



UNIVERSITY OF
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Failure in Social Enterprises

“Failure is simply the opportunity to begin again, this time more intelligently.” -Henry Ford

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Research paper commissioned by *SEE Change Magazine* and conducted by
MBA students at Rotman School of Management, University of Toronto:
Samantha Rykaszewski, Marie Ma, and Yinzhi Shen

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Introduction

The term *failure* is not exclusive to the for-profit sector. In the field of social entrepreneurship failure occurs just as often. The only difference is that no one is talking about it. What's important to recognize is that one can learn as much from the failures of social enterprises as from their success.

With a lack of academic and case-based research on social enterprises that have failed, the goal of this research paper is to investigate and report on the underlying reasons why social entrepreneurs fail and to provide some insights into why talking about failure is beneficial to both current and future social entrepreneurs. By identifying the issues social enterprises face, we can pinpoint overlapping commonalities among social entrepreneurial stories that underlie their failure.

First, we will clarify the definitions of “social entrepreneur” and “social enterprise” as well as define, in the most basic sense, what success and failure in social entrepreneurship look like for the purpose of this report. We will then compare that to the standard definition of failure for for-profit business entrepreneurs to further show the distinction between the not-for-profit and for-profit sectors. Because this field as a whole has focused almost exclusively on success stories, this research within the social sector will add value in an area that lacks transparency and academic research.

Method

The method used for this research was qualitative interviews. The specific approach used was the General Interview Guide. This style of interview is far more structured than an informal conversation approach but still allows for flexibility in the questions and the direction the conversation takes (Daniel W. Turner, 2010). This approach was chosen because of the sensitivity of the research topic and because it allows interaction with interviewees in a relaxed and informal manner. This provides an opportunity to dig

deep and draw out their in-depth experiences through structured questions. This informal approach enabled the team to build rapport with the interviewees so that probing questions could be asked without individuals feeling defensive or threatened.

We approached more than thirty social entrepreneurs and enterprises in the industry to participate in our research and secured twelve interviews in total (six social entrepreneurs/enterprises and six industry professionals). The value in including the industry professionals is that, although they may not have experienced failure firsthand, they can provide an unbiased opinion on why an organization failed and the lessons to be learned from that experience.

Definitions

What is a Social Enterprise/Entrepreneur?

A consistent definition of a social entrepreneur seems to be a continuous work in progress. There are several well-articulated definitions out there, but these seem to be merely opinions. From the interviews we conducted and the network of professionals we have spoken to, we have found that this sector is still very much in its infancy and therefore the terms that describe the different pieces are still building consensus within the industry. The common debate when defining what a social entrepreneur is seems to stem from what it includes and what it excludes (for-profit business models vs. not-for-profit business models, etc.) and the unwillingness of individuals to broaden or be more specific in their definition.

For the purpose of this research, we have accepted the definition the Canadian Social Entrepreneurship Foundation has coined: a social entrepreneur is someone who “recognizes a social problem and uses entrepreneurial principles to organize, create, and manage a venture to make social change (a social venture)” (The Canadian Social Entrepreneurship Foundation , 2010). An alternate definition from The Skoll Foundation is that social entrepreneurs are “society’s change agents: creators of innovations that disrupt the status quo and transform our world for the better” (The Skoll Foundation ,

2012). For this paper, we suggest that the term "social entrepreneur" refers to the pursuit of primarily (though perhaps not exclusively) social goals through a for-profit or entrepreneurial structure and lens.

The definition of "social enterprise," by comparison, is far more complex. The general understanding of a social enterprise is that it maintains a for-profit business model that is motivated by the social value it gains. The idea is for the operations of the business to achieve a social mission while turning a profit. This profit is unique to social enterprises in that it enables them to be sustainable, compared to a traditional nonprofit that depends on grants and fundraising to survive. Profits are either reinvested back into the social enterprise to scale its impact, or reinvested in its affiliated nonprofit.

In summary, social enterprise is about the business model, and the social entrepreneur is about the individual with an innovative idea. To further clarify, social entrepreneurs can start up a social enterprise but not all social enterprises are started by social entrepreneurs.

What Does Success Look Like?

Before defining what failure looks like, it is valuable to look at the measurement of success for social entrepreneurs/enterprises. As mentioned previously, social entrepreneurs are just one version of an entrepreneur. They are entrepreneurs who pursue a central social mission. For social enterprises, the social mission is at the centre of the business, with income-generation playing an important supporting role. Thus, mission-related impact becomes the central criterion, not wealth creation. Wealth is just a means to an end for social entrepreneurs/enterprises (Dees & Marion, 1988).

A successful social entrepreneur/enterprise aims to build a profitable, self-sustaining company that also accomplishes its predefined social goals. These characteristics are in contrast to that of a for-profit entrepreneur, who most commonly measures

performance in terms of profit and return. Thus, although the definition is not concrete, the main aim of social entrepreneurs is to pursue social goals and create social impact.

It's also becoming more and more of a necessity to find a way to measure and compare the impact of social entrepreneurship. In a for-profit business, tracking performance is simple - through profits. This enables businesses to measure their success as well as benchmark themselves in comparison to other similar companies. In contrast, on the social side, where do you even start? Is it measuring lives saved? Diseases treated? Although it is easy to measure the effort being expended by social entrepreneurs, it is far more complex to track the direct impact their actions are having. Since the field has yet to establish a common understanding of "social impact" - what it is and how to measure it - the definition of "impact" varies from organization to organization, which does not allow for benchmarking or comparison across enterprises.

What Does Failure Look Like?

Simply put, failure should be the direct opposite of success. With that said, failure would be classified as the inability to build a profitable, self-sustaining company that accomplishes its predefined social goals. However, this definition does not provide the metrics to measure failure in realistic terms.

First, it is extremely difficult to measure social goals and, more specifically, to define whether or not a social target was successfully met. This is due to the imprecise and subjective science of measuring social impact.

Second, if the social goals and mission are valued so highly by social entrepreneurs, should any deviation from that mission be considered a failure? In a Skoll report on measuring innovationⁱ, it was argued that "a project may be considered successful even if it does not meet its original goals; however, as both parties exhibit a ready willingness to change direction as events unfold." They also suggest that, in keeping with the emphasis on scale, rather than type of social impact, a project that materially benefits

many people will likely be judged a success, even if the benefit is different from the one originally intended (Kramer, 2005).

For the purpose of our research, we believe that an enterprise can fail in two ways. First, it can fail financially, meaning it is unable to generate enough revenue to stay afloat and is forced to close its doors (bankruptcy, etc.). The second type fails socially. It can either fail to build a revenue stream to back a social program, or fail to design a social program that achieves the enterprise's social goals/missions.

External Reasons

Lack of Legal Support in Canada

Essentially, a social enterprise is a hybrid of a business and a charity. Unfortunately, in Canada, there is currently no specific legal forum for social enterprises. They have to be considered either a business or a charity, and use that particular legal structure, even though neither structure perfectly fits their organization's goals and needs.

Unlike Canada, in the United Kingdom, there are legal structures in place to assist social enterprises, such as the Community Interest Company (CIC). The United States has Low-Profit Limited Liability Companies (L3Cs) that embrace and facilitate the so-called "third" *sector*.

Nabeel Ahmed, the managing editor of SocialFinance.ca at MaRS, ranks this lack of legal forum as the most important external issue currently facing social enterprises. This issue "brings a lot of uncertainties," he says. If they choose to be a charity, they can't make any profits, and if they choose to be a business, there are no tax credits and it is significantly harder to access capital. As a result, social enterprises that put their mission first and profits second have to compete with regular limited liability companies (LLC) for investments. Their social impact is harder to quantify and the return on investment may not be high enough to cover their costs.

Lack of a Unified Measurement for Social Impact

Social metrics or impact performance measurements are difficult to identify, quantify and measure. Imagine, for example, how you would measure “goodness”. Although several researchers propose different social impact metrics, no common measurement tool is universally agreed upon. This is a huge obstacle for social enterprises trying to prove their performance to funders and impact to customers.

Social enterprises are also at a disadvantage when competing with regular businesses for investments. In terms of financial return and social return on investment, social enterprises struggle to find a measurement tool that will allow them to benchmark and compare themselves to their peers/competitors in their respective field.

Lack of External Funding

Canada’s social sector remains undercapitalized relative to the needs and pressures placed on it. The supply of social finance includes loan funds, equity investment, patient capital and, in some cases, grants that attract new capital to the table or enable a social enterprise to shift to sustained profit generation. A 2010 report by the Canadian Taskforce on Social Finance states that there are currently at least thirty social finance investment funds in Canada, but most are under \$1M in assets and focus on a relatively narrow range of impacts. However, as referenced in this report, a review of existing literature suggests there is significant demand for more start-up and growth capital for social enterprises across Canada, with estimates ranging from \$450 million to \$1.4 billion (Canadian Task Force on Social Finance, 2010)ⁱⁱ

Ahmed also points out that it is hard for social enterprises to apply for loans since most Canadian banks are relatively risk-averse. Some alternatives, like crowdfunding (an online sales platform used to raise money from numerous people in small amounts), are accessible in the United States and the United Kingdom but are still quite limited in Canada. The innovative nature of social enterprise requires matching financial innovation and a customized financial sector that is different from existing financial

products and instruments. However, the relatively small market size results in higher overhead cost as a percentage of financial return. Financial institutions and intermediaries have less incentive to take on the initiative.

Limited Access for Early-Stage Social Enterprises

If you are a social enterprise in the early stages of starting up, the challenges you face are great. A 2008 survey of nearly a thousand social sector organizations by Community Wealth Ventures Inc. and the Social Enterprise Alliance found that foundation grants were the most common source of start-up capital (Community Wealth Ventures, Social Enterprise Alliance and DUKE, 2010)ⁱⁱⁱ. However, the criteria most foundations use is extremely strict for start-up social enterprises. Typically, foundations require the start-ups to either have registered charitable status or demonstrate that they have a proven track record through the provision of financial statements.

Kanika Gupta is the founder of SoJo, an early-stage social enterprise technology start-up incubated in Ryerson's Digital Media Zone. She has been closely monitoring the resources and funding options available for the past two years. Although there are lots of competitions and awards, she found that actually getting the funding has proven to be incredibly difficult. In an article in SocialFinance.ca she says, "there's big talk, but early-stage social innovation financing is virtually non-existent in Canada." She believes that, "it's contradictory (and counter-intuitive) to demand that applicants fit into traditional organizational structures, when innovation is all about starting something new (Gupta, 2012)^{iv}".

Case Study: The criteria for funding are specific and strict

Zehra Abbas, founder of Youth Troopers for Global Awareness (YTGA), expressed the same concerns. YTGA is a youth-led not-for-profit organization that mobilizes and empowers young people for social justice through workshops, campaigns and the arts. The organization aims to provide a platform for critical and creative thinking as well as

self-expression. In Mississauga, Ontario there are limited places available for Youth Troopers to meet and work. In order to provide young people in Mississauga the same resources that are available in Toronto, Zehra and YTGA have been working to create a social enterprise in Mississauga called Studio 89. It's expected to be the hub for young people to continue YTGA activities and to bring in money to become self-sustainable.

With regard to funding, it took Abbas almost two years to finally get the money she needed. She said that, "we had a long list of grants, but we had to cross most of them off." There are many funders who only focus on projects in the City of Toronto, making a project in Mississauga ineligible. There are also many foundations that require audited financial statements, but the fee is very expensive for start-up social enterprises.

Abbas also had to wait a long time to hear back from foundations about their status. "It took us four months to find out whether we got the seed funding or not," she explained of one situation. "We applied and four months later, we got declined. We applied again, waited another four months and got rejected again. Easily, one year is gone." There are other grants that have six-month waiting periods. Based on these timelines, it is extremely hard for early-stage enterprises to survive without money during the application period.

Abbas also told us that they put all of the small amounts of corporate funding they received in the interim into their new application, waiting until the foundation agreed to support them. She feels that foundations should base their decision on the demand for the program rather than adhering strictly to predetermined funding criteria. She feels that it's like "waiting until most of the work is done."

Internal Reasons

General Reasons

Inability to Get Through the Funding Gap

As mentioned above, the limited availability of grants for start-ups causes low success rates of applications. It is not rare to see a funding gap for social enterprises when the grant application does not get accepted.

Case Study: Grant Application Rejected and Funding Gap Faced

Miles Depaul is the director of Sustainability CoLab at Sustainable Waterloo Region. He leads research into how to best scale up the impact of Sustainable Waterloo Region in other communities across Canada. The research includes engaging partners, supporters and funders to collaboratively launch a new national-level entity. This entity's mission will be to enable community leaders to develop programs to advance the environmental sustainability of organizations by creating a collaborative learning network across the country.

In recent months, Depaul has been faced with a funding gap because a grant application that would have provided him with the necessary funds was rejected. It's been frustrating, he shares. "Sometimes when you think you have things figured out, you don't, and you do not find out until you get the rejection from the foundation."

Depaul tried to determine the reason why they did not get the approval. Their team worked closely with the Ontario Trillium Foundation to figure out how to reapply and tinker their model. Through the process, the group refined the model and focused more on the major business concepts and scaling back the number of targeted communities.

Depaul and his team reapplied for the grant this past November, hoping to get spark funding from foundations that will support their organization for the first two years. At that point, they expect to be charging membership fees and will be able to offer consulting services to communities to help them become self-sufficient. This is their strategy to avoid further setbacks when it comes to funding.

Suggestions:

You Need To Recognize When You Are Wrong

Depaul shared two lessons learned. He believes you need to admit setbacks and ensure you ask the right questions.

There are some grant candidates who simply submit the same application again and again when rejected by the foundations. He suggests working closely with fund advisors to find out the reasons why your application was rejected. "We really prioritized this (the communication) when we realized that we did not have this figured out and did not have all the answers."

When you admit failure, you are able to step back from the situation and see some new tools you can use and new people to contact for help. After admitting failure, ideas that some contacts had recommended to Depaul eight months previous now seemed much more attractive. As a result, he is willing to try new routes and reconnect with potential contacts. He talked to a lot of advisors, academics and leaders who know this industry well. "Setbacks are an opportunity to innovate differently again," he said.

Depaul knows some entrepreneurs who only look to themselves to figure out the problems and do not have an open perspective. He thinks things would be easier for social entrepreneurs/enterprises if they just leave the comfort zone of their offices and have conversations with groups of people who have faced or are facing similar challenges. It is an opportunity for everyone to learn from each other's success and failure.

Second, Depaul believes you need to step back and reassess whether you are asking the right questions. It is very important to identify the problem. His rule of thumb is "if you spend one hour to solve a problem, fifty-five minutes are used to come up with the problem and five minutes to come up with the solution." His team started with a white board to determine the problem or research question.

In their case, after much work, their problem was redefined as, "how to change the culture of business in communities." Prior to being rejected, the question was "how to scale up Sustainable Waterloo Region," which ended up being the wrong question to ask.

This new perspective helped them focus on the right business for them-- carbon mission reduction.

Match the Different Risk Appetites for Social Entrepreneurs and Funders

Depaul also believes another issue is funders' unwillingness to allow for failure in the social entrepreneurship realm (compared to the for-profit world, which assumes a 90% failure rate). A new idea that is not dangerous is not a new idea, some say. The recipients of funding (Sustainability CoLab in this case) often choose to take on a lot of risk because of the lack of resources allocated to the research and development (R&D) phase, while funders prefer not to take any risk due to the limited resources on their end.

Moving forward, Depaul hopes that the two sides can meet in the middle, whereby funding recipients take the necessary time in the R&D phase and funders take the necessary risk, to ensure truly great and innovative ideas are funded.

Follow the Start-Up Model when Dealing with the Funding Gap

Jerome Kisting, manager of the Toronto Enterprise Fund (TEF), suggests following the tech start-up principle of measuring the cash-burn rate and keeping this as low as possible during the funding gap. He believes you should do things quickly and move fast to run your business as lean as possible. For example, hire part-time staff before you can generate income, if possible, given your type of enterprise. You do not need to wait for everything to be in place to start selling products. You do not need to build something big before you get a sense of how much demand there is for your product. Thomas Edison coined the Principle of Accelerated Failure, which means trying things as quickly as possible. If you fail, try again and again. By failing quickly, you increase your chances of ultimate success.

Consider the Rejection as Part of the Journey

Kisting said rejection is part of the journey in developing a social enterprise. You should ask a lot of questions and try to learn how to do things differently the next time around. Besides, when you apply for a grant, you typically receive access to free workshops that equip you with business knowledge, and advisors who provide consulting services. He encourages all applicants to leverage those free resources. He also mentioned that many social enterprises get funded on the second try.

No Solid Business Model

The Importance of Having a Sustainable Business Model

When social enterprises start up a new social business, they typically need seed capital that can be raised through fundraising organizations. But, as the funding environment becomes tight, external grants can't help to sustain a social enterprise for long. Most professionals in our interviews, like Vicki Saunders and Assaf Weisz, thought the hybrid structure of having a normal business and investing the money earned to realize a social goal could be a future trend.

A solid business model is a guarantee for a social enterprise to generate sustainable revenue. In our interview with Jerome Kisting at TEF, we began to understand the goal of most funding organizations. They are not a treasury vault that provides permanent grants to social enterprises. On the contrary, their goal is to help social entrepreneurs start up their business, implement their plan and ultimately realize a self-sustaining model. According to Kisting, some social entrepreneurs over-rely on grants. They focus on the fundraising competition, rather than looking for independent ways to support themselves and be sustainable.

Case Study 1: Changing Social Business Models

Assaf Weisz is the co-founder of Venture Deli, a social venture capital company in Toronto. In 2008, Weisz was one of the founders who established Young Social Entrepreneurs of Canada (YSEC). The mission of YSEC was to ignite a national movement of young social entrepreneurs interested in the alignment of people, planet and profit. They offered a range of services designed to support entrepreneurs between 17 and 30 years old who were starting or running social enterprises. Major services included workshops of practical education, business planning, customized consulting, and personalized financial management. The organization started very rapidly and expanded to thousands of members. They received original grants from the Laidlaw Foundation, the Ministry of Citizenship and Immigration and other public organizations.

However, the initial social business model didn't generate sufficient revenues, while occasional grants were unable to support the expenditure of such a large organization. When there was only three months left before the crisis of a funding shortage, the organization worked out a plan whereby it charged every member service fees. The social business model helped to generate revenues for more than two years. Revenues grew, but not fast enough.

The challenges Weisz faced with YSEC empowered him to change the social business model and find some novel ideas to improve the sustainability of the organization. Venture Deli has its Purpose Capital, a business line that provides impact investment strategies to investors. Fundraising services also provides a stable revenue source for the new organization.

Weisz has made good use of the client base established in YSEC. He figured out that many Canadian entrepreneurs focus too much on small issues like making an application or picking a colour on a box, but fail to concentrate on the *big picture*. Helping these social entrepreneurs alter their way of thinking is one of Venture Deli's missions. Weisz

is a great example of the adventurous leaders who are interested in social businesses successfully finding a long-term sustainable model.

Case Study 2: St. John Bakery's Legendary Story

Jeanette Campbell, senior manager at TEF, mentioned a notable story regarding a social enterprise that transitioned from needing continuous funding to being self-sustaining. St. John's Bakery is a social enterprise business on Broadview Avenue in Toronto, specializing in handmade French-style organic bread with organic flours and all-natural ingredients from local suppliers. The organization was funded by TEF for several years before it finally found a long-term sustainable business model to sell special handmade bread, while also helping to support the expenditures of the organization.

Suggestions:

What kind of business model should social entrepreneurs build? Our suggestion is that a social enterprise should find a business model that is suitable for its scale and best fits its social goal. A good business model could help a social enterprise be sustainable in the long-term. However, not every social enterprise is able to find a business fit at the very beginning. Many of our interviewees faced different obstacles and even failed in their original business models before turning around and becoming successful.

Marketing Research Is Essential

Many interviewees mentioned the importance of doing market research before launching a business. We found funders and social enterprises usually have different perspectives on what constitutes good market research. Funders thought the many research reports that social enterprises presented were not convincing enough, while social enterprises had no idea how to make it comprehensive.

Jerome Kisting from TEF told us that when he evaluates a business plan, he goes straight to the market research because that gives him an immediate impression of the extent to

which an applicant understands their market and whether there was a demand from customers for the product/service. Next, he looks to the financial projections section to see whether the findings of the market research are brought out in the financial projections. Essentially, the idea is to try to understand what the financials are based on, and the depth of understanding that the organization has of the market they are trying to enter.

Miles Depaul also provided some powerful insight on this topic, saying that sometimes “perceived demand might not be real.” When Depaul and his team conducted market research on their target communities, trying to determine what business services they supported, most said they were interested in the idea of consulting services. However, what they soon learned was that people typically provide positive feedback when you present them with something you’re honestly passionate about. They may just pretend to be interested. So it’s important to consider the risks involved in your research base and make reasonable statistical estimates on the real demand versus perceived demand.

From a funder perspective, Kisting believes a survey is not adequate. He needs to be convinced that people who were interviewed and interested in the product or service would really make a purchase and be a returning customer. “If you cannot tell me how many potential customers you met with and what changes you made or didn’t make to the business model based on their feedback, I find it hard to believe that there is real demand for your product or service,” he said. We suggest that social enterprises handle the market research carefully and meticulously. The report shouldn’t be designed for funders but should be conducted to gain greater understanding and to grasp the real feasibility of your business plan.

A good suggestion for most social enterprises is to make good use of external resources in social consulting and fundraising organizations. Mentorship is a very useful practice that can enhance the professional skills of social enterprises and offer support for a number of elements of their business, such as marketing research, sales and operations.

Inability to Balance “Just Do It” and “Think Through It “

Many social entrepreneurs struggle with balancing “just doing it” and “thinking through it,” whether they should think through the whole business plan and do all of the preparation before implementation, or try to get it out early and use the trial and error method. Some risk-averse social entrepreneurs prefer to get everything in order prior to launching their business because they want to present the best service or products to customers and can’t afford to lose money at the very beginning.

From Kisting’s perspective, every dollar spent should be aligned with the prospective customers’ needs, as they are the key indicator of potential sales. Social enterprises should use the limited seed capital wisely and make proper changes based on consumer needs and should avoid wasting resources.

Case Study: Test out Your Ideas

Weisz has advice for the above struggle based on his practical experience with YSEC. Before launching the program, his team did a very comprehensive feasibility study that was both time-consuming and expensive. However, when implemented, the program was significantly different from the feasibility study they conducted. A strong advocate and supporter of implementing new ideas as soon as possible, Weisz adopts the “just do it!” mantra.

From his point of view, people should never rely too heavily on the feasibility study. When you think the business is practical, you will feel too safe and overconfident to implement your plan. This will cause you to fail to notice any potential risks. The best idea is to invest a small amount of start-up capital to try your idea out via a sample and then make quick changes based on customer feedback.

Inability to Think Innovatively

Several of the industry professionals and entrepreneurs we spoke with felt that those who fail as social enterprises or entrepreneurs typically lack innovative products/business models. A social entrepreneur's ability to create innovative solutions for social change and to use business principles to build sustainable and high-impact initiatives is a competitive advantage in an industry that is plagued by similar initiatives and business models (Gordon Institute of Business Science).

Thinking innovatively about how to improve a community, increase access to education, or feed the hungry enables social entrepreneurs to align their mission with tangible outputs. This innovation can make the difference between succeeding and failing in a saturated market. Ultimately, it is the customer base that makes the decisions, rewarding those who can create and market successful innovations that, in turn, attract additional capital and incentive to innovate.

But it seems to be a vicious cycle. Unlike the for-profit industry, not-for-profit companies face limitations and challenges when it comes to investing in market research and development, due to human capital, funding and consistency issues. As highlighted by The School for Social Entrepreneurs, "areas ripe for innovation might be those where the risk (and cost) of the status quo is higher than the risk (and cost) of innovation" (Learning from failure (and social entrepreneurship), 2010). Failure drives innovation; without risking failure, there is no possibility for innovation.

Case Study: Elisha Muskat, President of Ashoka

Ashoka is a global not-for-profit organization that supports leading social entrepreneurs around the world, providing them with access to pro bono consulting and other professional services, and connecting them to Ashoka's global network of business and social entrepreneurs. Elisha Muskat, the president of Ashoka Canada, shared her organization's criteria for selecting social entrepreneurs to be Ashoka fellows. Requirements include having new ideas, novel solutions to challenges, and long-term

creativity. So an important part of the job for Muskat and her team is to figure out which idea is the golden apple and how to implement it.

Suggestions:

Three-Item Checklist

Scott Warren is the co-founder and executive director of Generation Citizen, a venture that aims to strengthen civics by teaching young people about civics and helping those in low-income communities identify and fight for issues they care about. On a regular basis, Warren is asked for guidance by eager entrepreneurs looking to start companies. His typical advice to those interested in working within the not-for-profit sector is to think twice. He truly believes it is extremely challenging to succeed, and there are constant barriers you will face to become a sustainable company.

If someone appears to Warren to be serious about starting up and venturing into this sector, he believes there are three-criteria that must be considered:

Three Criteria to Consider:

1. Quality of the Team/Entrepreneur

- a. Are you and your team passionate/driven about your social cause?
- b. Are you going into this to make money? If so, this is not the right business for you.
 - i. "This is the difference between a social entrepreneur and a business man," as per Warren.

2. Demand for Product/Service

- a. Is there real *demand* for this product/service?
- b. Are you responding to market demand or social demand?
- c. Are you fulfilling a market need?

3. Is The Product/Service Innovative?

- a. Are you the only one offering this product/service? If not, how are you different/better than your competitors?
- b. What's your competitive advantage?
- c. How can you do it faster/cheaper/better?

Mistakes and Issues Identified Too Late

Every organization and every person out there makes mistakes. What matters is how long it takes for the group or individual to recognize the mistake and fix it.

Case Study: Online Portal for Members

Miles Depaul was assisting in the launch of an online portal for Sustainable Waterloo Region. The portal would allow people to watch videos of past events or reports and leave comments. The purpose was to offer a platform for continuing communication amongst members between events. The technology behind it was great, but no one actually used it. It wasn't a surprising result considering there are already tons of social networking tools such as Facebook and Twitter out there.

At first the group tried to tinker with the portal by expending more effort on its marketing, but still no one used it. Depaul admitted that it took too long for them to recognize the issue. The problem was not that people had no means of communication between the events; perhaps they simply did not want to communicate.

Suggestions:

Stop Initiatives That Are *Not* Producing Results As Expected

Depaul recalls that they felt something was odd in the development process. When they piloted the portal for a few months, no one had used it. However, it was hard to pinpoint the mistake earlier since it was "too easy to do nothing." But he did emphasize

that they needed to be more objective, and perhaps if a third party had come in to facilitate it would have been helpful.

Build a Learning Culture and Fail Forward

Ashley Good is the founder and CEO of Admitting Failure, an open environment that welcomes people to publicly discuss failure to ensure that these steps/scenarios are not repeated, and to assist organizations to continuously learn from their own failures and those of others. Her aim is to help organizations "fail forward" and build ways to use failure to improve performance.

She suggested that if failure is a state – a snapshot of a negative moment in time – to fail forward implies a process. It involves internalizing and admitting the failure and then creatively and constructively identifying the lessons learned and ways to ensure that in the future failure is less likely to materialize. This involves a behaviour change. A role model (like the founder) may share failure first to show there is no punishment for such behaviour. Team members need to feel empowered to speak up. In addition, a third party is useful to ask the tough questions, facilitate the dialogue, and help participants see the situation from various points of view. This maximizes the learning that can be gained from failure.

Good emphasizes that the suitable way to fail forward varies from company to company. Nevertheless, observing good practices in other companies can be instructive. This includes examining the lessons that were learned, documenting the findings, and making them accessible when working on future initiatives. After all, failure is only bad when it repeats itself!

Inability to Hire the Right People in the Right Roles

One of the interesting characteristics about social entrepreneurs is their ability to wear many hats within their organization. Not only do they care deeply about how their

vision and mission is implemented but they feel personally invested in the outcomes and decisions made. The issue is that they often get so involved in the day-to-day of the organization they end up holding up the decision-making, losing talent and creating bottlenecks within the company (Below & Tripp, 2010).

Based on our interviews, social entrepreneurs are often unwilling to release the control of the company and delegate to create engaged and strong leadership teams. But social entrepreneurs need to strive to have the right people in the right roles within their companies. Unless they are able to make this important transition from solo "do it all" micromanaging entrepreneur to the company champion overseeing the growth and *big picture* stuff, the companies they worked hard to create are unlikely to grow or have the desired social impact in their communities (Below & Tripp, 2010). Instead of resisting this transition and change, social entrepreneurs should be embracing it by creating a leadership team of qualified and driven individuals to relieve them from some of the duties and responsibilities.

Case Study 1: Benefits of Building Strong Leadership Teams

Claudine Labelle is the founder and executive director of Fit Spirit, a nonprofit organization whose mission is to help teenage girls discover the advantages that come from taking part in physical activity, in an environment that is positive, promotes a healthy self image and is open to everyone. Labelle is a perfect example of this importance of a strong leadership team. She recognized early on that the demand for her service was growing far faster than she and her volunteers could manage. She was tired of fundraising from scratch each year and investing her personal funds into the company. Labelle came to a breaking point. She was often stressed and worried if Fit Spirit could make it, and was going long periods with no payroll. It was at this breaking point that she made a business decision that was ultimately the beginning of a bright future for Fit Spirit.

Labelle realized she could no longer do it all alone, so she set objectives to secure long-term funding to allow her to hire a chair of the board. She also hired strategically rather than opportunistically. This was the best decision she made, allowing her to offload responsibilities and gain a new champion who was aligned with the company's mission and goals, had a strong business background, and was a passionate, strong leader. Labelle learned that success in this industry is directly correlated with bringing in the right people and acting strategically. She also learned failure is inevitable if you underestimate or overestimate your delivery. If you can get momentum through a strong team, funding will follow.

Case Study 2: What About Succession Planning?

Scott Warren, co-founder and executive director of Generation Citizen, was fortunate to have received startup money for his venture. Currently, the majority of its cash flow is from donations and several of these funders are borne of relationships he personally established. From 2009 to 2012, Generation Citizen went from being a pilot project in fifteen classrooms with seed money of \$50,000, to currently teaching 6,000 students with a cash flow of \$750,000. Though this may lead you to believe that Generation Citizen has succeeded in becoming sustainable on its own, the reality is it's not.

Warren himself admits that, although they have done remarkably, Generation Citizen is not at a place where it could survive without him. Succession planning is a challenge he faces as it is predominantly the founders who have the relationships with their donors. Generation Citizen is dependent on Warren. It takes a long time for a company to become sustainable and transformative. You need to have a *champion* and be in a place where donors are confident in your leadership ability and ability to provide. Warren is currently working on a succession plan; it's never too early for social entrepreneurs to start ensuring that passionate individuals are in the right roles to take on the challenge if ever required.

Specific Reasons for Failure

In addition to the above issues that might exist in any business, we summarize two reasons for failure that are specific for social enterprises/entrepreneurs.

Mental Model Issue

Jerome Kisting points out that some social entrepreneurs still find themselves within the paradigm of a grantee because some organizations are “forced” into social entrepreneurship. Because of the economic recession, funding provided by governments decreased considerably in the last few years. Some not-for-profit organizations have had to start a social enterprise out of necessity to diversify their income and reduce the risk of cutting programs and staff.

However, businesses need to develop their customer base and sell products and services, which is quite different from applying for a grant, reporting to funders on how the funds were spent and then reapplying when the funding period ends. The criterion for funding a program run by a nonprofit or a charity is different from that of a social enterprise.

As a result, some social entrepreneurs can adapt fast while others still resort to their old ways. Many candidates have learned what the funder wants and present their social enterprise in a way that ensures they receive funding, but they are often not clear on what is required for the long-term sustainability of the social enterprise.

In addition to the challenges of changing your model from a non-for-profit to a social enterprise, you also undergo a huge internal shift in the way you think. It is very tricky to make this transition.

Suggestion:

Be Open to Learning

Zehra Abbas, founder of Studio 89, was able to switch from a non-for-profit to a social enterprise. She says people shouldn't be afraid to come up with a number of business models, and conduct research and surveys as many times as needed in order to fine-tune the venture. Educate yourself - this way your marketing will also be relevant and more effective.

Balance Profit and Social Impact

Most people we interviewed agree that running a business with a social impact is very possibly a growing trend in the not-for-profit sector. With this in mind, one of the things that social entrepreneurs have to do well is to balance their business *and* social goals.

Case Study 1: Inability to Balance Social and Business Goals

Jeanette Campbell from TEF related a story about her previous client River Restaurant, a food catering business with a social goal of training youth in the hospitality industry. However, the restaurant focused too heavily on its social goals and failed to succeed at its core business. The restaurant quickly lost its customer base and had no sustainable revenue stream. Consequently, the restaurant was unable to continue its social business and finally had to close its doors.

Case Study 2: Organization Needs To Be Fully Integrated

According to Jennifer Williams, CEO of La Siembra Co-operative, the underlying issue in social businesses is balance. If a social enterprise can balance both the business and social aspects well, they will succeed. However, if the founder only focuses on the business goals and has someone else focus on the social agenda, they are destined to fail. Everyone in the social enterprise needs to be fully integrated and on board when it comes to balancing social impact with the business.

Suggestion:

Sustainability in the Long Run is a Priority

Jerome Kisting says, “you may have to trade off something; both social impact and profit are vital components of your organization that contribute to improving your sustainability.” If you need to get into something, get into it for the long term. However, if you trade profit for social impact too often, you run the risk of having to close your doors, which could have a negative impact on the lives of the people whom you employ and help in the community.

Zehra Abbas suggests getting both a business mentor and a mentor from the nonprofit world. “It helps strike the balance and ensures you're planning both components correctly. The advice coming from each may sometimes conflict but it's important to see things from both points of views. A good mentor will let you make up your own mind while laying out all the pros and cons clearly.”

Conclusion

There is still an abundance of research and work to be done in trying to understand failure in the social sector. Although we have provided a foundation to build upon, additional interviews and cases are required before conclusions can be generalized across the industry. The focus needs to be on understanding failure, but also removing the negative connotation and stigma attached to it. Failure needs to be embraced and social entrepreneurs and enterprises need to realize the added value in knowing what it takes to thrive and succeed, based on what others have tried and where they have failed. There is real value in failing and these lessons learned need to be shared to help the sector take steps forward, to progress, and to realize even greater change in the future.

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Footnotes

¹Vera Cordeiro founded the Saúde Criança Renascer Association in 1991 at the Public Hospital of Lagoa in Rio de Janeiro, with the aim of providing emergency assistance to ill children from low-income families during and immediately after hospitalization. Renascer seeks to break this vicious cycle by providing families with the minimum material and psychological support necessary to foster home recovery or at least to minimize patient suffering.

¹Mobilizing Private Capital for Public Good, Canadian Task Force on Social Finance, Dec. 2010, Page 12, http://socialfinance.ca/uploads/documents/FinalReport_MobilizingPrivateCapitalforPublicGood_30Nov10.pdf

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