THE CHALLENGES FOR CREATING GREATER SOCIAL GOOD

The Inherent Conflict between Intent and Resolve

We conducted an inquiry during June - August 2012 with 29 investors, social entrepreneurs, funders and non-profits to understand the challenges in the social sector. We are grateful to each and every one of them for their generosity in sharing, and humbled by their candour. We also consulted some available literature on the subject, but the focus in this paper is more on the former.

We find an inherent dichotomy in the landscape for 'social good' between tough conditions for doing business and an unresolved ecosystem. It throws up a key issue of whether our intent to solve the 'big problems' is accompanied by our resolve to do so.

WHAT IS ALREADY KNOWN: TOUGH CONDITIONS

The social good environment is tough. There are high costs of conducting business, low-ability-to-pay customers, scarcity of talent, and difficulty in accessing capital. But these are known factors.

High cost of conducting business

Weak distribution channels, limited supplier options, poor service networks and input sourcing are the key value chain constraints. Setting up own operations are expensive, and on-ground partnerships bring their own challenges, particularly for scaling up.

Coupled with inadequate infrastructure and an unfriendly and inefficient regulatory framework, the challenges for conducting 'business' with under-served or Base of the Pyramid (BoP) customers are intimidating.

Low-ability-to-pay customers

BoP customers are hard to reach, have limited resources and erratic cash flows. They are sceptical about new products and services, and market development to gain trust becomes hugely expensive. Frugal innovation that leads to low entry barriers compounds the problem.

Scarcity of talent

There are often few precedents, and the need for creating new business models requires a higher calibre of talent, but there is an inability to compete with the mainstream which has deeper pockets. Also, there is greater personal risk, and higher expectations, obligations and job hazards, reducing attractiveness further. The resultant tendency to hire like-minded people results in a lack of diversity.

Senior management is more difficult to hire resulting in a weak middle, there is a compromise in quality and experience, and the focus shifts to softer qualities that increase training costs. There is high attrition especially at lower levels with a loss in training investment.

Difficulty in accessing capital

Social enterprise is a new sector and distrusted by government and donors alike. Moreover, donors are structurally constrained from lending to for-profits. Banks find them riskier and charge more, and impact investors are unable to justify social good over financial return.

WHAT IS LESS KNOWN: UNRESOLVED ECOSYSTEM

However, the more important challenges are perhaps less visible and lie in an unresolved ecosystem, more to do with the transition towards accountability and the creation of more scalable and sustainable solutions.

Philanthropy is losing its appeal, the sector is in transition, and thinking is insular with no collaboration. There is a mismatch between commitment and competence, and commitment is misplaced with commensurate resistance to scale. Solutions are not grounded resulting in inadequate business models.

Philanthropy is losing its appeal

Philanthropy has historically operated from a programmatic mindset, focused on creating unique solutions rather than scalable ones. With the increasing focus on in-housing CSR, government sub-contracting and a decrease in foreign funds for issues of corruption and inefficiencies, there is a decline in the scope of NGOs.

Sector in transition

With the social enterprise space still being nascent, with many questions around what it is, the sector is in transition. There is a conflict between social and commercial goals, and there is a resistance to new approaches especially commercial ones. There is little clarity about success or intent, and hypocrisy prevails.

There is a lack of clear metrics and investors are uncomfortable with locally created assessments. There are no clear standards for measuring efficiency and accountability, and loopholes allow for wrong intents to flourish.

Insular thinking: no collaboration

There is little collaboration and no ecosystem viewpoint. There are few best practice sharing platforms, and ego issues and competition for funds prevent knowledge sharing. There is also false pride in creating unique solutions and the fear of losing credit for them.

There is a lack of ability to work with partners across the ecosystem, and little realization of the wider canvas. There are no ‘orchestrators’ to enable this either.

Mismatch between commitment and competence

Most players come from a social background and do not have experience in business or finance. They are unable to convert their initiatives into viable business models. The senior mindset is bureaucratic, and youngsters although well-meaning lack experience and commitment.

On the other hand, new-age investors come from PE backgrounds and come more from interest rather than commitment. They bring risk-averse and extractive mindsets, which creates distrust. There is a compromise in target group served and the threat of mission drift.

Misplaced commitment: resistance to scale

NGOs have an ‘activity pact’ of blindly following instructions from donors and governments, with little focus on results. They lack basic management practices and do not create processes for scale. Newer NGOs lack clarity of purpose and in-depth expertise.

Leadership is weak and lacking in initiative. There is poor succession planning as leaders are insecure and unwilling to let go influence. There is a mismatch between the macro and the micro picture, and organizations are not run professionally or for scale.

Not grounded

Social entrepreneurs’ academic qualifications determine investor-friendliness and lead to inflated valuations. They speak the language of the investor rather than that of the community. There is an inordinate bias for action with little thinking. They avoid the hardships of understanding the ground reality and end up without hands-on experience.

Investors largely from PE backgrounds, on the other hand, are focused on quick returns and lack practical exposure for evaluating businesses that target the BoP. Poor is just a number even though they claim expertise, and their focus is on exit strategy and returns rather than on building processes for sustainability.

Inadequate business models

As a result, business models are simplistic and not customer-centric. They start from Excel sheets from incorrect hypotheses because they lack field reality. There is inertia to change the product or service and the tendency is to push down products or services they think customers need.

Business models are also inefficient. They are not sharply defined and revenue models are not proven. Hence they need to rely on grants and other soft finance sources, often resulting in dependence on such kinds of funds, and complacence. The bifurcation of philanthropy and impact investing fragments supply and demand, thus increasing search and transaction costs.

Hence, there are insufficient attractive business models, and whilst there are many investors, they do not find sufficient investible businesses.