly focused on local and rural areas, the wholesale approach expanded the business into new areas and thereby increasing the potential customer base of VisionSpring India. Following this tri-channel approach, the pricing differentiation scheme was developed accordingly. In the lower end of the market, targeted by VEs and the franchise network, prices and margins where low, especially due to the scarce financial resources of the targeted customers. However, the variety of offered products included four different lines with slight differences (focusing on different eye issues). In the wholesale channel approached, VisionSpring India increased the retail price and therefore also their own margins. The cheapest pair of glasses was not offered through the wholesale channel and customers had a more limited product variety to choose from (only two different models were offered). Target groups of the first two sales approaches included mainly customers at the bottom of the pyramid whereas the wholesale channel specifically targeted customers middle and upper-middle class customers willing to pay a premium on the offered products (Christiansen & London, 2011, p. 188).

4.2 Internal Challenges

4.2.1 Business Model

i) Theoretical Introduction of the Challenge

The lack of a working business model is an internal problem that can apply to any company. It is the most fundamental problem of a business, as it is about the business itself. A business model depicts the process of value creation and helps in understanding the components of a business, it "[...] describes the rationale of how an organisation creates, delivers and captures value [...]" (Osterwalder & Pigneur, 2010, p. 14). If the business model does not work, there is no business and there is certainly no growth, at least no "natural" (incremental) growth (of course growth can always come from outside investments as elaborated in chapter 3.2.). The special purpose of a social business complicates its business model: not just profit, but an objective unrelated to the market is added. In order to understand the difficulties for social businesses it is necessary to look at the way their being social interferes or does not interfere with the business model.

There is plenty of literature on the "business model" and its innovation in general and there are well known tools to be applied in order to construct or error-check a traditional business model – most well-known and easily applicable of which, the business model canvas by Osterwalder and Pigneur (2010). There have been several alternations of the business model canvas and the one most helpful in the analysis of social businesses might be the NGO-canvas by Sanderse (2014). For a social business it is crucial to understand how its social aspect relates to the business model (Dohrmann, Raith, & Siebold, 2015). The ways this interference works will be analyzed here and then remedies or possibilities for actions are deducted.

ii) Theoretical Introduction of Solution Approaches

The solution for the lack of a working business model is to create a working business model and to try to implement it – either when designing a new social business or trying to figure out the flaws of an existing one in order to scale it up. This is a process of business innovation.

After analyzing the multitude of cases of social business for this study and discussing their business models, two distinct varieties of social business models could be identified (for a similar approach compare the categorization of social business models by Dohrmann, Raith & Siebold (2015, p.128-133)). The Social Business Model Nr.1 (SBM1) is a business that adds a social aspect to one of its methods of production. SBM1 can be a traditional business with a social aspect. It might e.g. use fair traded goods or employ workers that are otherwise unlikely to be employed – like the restaurant "Conviva im Blauen Hause" in Munich or "Velafrica" in Bern, both employing workers with otherwise difficult prospects of employment. The social aspect of concept Nr. 1 lies in the composition of the business; its production methods have a social aspect. This most commonly equals a drag on any of the aspects of the business model, compared to its competitors, who do not necessarily support a social goal.

The Social Business Model Nr.2 (SBM2) features a social purpose in the product or output itself. The social impact is to come from the product, not its production. This means in general to provide a service or good that would otherwise not be provided to the intended consumer. Usually a service or good will be provided at a price that makes it affordable for the poor (the "bottom of the pyramid") or even handed out for free. Velafrica is also an example of the second social business model, as it produces bicycles to hand them out for free in Africa.

There are two more distinctions of social businesses to be made: either the business works in the market as a regular business or it works outside of the market – meaning it is dependent on public sector support or charity (European Union, 2014). Most often the social business work within the market and draw support from resources outside of the traditional market at the same time to some degree (European Union, 2014). The consequences and the challenges of the second mode of income will be looked at in the next part of this paper. This paragraph focuses on the effects of social aims on a working business model, as in concept Nr.1 or 2, within the market. The effects of public sector support on the social business model are discussed in chapter 4.2.2.

In concept Nr.1 (SBM1) the modes of production of the business have a social aspect, and therefore make the product more expensive than the regular product. If neither charity nor public sector support is intended, the new product needs to incrementally include its “socialness“ in the image of the product, using brands like “fair trade” and making the “social benefit” visible in order to give customers a good reason for their choice. Obviously it helps to have a good product or service. It is also important to do this the right way and use the branding and marketing methods of regular businesses for the specific purposes. Growth by regular investment is unlikely in these cases as the profit margins are usually lower than the regular competing business, internal growth should be the aim and advantage of not having to share the gain being used.

In Concept Nr.2 (SBM2), the output is the social aspect. The product or service is being provided for a certain segment of the market that would not be met with supply otherwise. Again this is either done with public sector support (of course very often public sector support is involved anyways). There is a demand that is for one or the other reason (mostly because profit margins are not high enough) not being met, usually at the bottom of the pyramid. These kinds of businesses can also be social in another aspect: they create a business that runs within the targeted community, therefore enhancing the community in an indirect way. There is no general advice on how this could be achieved; obviously a certain ingenuity is necessary, when it comes to the creation of a new business and certain knowledge of the community and its demands. This process of creating a business from the bottom of the pyramid for the bottom of the pyramid cannot be manufactured easily. However, as it would be a working business model, it might not face the restrictions of social businesses, but only the ones of regular businesses in new markets and therefore can rely on traditional business expertise in order to facilitate its growth – depending on the business this would mean the right mix of investment, expansion, training, advertisement and everything else a regular business demands. The trick would be to turn the social benefit into a regular benefit. This is where business and social business truly meet.

Otherwise there is always some kind of trade-off between the social objectives and the financial profit, in which case it is important to find the right balance between the two; giving up too much of the social benefit in order to maximize financial profit for the ability to scale up is also a risk (Dohrmann, Raith, & Siebold, 2015, p. 130). These necessary decisions can be studied best, with a working business model.

As in the case of “Velafrica” combinations of the two social business models are common. Those cases need to be looked at very carefully and the two divergences from the traditional business model need to be analyzed separately to achieve clarity on the workings of the business.

In order to test its potential for growth, the first step of a social business should be the creation and definition of a business model. This will help to be aware of its aspects and directions and what kind of social enterprise it is one is dealing with and to see what makes it run and how its stream of revenue can be optimized in order to scale the business up. In order to construct or test the business model the tools portrayed in chapter 3.2 should be used and the surroundings of the business critically looked at from a business perspective; therefore a certain set of knowledge of business tools is to be advised. It is important to see, that the business model as a tool serves different purposes, depending on whether the business is an already existent one or one that is being created newly. In the first case, it should be used to see the potential for growth and in the latter it can be used to craft the right conditions for growth. To change a business model is rarely successful – only in very few cases does the change lead to success and that change is usually necessitated by a change of outside circumstances (Bonakdar, 2015, p. 2). The business of scaling up is already a demanding one for normal businesses.

iii) Case Study and Best Practice Example

An example for a successful launch of a working business model, that serves the bottom of the pyramid and manages to turn social benefit into corporate profit and at the same time enhances the community, is First Energy, selling stoves to communities that enhance air quality and fuel efficiency (Kayser, 2015, p. 36). Crucial for the success of this business model had been extensive local research over several months, a professional team of consultants to draft the business model and the creation of a new stove by the Indian Institute of Science. Whereas this piece of ingenuity cannot be copied easily it shows the importance of a working business model, which includes a precise business plan, as a necessary ingredient. To get that business model working, something else is needed too: knowledge in business (the professional team), ingenuity and willingness to cooperate with strong partners (the Indian Institute of Science), and the right entrepreneurial spirit. All three components of a company that might well be as crucial to the challenges for scaling up businesses as is the right business model. Therefore we will have a look at them in the Chapter 4.2.3.

4.2.2 Third Party Support

i) Theoretical Introduction of the Challenge

If the business model does not work by itself, the public sector and charities offer finances for business models that do not work in the market. This is not uncommon; many social businesses rely to some degree on third party support (European Union, 2014). This support might come either in the form of subsidies (e.g. health care for the poor) or certain legislation or in the form of charity (European Union, 2014). Even though we do not regard “enterprises” that fully rely on charity in this paper, the following lessons can be applied to them as well – or vice versa, the lessons learned in professional charity can be used for social businesses as well. Another related aspect are financing methods, that are by intention designed to support social businesses, like impact investing.

The dependency on this support shifts the focus of the business model towards certain directions that have influence on the scaling up process of social businesses. The expansion of a business is obviously limited by whatever this business is running on. If that is public sector support, the growth of the business is ultimately limited according to the public sector support. In addition the focus and energy of the business shifts to some degree from running a business successfully to increasing or securing third party support.

ii) Theoretical Introduction of Solution Approaches

Possible external solutions for this obstacle to growth would then be to broaden the public sector support, to foster its implementation in other countries or to provide similar support by other means externally. If the social business would attempt to influence the process itself, it would have to engage in lobbying. This is a difficult task for often small and underfunded social businesses. A ramification for that obstacle would be the creation of cooperative organisations to foster lobbying or political attention. Similar support is being provided by organisations like Ashoka. The cooperative self-organisation of social businesses is a possible solution to many collective action problems, like creating the appropriate political conditions.

The dependency of the social business on third party support has also certain ramifications on the business model: e.g. a certain focus, time and energy might have to be used in order to profit from the public sector support. The internal structures of the organisation are focused on the growth in accordance with that support – if the support vanishes or changes, so might the social business. Growth within a certain set of subsidies or charity often means cannibalizing similar businesses, which profit from that same source.

In order to overcome the dependency on third party support, a radical change of the business model would be necessary. This is the is the most interesting internal solution for scaling up a business that runs on public sector support, however it is also a very challenging one. Lessons from the success of business model change imply, that an external change would need to be necessary, in order to be of lasting effect (Bonakdar, 2015, p. 10), therefore in some cases it might be advisable to reduce third party support for social businesses – if change in that direction is desired.

To sum it up, third party support shifts some of the area of growth from the business-model to a third-party support model, unlinking traditional business success from the success of the social business. This effect might be desirable or not, it must however be taken into consideration, when creating the business model, as it has effects on the kind of growth that can be achieved and on the possibilities of scaling up. In some cases it is simply a necessity for a business to run on subsidies (Kayser, 2015, p. 172), the company's growth then depends on them.

Some social businesses define themselves explicitly by being a true business with a social intent and thus try to avoid subsidies (and some social businesses even go as far as to develop their business exactly so to help others avoid subsidies, like Equal Exchange or the Greystone Bakery (Wilson & Post, 2013)), yet it is unclear what the effects on scaling up of these businesses are. For certain businesses it might be a necessary tradeoff to choose between subsidies with more social impact and more business but with less social impact. This is the axis these two options might be aligned on, between profit potential and social impact potential, and that social businesses try to break out from (Wilson & Post, 2013, p. 729). They yield different restrictions and possibilities for scaling up. It would be necessary to see with each firm individually, whichever option yields more promise for scaling up and therefore more promise for social impact as the overall aim.

iii) Case Study and Best Practice Examples

A practical example for the transition of an organisation funded by third party support to a more self-sufficient one is that of Cordaid. Cordaid is a major development organisation, that saw it necessary to rely less on public sector support and therefore decided to attempt to shift its business model from an NGO to a social enterprise (Natrup, 2014). The main reason for this decision was the expected decrease of available funding from third party support in the coming years – an expectation shared by many NGOs, making the importance of a shift in business models even more relevant (Natrup, 2014).

How did Cordaid proceed? Help from experts with a knowledge in business was sought and then a working business model crafted, that resulted in a business plan; aware that change is going to be hurtful Cordaid decided to cut down its business to the bare essentials in order to be able to thrive as a social enterprise rather than an NGO; additionally a radical new change in the staff of Cordaid was necessary, in order to accompany the change of the business model (Natrup, 2014).

For Cordaid, the transformation of an NGO to a social enterprise was hurtful, but successful in the end (Natrup, 2014). If radical changes of the business model are to be successful, a professional approach is essential and the organisation needs to be willing to undergo radical, often meaning hurtful, change - some price will have to be paid before the change can yield benefit.

4.2.3 Knowledge and Skills

i) Theoretical Introduction of the Challenge

As pointed out above, the abilities the staff are essential for the success of a social business, and the more so for its ability to scale up. The legendary ingenuity of some business founders can hardly be copied or reproduced, however incubation programs to train new entrepreneurs are being undertaken by some social businesses (Kayser & Budinich, 2015, p.47). Whether attempts at fostering creativity are the right way to nurture more creative potential, time will show. The skills of the organisation and its workers - and not just the head of a company - are equally important for successful growth and can be modified easier.

These skills are: business knowledge and knowledge about the conditions of the enterprise and important trends and opportunities; the entrepreneurial spirit and the organisational culture of the business. Aligned with these arise the problems of organisational composition and the war for talents (Schwab Foundation for Social Enterprise, 2014).

This lack of knowledge in business skills is even worse for entrepreneurial companies, as social businesses about to scale up often are. With the lack of business knowledge comes a lack of focus on trends and strength – the general ability to have a business mindset and to think in opportunities for businesses, to have a certain ingenuity that raises awareness for chances for growth.

ii) Theoretical Introduction of Solution Approaches

What aforementioned challenges have proven is that, for running businesses – be they social or not – a certain managerial knowledge is helpful. Social businesses have due to their focus on being social, a certain competitive disadvantage. Yet the professionalization of social businesses is on the way and facilitated by knowledge transferring entities like Ashoka, MSD, Hystra, the DEZA and in general by the new scientific focus on social businesses and their scaling up.

Individual enterprises have to take their own care however to answer the challenges ahead of them and need to make sure they are aware of the business-demands they face. In order to make up for their lack of knowledge it might be advisable to train and professionalize employees and to hire business professionals. To know the right marketing tools, the right pricing and so on, a certain set of skills needs to be present with social businesses (for further inquiry see chapter 3.2). Especially as entrepreneurs in this area often feature a background somewhat distant from business, e.g. development workers or health care professionals.

Yet business-knowledge is not the only knowledge necessary for the process of scaling up. A vast knowledge of the intended market and its customers is advisable too - especially for the peculiar conditions of a “bottom of the pyramid”-market. The creators of First Energy (as presented in chapter 4.2.1) did extensive local research over months in order to understand the market and in general the conditions for their intended enterprise and took very good care before drafting their business model (Kayser, 2015, p. 36).

One reason, why it is difficult to accomplish aforementioned change in the knowledge structure of the company and a reason that might keep the entrepreneurial spirit low and raise problems for growth is the difficult position in the war for talents (Hynes, 2009): rather low wages, often little career-opportunities, and a sometimes challenging work environment. But to some applicants the social aspect of social businesses is attractive and therefore also a possible advantage in the job market (Bhattacharya, Sen, & Korschun, 2008). However, as Anand Shah, the founder of Sarvajal, points out “[…] there is a shortage of people (…) it is hard to find talents that are truly motivated by working on scaling up […]”(Kayser & Budinich, 2015, p.226). Yet to some applicants the social aspect of social businesses is attractive and therefore also a possible advantage. One way to answer the challenge in the war for talents might be to look for local staff and incorporate the growth of employment in a local fashion into the business model – this obviously works better for some companies and concepts than others. It is to some degree present in many bottom-of-the-pyramid-businesses, like First Energy.

As Kayser points out, the spirit and the professionalization of the staff is successfully supported by “[…] seconding high-potential employees to social organisations or training programs […]”(Kayser & Budinich, 2015, p.47) and enabling them to join a community of like-minded individuals in other cooperations is “[…] a great strategy to build their capabilities and keep their spirits high […]”(Kayser & Budinich, 2015, p.47) - this is the path adopted by many social enterprises. The network challenge, as discussed in chapter 4.1.2 , is part of the solution for these.

iii) Case Study and Best Practice Examples

As Cordaid (see chapter 4.2.2) has shown, in order to achieve the right change of the business model a change of the knowledge and skill structure of the business is necessary too. To bridge the first gap Cordaid relied on external consultants and then opted for a drastic change in the composition of its employees (Natrup, 2014): half of its newly created business units were run by stuff from within the company, the other half by newly hired from outside the organisation.

The difficult position of social businesses in the war for talent has come to the attention of social entrepreneurs themselves; there are now social businesses like talent4good, which themselves focus their work on bringing together talented applicants and social businesses. This is a prime example of how social businesses themselves can be the solution for the challenges they face.

One way for a social business to increase its capabilities and knowledge is to employ new staff, the other way is to actively foster knowledge and train employees. This can be made easier with cooperating with other social businesses and making use of networks (as discussed in chapter 4.1.2). Social enterpises are aware of that and have started to actively and freely share their own knowledge, like turning points publication "elements of succsess", thus facilitating knowledge and taking advantage of the fact that cooperation of social businesses might be easier than cooperation or regular businesses (McPartland, 2011).

4.2.4 Organisational Culture and Entrepreneurial Spirit

i) Theoretical Introduction of the Challenge

An important element of a working and especially of an expanding business is the right mindset, the entrepreneurial spirit and the culture of an organisation. There is a vast amount of management literature concerning the mindset and culture of enterprises, starting with the studies of Edgar Schein's model of organisational culture with artifacts, values and assumptions (Schein, 1992). In order to facilitate the right spirit within a company, a spirit of growth, we have to consider the kind of growth aimed at, as defined in the literature for organisational psychology: incremental growth or radical growth (Bruch & Menges, The Acceleration Trap, 2010). Incremental growth is growth that comes sort of naturally to the company. Radical growth is the vast and speedy expansion that is usually found in entrepreneurial businesses. The latter faces the so called "acceleration trap", meaning a burning out of resources with the accelerated speed of growth. However, before the acceleration trap can become a threat for growth, an entrepreneurial mindset must be present first.

ii) Theoretical Introduction of Solution Approaches

This mindset is important for scaling up businesses. There are different theories on how this can be accomplished. What they share is the fact, that the right organisational climate is necessary to foster an entrepreneurial spirit or mindset. One often applied way of analyzing the organisational culture of a business is the approach via organisational energy; the organisation should run on "productive energy", rather than on "corrosive energy" - meaning the business should focus on an open, team-oriented, cooperative, yet high performing atmosphere, versus a lazy one or one with negative feedback, no teamwork and many conflicts. (Bruch & Vogel, 2011).

Social businesses face the same problems as traditional businesses when it comes to the question of organisational culture. But due to their difficult position in the market and their need to be highly entrepreneurial and innovative businesses it is crucial for them to foster a certain organisational culture. Which constitutes a very difficult task, but one that should always be kept in mind when attempting to undergo the entrepreneurial adventure of scaling up a social business.

The Schwab Foundation developed a model of key challenges for leadership in order to foster the right organisational environment in social enterprises (Schwab Foundation for Social Enterprise, 2014). The challenges they identified are: building a management team, delegation and succession, balancing and integrating and personal and professional development. These challenges correlate to the organisational theory of productive energy as mentioned above.

iii) Case Study and Best Practice Example

The Schwab foundation suggests a practical example for best practice for the composition of a leadership team in social enterprises in order to enable the right organisational culture: it usually consists of an evangelist (someone who cares deeply for the organisation's mission), a scaling partner (someone to implement and develop strategies), a realist (a business practitioner with strong financial skills), a connector (who creates the right networks) and a program strategist (for the field work of the organisation) (Schwab Foundation for Social Enterprise, 2014).

This example of an ideal composition points the way businesses should orient their management focus in order to be able to create the business-climate appropriate for an entrepreneurial spirit. Lessons from business world however show, that it is a difficult task to change an already existing culture in a company (Schein, 1992); as with the change of the business model (see chapter 4.2.1 and 4.2.2), radical measures might be necessary, like changing the staff as in the case of Cordaid, or creating a new enterprise, as with First Energy.

5. Compendium of Findings

In order to be of most value for the practitioner the strategies for scaling up social businesses and the analysis of the seven external and four internal challenges are being summed up here. This is an attempt to provide a systematic overview, even though the challenges are not the outcome of systematic theoretical considerations, but of the evaluation and analysis of cases and reports on scaling up social businesses. Therefore the analysis of each challenge and its presentation varies within the chosen systematization. Some challenges are crosscutting to a degree and some are both external and internal to a certain degree. But the focus does not lie on systematization but on being of most value for the person who wants to either scale up a social business or help scaling up social businesses. Therefore the challenges are a list of the 11 most relevant challenges for the scaling up of social businesses. There certainly are more and it would be possible to arrange them differently, but if a practitioner is faced with a challenge and wants to look at possible remedies, he or she will most likely find the challenge and an assortment of remedies in our analysis of the 11 challenges. To make this easier, the following charts are provided.

A list of the six basic strategies for scaling up social businesses is provided first, including an overview of actions and specifies for social enterprises (See Figure 10). Then the seven external (Figure 11) and four internal challenges (Figure 12) are introduced and portrayed, including short elaborations on the respective measures to be taken into consideration. The tables have been designed as to allow for an easy grasp of the respective challenge and therefore advance in the details of elaboration; the next table explaining or commenting on the respective one before. Wherever the content allows, this is supported by the use of numbers to enable quick reading and referencing. Wherever this has not been possible, a clear logical structure is provided nevertheless and will guide the reader.

5.1 Overview of Theoretical Strategies for Scaling-up Social Enterprises

	Name of the Strategy	*Theoretical Action Steps*	*Case for Social Enterprises*
Strategy 1	▪ **Diversification**	▪ Cross-Selling ▪ Diversification of the Offering	▪ Offer a solution to a related but different social problem
Strategy 2	▪ **Management Innovation**	▪ Dynamic Management Capabilities ▪ Flexible internal processes	▪ Develop management skills and flexible processes that are fitted to operate successful in an unknown market environment
Strategy 3	▪ **Impact Demonstration**	▪ Adapt marketing strategies to the specifics of your business ▪ Innovate your firm's ways of communicating to the public	▪ Fuel growth strategies by making the public (consumers, investors, press) better understand the impact and relevance of your social enterprises' offerings
Strategy 4	▪ **Strategic Alliances**	▪ Find a partner to reduce resource scarcity ▪ Increase the firm's knowledge base by joining forces	▪ Overcome a social enterprises' shortage of resources by joining a partner that is strong where your firm is weak
Strategy 5	▪ **Merge**	▪ Form a joined company that ideally covers the complete value chain of an industry ▪ Replicate the business model by franchising	▪ Important to find the right partner in order to reach the intended goals ▪ Allows to strengthen the financial viability of the firm and the spread of its offerings
Strategy 6	▪ **Quality Standards**	▪ Lobby policy makers to introduce quality standards and regulations that favor your product offering	▪ Allows to offer consulting services to for profit companies and directly increases the number of consumers if your offering becomes a standard in a certain industry / at least it enhances the attention for your product

Please Note: Strategies 1-3 are **internal**, strategies 4-6 are **external** strategies to scale-up a social enterprise

Figure 10: Overview of Theoretical Strategies for Scaling-up Social Enterprises
Source: Own illustration

5.2 Overview of External Challenges for Scaling-up Social Enterprises

	Short Description of the Challenge and Theoretical Introduction	*Theoretical Measures for Action*	*Description of the Measures and best Practice Examples*
Challenge 1: **Poor Understanding of the concept of social business**	▪ The model of social business has a short history ▪ It is an ongoing discussion how to define social business ▪ The uncertainty hampers scaling-up because shareholders (such as policy makers, finance providers or other businesses) do not see social businesses' potentials ▪ The lack of specialized support impedes the businesses	1. Generate a common understanding 2. Communication 3. Organizational structure 4. Relationship Management 5. Public and media relations 6. Advisory specifically for social enterprises 7. Call for expertise among public partners	1. It is a key problem that actors define social businesses differently 2. Clear and detailed communication and the exchange of thoughts helps to generate a common understanding • The Tony Elumelu Foundation built a network to promote social businesses' concept, increase visibility and information exchange 3. The appropriate organizational structure supports the exchange of information and incorporation of new ideas 4. Maintenance of key accounts facilitates the dialogue with partners for social businesses 5. Social businesses may contribute and support the public discussion in order to create consensus (*see Tony Elumelu Foundation*) 6. Due to specific characteristics of social businesses customized advisory and consultancy is needed 7. To access public funding and cooperation public partners need to be encouraged to create expertise for social businesses' needs
Challenge 2: **Network Challenge**	▪ Networks are important for social businesses to grow ▪ Social businesses need external support to grow → support is provided through networks ▪ Access to experts can be provided through networks ▪ Many other challenges identified are interconnected with the network challenge	▪ Social business and social enterprises have to enter networks → it is important to focus on cause specific networks. Network suggestions: ○ Networks fostering exchange among social entrepreneurs ○ Foundation Networks ○ Financial Networks ○ Governance Networks ▪ Building networks is an ongoing process during all business stages	▪ Networks (general and specialized) for social businesses are manifold → it is important to find the right fit ▪ The Impact Hub in Westminster provides a non-comprehensive overview of networks for social businesses world wide (see references for direct webpage access) ▪ The Schwab Foundation for Entrepreneurship is probably the most renowned network for social entrepreneurs in the world (general network) ▪ Social entrepreneurs may qualify for the Entrepreneur of the Year Awards from Schwab Foundation

Challenge 3: **Legal Challenge**	▪ Challenge is twofold: ▪ Finding the right legal status for a social business is important ▪ The legislative framework in which a social business operates will have a big effect on its business operations ▪ A special legal structure for social businesses is often not available ▪ Current legal structures mainly focus on either the social return part or profit maximization, but not on both aspects at the same time	▪ It is important that a social business can satisfy both needs at the same time→ having a positive economic return AND focusing on the social aspect ▪ Recommendation generally is to focus on profit maximization structures in the absence of special legal structures for social enterprises ▪ However, it is important to keep in mind the social aspect as well (e.g. through a separate contract)	▪ Of the three different approaches – (1) for-profit orientation, (2) social orientation/NGO, (3) emerging structures combining both aspects – the third approach is recommended. ▪ However, this approach might not be available to all social businesses ▪ A very good example for how to integrate both aspects (social return as well as profit orientation) is Muhammad Yunus and his Grameen network. Since no special legal structure for social enterprises was available, he decided to establish Grameen on a classic for-profit structure ▪ However, he made sure, that the social aspect is also pursued
Challenge 4: **Access to Markets**	▪ Social businesses often work under challenging market conditions (poor infrastructure and risk-averse costumers) ▪ It is essential for social businesses to develop, consolidate and become Self-sustaining in order to stay on the market	1. Managerial training 2. Promote that support programs are used 3. Consider costumers' needs and behaviors 4. Flexibility and innovative capacity 5. Marketing and labeling 6. Cooperations and networks	1. Managerial training supports the abilities to assess special characteristics of each market 2. Inexperience about the realization of social business support among political actors needs to be overcome 3. In a competitive market social businesses have to supply demanded goods and services in order to reach break-even quickly 4. Drishtee successfully customized their supply according to the needs of their customers 5. Social businesses need to adapt to the specialties of the market. Therefore, new or customized instruments are often needed 6. Marketing increases the visibility of the brand (see JITA Bangladesh) and labeling signals quality standards to risk-averse customers 7. Measures such as information exchange and burden sharing facilitate social businesses access to and operation a market

Challenge 5: **Financial Challenge**	▪ Social business face a disadvantage in attracting funds to their business compared to for-profit firms ▪ Challenge shares interdependence with legal challenge → legal structure influences the ability to attract funding ▪ For profit firms can offer higher returns to investors and are more likely to attract capital to their business model	▪ Social enterprises can make use of specific forms of investments for their business ▪ Examples include but are not limited to charity organizations and philanthropic investors ▪ A combination of traditional rent maximizing investors and pro bono investors can be adopted as well	▪ Initiatives for funding social business can also come from governments: The Presidential Investment Council (CPI) in Senegal attracted foreign direct investment (FDI) to social enterprises in Senegal ▪ Combination of investments using philanthropic and for-profit investors: Investment is split between conventional and philanthropic investor, but for-profit investor gets all monetary returns → philanthropic investor does not expect monetary returns. More money available for more projects for philanthropic investors since investment amount is shared ▪ Impact investment as a method to acquire sustainable financing: Investors gain financial as well as social returns → combination of for-profit and social investments
Challenge 6: **Impact Measurement**	▪ Social businesses face a difficulty how to measure results and quantify performance ▪ Little agreement which indicators should be used ▪ Isolation from own impact ▪ High costs for impact measurement may relativize the ambitions	1. Decision whether impact measurement is useful 2. Approach scholars and politicians for support 3. Find suitable indicators 4. Proxy indicators 5. Periodical strategy adjustment 6. Coherent measures	1. Impact measurement is only useful for some businesses because of high costs it implies 2. Impact measurement frameworks need to be introduced in order to support social businesses to measure their impact; An impact language and shared impact agenda will further positively contribute 3. The chosen indicators need to reflect accountability of the business 4. These measures may be used to quantify impact that cannot be regarded to one business directly (see ACSR) 5. Based on feedback and experiences the strategy needs to be adjusted to serve the specific characteristics of each business IIC continuously expanded their impact measurement (also among their partners) and used the information to scale-up 6. Ideally a business's impact measures should be understood by an independent third party
Challenge 7: **Sales**	▪ The main issues in this challenge include sales channels, marketing and pricing ▪ It is more difficult for social businesses to enter markets → different market structure, customers are often poor	1. Tailor-fitted solutions 2. Establish sales channels 3. Marketing 4. Pricing 5. Retain connections	1. Develop a unique combination of measures in the areas of sales channels, marketing and pricing 2. Sustainable and various channels with a focus on last-mile-distribution 3. Tailor-fitted marketing approach to foster market expansion. E.g. focusing on enablers (village-entrepreneurs) 4. Collaboration, networks and price-differentiation help to overcome the challenge of affordability for customers (see VisionSpring India) 5. Focus in interactive customers relations → repurchases, upselling

Figure 11: Overview of External Challenges for Scaling-up Social Enterprises
Source: Own Illustration

5.3 Overview of Internal Challenges for Scaling-up Social Enterprises

	Short Description of the Challenge and theoretical Introduction	*Theoretical Measures for Action*	*Description of the Measures and best Practice Examples*
Challenge 1: **Business Model**	▪ A working business model is central to the success of any company ▪ Internal growth depends on a working business model ▪ For a social business, a working business model is a major challenge: due to its mixed purpose of profit and being social	▪ First measure is awareness ▪ Second measure is to introduce a working business model ▪ Therefore the social business needs to be analyzed and the attempted working business model be defined ▪ For this, in depth knowledge of the business and of social business models is necessary ▪ There are two basic ways for a business to be social: either with its production (SBM1) or its output (SBM2) ▪ Combinations of the two are possible and need to be analyzed with special care ▪ A second question concerning the business model is its dependency on third party support and whether that is intended (Challenge 2 focuses on the consequences of third party support)	▪ In order to make informed decisions concerning the business model a great amount of business-knowledge, theoretical and applied, is necessary (see also Challenge 3) and an in depth knowledge of tools, like the "business model canvas", is advisable ▪ The case of First Energy shows, how helpful theoretical business knowledge can be when creating the business model of a new social enterprise ▪ The **Social Business Model Nr.1** (SBM1) is a social business because of its means of production (e.g. paying fair wages) ▪ The **Social Business Model Nr.2** (SBM2) is a social business because of the price of its output (creating a service or good for customers, who were unable to afford it before) ▪ There usually is a trade-off between profitability and the social aspect of the business: it is the task of the working business model to find the right balance ▪ Sometimes this tradeoff can be diminished with the right business model: in SBM2 it might be possible (as in the case of First Energy) to find an opportunity for business at the bottom of the pyramid – a lot of expertise and ingenuity is required however (Challenge 3 and 4); in SBM1 the right tools of marketing might help turning the disadvantage of using social means of production into an advantage (e.g. using brandings like "fair trade") ▪ The risk of giving up too much of its socialness is inherent in the choice between being social and doing business: dependency on outside support might be the necessary conclusion (see Challenge 2) ▪ The creation of a new business model is generally promising more success than the change of an existing one

Challenge 2: **Third Party Support**	▪ The dependency on third party support (like subsidies or charity) alters the basis for internal growth ▪ If a social business model does not work on its own, it can rely on third party support ▪ This is the case with many social businesses ▪ When the business model is dependent on external funding, then the potential for growth is as well ▪ This changes and potentially limits its possibilities for growth	▪ This challenge is twofold and therefore there are two possible (conflicting) measures to answer it, depending on the intentions of the social business: ▪ Broaden Third Party Support ▪ Overcome Dependency on Third Party Support with a radical change of the business model	▪ **Broaden Support**: in order to create growth under the conditions of a "supported" social business it would be necessary to broaden such support ▪ This can be accomplished by finding or creating new sources ▪ Finding new sources generally means looking into new ways of funding or in new regions – the potential for growth in these is limited however ▪ Creating new sources means either, depending on the source of support, increased marketing or lobbying ▪ Lobbying is beyond the means of most social businesses; cooperative action and coordinating organizations like Ashoka might be helpful ▪ **Overcome Dependency**: as the third party support business model shifts some of the focus, time and energy of the business from doing business to gaining external support and the dependency on external support limits the potential growth, therefore it might be advisable to overcome the dependency with a radical change of the business model ▪ This is a difficult task and mostly successful if necessitated by changing external conditions (as in the case of Cordaid) ▪ But some social businesses need to rely on third party support ▪ The **decision** depends on each social business and the choice between the two models is a choice between two different obstacles for growth
Challenge 3: **Knowledge and Skills**	▪ Essential for sacling up a social business (as seen in Challenge 1) are Knowledge and Skills ▪ This challenge is complicated further by the difficult position of social businesses in the war for talents	▪ Outside support ▪ Train and Professionalize personnel ▪ Employ business professionals ▪ Take advantage of the shift in appreciation of being "social" in the war for talents ▪ Look for alternative sources of employees	▪ To gain outside support from external consulting partners (like in the case of Cordaid) is advisable in many cases and often done; however depending on the social business it might be difficult to either afford such advice or to find the right advice, even if the sources are manifold ▪ Training and Professionalization of the staff is to be done best in concert with other social businesses and their employees as that will help employees to both foster a certain community spirit and also ease knowledge transfer ▪ To employ business professionals is difficult due to the tendency for lower wages in social businesses, however this might be necessary and a certain trend in the appreciation of "socialness" helps in the war for talents ▪ In order to get the right knowledge, hiring locals is often an important step

Challenge 4: **Organisational Culture and Entrepreneurial Spirit**	▪ In order to accomplish growth the right organizational culture and entrepreneurial spirit should be present ▪ This is especially important in the high demanding environment of up-scaling	▪ "Productive Energy" is to be fostered, "Corrosive Energy" to be avoided ▪ Measures are e.g.: fostering personal development, creating an open and team-oriented atmosphere	▪ The right organizational culture and entrepreneurial spirit is crucial for scaling up a social business; many obstacles have to be overcome, like the acceleration trap, which is the outcome of an overly corrosive atmosphere ▪ The Schwab foundation has developed a comprehensive systematization of creating the basis for a supportive organizational culture (Schwab Foundation for Social Enterprise, 2014)

Figure 12: Overview of Internal Challenges for Scaling-up Social Enterprises
Source: Own illustration

6. Conclusion: Knowledge, Drive and Ingenuity – not the answer to all obstacles of scaling up, but certainly a helpful trinity

The growth of a traditional business is well studied and due to the relative straightforwardness of its final purpose - to increase revenue - easily analyzed. The Ansoff matrix shows to be a valuable tool for that purpose, highlighting the four possibilities of growth for a regular company: market penetration, product development, market development and diversification. The strategies of external and internal growth yield many possibilities to accomplish any attempted kind of growth. The knowledge of regular growth and its strategies is incremental for social businesses as well; unless they want to base its success purely on public sector support or charity (which would mean they are no businesses any more). Social businesses face a double challenge – while they need to know and be aware of the concept of regular growth they also need to look at what growth means for them and how that growth can be accomplished. The growth of a social business - which is based on regular business success - is the growth of their impact; the growth of the social value they add. The faces of social businesses are manifold as we have learned and so are their strategies and paths to growth. Some of the challenges they come across however are very likely to be present with any project of scaling up a social business. The ways to deal with them are different with every challenge, but certain general aspects stand out: cooperative action and cooperative organization of social businesses, planning and business-planning, fostering third party-support, increasing communication and raising awareness, and most of all awareness of the business context and according action (like using the business model approach). At their basis lies the truth, that knowledge about scaling up, about the economics of social business and regular business knowledge are necessary ingredients of any solution.

So, what makes a social business grow? How can scaling up be achieved? It would be pleasing if that question could be answered in a general manner now. However, this has not been the intention of this paper and cannot be accomplished now, either. But on the most basic level and with reflecting on the purpose of this paper and the knowledge gained while writing it, it can be said that there is a certain set of abilities or prerequisites that make social businesses grow: it is the trinity of *knowledge, drive* and *ingenuity*. When those three come together, perplexing new ways of doing business might appear, that – almost naturally – lead to scaling up. Now, what does that most basic insight help us with? It helps on the most generic level and it helps in understanding this project.

As seen throughout this work, there are many challenges to growth for social businesses. Knowing them is the first step to overcoming them. Knowledge is certainly the central attribute to overcoming the challenges social businesses face when they attempt to scale up. Knowledge is not something that can be chosen, it is something that has to be gained, that has to be worked for step by step. This paper is but one of them on the trail of knowledge; but with the many accompanying entities like Ashoka, the Schwab foundation, MSD, the work of organizations like the DEZA and the SECO and the many papers and entries in journals on the topic, and the many small and big steps they represent, knowledge about the scaling up of social enterprises grows and is spreading. It is this knowledge that should be fostered and can be provided by developmental organizations and that promises to yield the biggest return. The knowledge about social businesses also needs to spread further to policy makers, who are responsible for the relevant frameworks and would have the possibility to influence the conditions for social businesses with the appropriate policies. What those policies could be would be an important task for the research to come. Might it e.g. be valuable for the success and scaling up of social businesses if legal regulations were to give them greater advantages over regular businesses? Or could a certain set of subsidies be constructed, so as to undo the economic burden social businesses carry in some instances? Another field of study for future research would be the relationship between internal and external challenges and the construction of an integrated strategy tackling all challenges holistically.

The other two important ingredients for scaling up, *drive* and *ingenuity*, can hardly be provided like knowledge – they can only be supported or enabled when they appear; when they do they should be cherished, as they are necessary for the creative sensations of the businesses we have been studying and now written about. The authors hope to have been able to provide some of this support.

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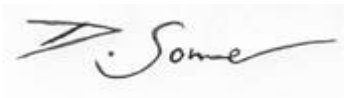

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