Ohio University CoLab Series

creativity | entrepreneurship | innovation

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TechGROWTH Ohio
Social Entrepreneurship
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Thursdays 12-1pm • Alden 301 • Free Pizza

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Social Enterprise

CoLab Series

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Outline

• Social Enterprises
• Venture Development Toolkit
• Impact Investment
• Social Return on Investment (SROI)
• Social Value Creation – Rethink Problem/Solution
What is Social Enterprise?
What Social Enterprises Have in Common with All Entrepreneurs

- Innovate and create value
- Recognize opportunities
- Continually build skills
- Build networks for resources and assets
  - investors, suppliers, customers, peers
- Manage and share risk
- Accountable to stakeholders for outcomes created

Martin and Osberg, Getting Beyond Better: How Social Entrepreneurship Works, 2015
Social Enterprises

Similar to other types of businesses:
- Deploy innovative business skills
- Pursue unique sources of capital
- Leverage a variety of professional talents

But:
The goal is to alleviate some of society’s most pressing issues

Different from other types of businesses:
- Social enterprise directly addresses intractable social need

Different from nonprofits and government agencies:
- Social enterprise is commercial activity with revenue driver.
What Makes Social Enterprises Distinct?

Financial Success and Social Value: **AND vs. BY**

Most entrepreneurs create social value:
- Their enterprises make people’s lives better or easier in some way.
- They want to achieve financial success **AND** make social impact

- Social Entrepreneurs are different:
  - They achieve financial success **BY** making a social impact
  - The two are so interlinked that one is not achieved without the other
Venture Matrix

SOCIAL ENTERPRISE ECOSYSTEM

PUBLIC SECTOR

PRIVATE SECTOR

Public-Private Partnerships

Public Procurement

Community-Based Organizations

Corporate Social Responsibility

SOCIAL ENTERPRISE SECTOR

- Privately owned for-profit, non-profit or hybrid organizations
- Have a social objective to advance
- Have a sustainable business model
- Reinvest profits in the community or organization
- Are innovative by nature
Size of Social Sector - Serious Business

• Jobs
  • 11.4M jobs in 2012, representing over 10% of US private workforce
    • The nonprofit sector represents 10% of private employment (Salaman, L.M. Sokolowski, S. W., and Geller, S. L. (2012) Holding the Fort: Nonprofit Employment During a Decade of Turmoil. Johns Hopkins University.)

• Revenues
  • $ 2.26 trillion in combined revenues, 2013
    • (Brice S. McKeever, Nonprofit Sector in Brief, 2015, The Urban Institute)

• Assets
  • $5.17 trillion in assets, 2013
    • (Brice S. McKeever, Nonprofit Sector in Brief, 2015, The Urban Institute)
  • Combined foundation assets $865,249,516,054 in 2014
    • (Foundation Stats, The Foundation Center)

• Growth
  • Growth rate 2000-2010 at 18% (faster than US economy as a whole)
  • Between 2003 - 2013, revenues increased by 31% and assets by 33%, compared with 14% GDP growth
    • (Brice S. McKeever, Nonprofit Sector in Brief, 2015, The Urban Institute)

• Annual Giving:
  • Annual giving in 2014 - $60,244,456,505
    • (Foundation Stats, The Foundation Center)
  • In 2015, over $373B was given to charitable causes in the United States, a larger percentage of GDP than in any other country (2.1%) and a record high for the U.S.
    • (Benjamin Soskis (2017) Giving Numbers:Why, What and How are We Counting? The Urban Institute)
Social Venture Matrix

- **High Mission Alignment**
  - Nonprofit
  - Social Enterprise

- **Low Mission Alignment**
  - AVOID
  - Cash Cow

Money Loser

Money Maker
Venture Development Toolkit
Expanding The Venture Development Toolkit

**Beyond:**
- Enterprise Value Creation
- Technology Commercialization
- Equity Investment

**To:**
- Social and Public Value Creation
- Innovation Implementation
- Impact Investment
Venture Development Toolkit

**SAME Tools**
- Ideation: Problem/Solution Set
- Business Model Canvas
- Maximize Financial Return
- Focus on Profits
- Lean Launch
- Investment Pitch
- Angel/Venture Investment
- Growth & Market Share
- Enterprise Value

**DIFFERENT Language**
- Intervention: Theory of Change
- Venture Model Canvas
- Triple Bottom Line
- Operating Revenue
- Test the Waters
- Funding Proposals
- Impact Investment
- Sustainability
- Social & Public Value
## Venture Model Canvas

<table>
<thead>
<tr>
<th>Key Partners</th>
<th>Key Activities</th>
<th>Problem/Solution Value Proposition(s)</th>
<th>Relationships</th>
<th>Beneficiary/Customer Segments</th>
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<td>Key Resources</td>
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<td>Cost Structure</td>
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<td>Revenue/Outcome Streams</td>
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<td>Social &amp; Environmental Cost</td>
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<td>Social &amp; Environmental Benefit</td>
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[http://www.businessmodelgeneration.com](http://www.businessmodelgeneration.com)
Logic Model

Relationship among
Resources
Activities
Changes / Results
Theory of Change (Value Proposition)

If __________________________ (the intended clients/beneficiaries/participants or target market)

Who are ____________________ (the challenge/problem/need/risk faced by targeted beneficiaries)

Have access to _______________ (the services/activities/programs/products offered by the entity)

Then, they are more likely

To __________________________ (attain individual benefits/advantages or avoid individual costs/consequences)

And thereby _________________ (solve a larger community/social problem, create community/social benefits, or avoid community/social costs)
Scaling Social Enterprise

**Scaling Deep**
- Increase Impact in Home Community
- Goal: Greater Local Impact

**Scaling Up**
- Increase Impact in the Organization through Greater Coordination and Capacity
- Goal: More Beneficiaries Served

**Scaling Out**
- Replication of the Model including Dissemination, Increase Impact in other Geographic Communities,
- Goal: Increased Social Impact
Impact Investing
What is Impact Investing?

Investing into companies, organizations, and funds with the intention to generate measurable social and environmental impact along side a financial return.
GROWTH OF SOCIAL INVESTING
$8.7 trillion of $40 trillion total market

SUSTAINABLE INVESTING GROWTH IN THE UNITED STATES (BILLIONS) 2005-2016

SUSTAINABLE INVESTING GROWTH SINCE 2014
33%

OVERLAPPING STRATEGIES
SHAREHOLDER RESOLUTIONS
ESG INCORPORATION

Source US SIF Foundation
Social Impact Investments

- Risk and Return
  - Greater the risk the higher expected return
- Financial Return Expectations (ROI):
  - Range from below market rate to market rate
- Social Value Expectations (SROI):
  - Measurable social and/or environmental impact
Impact Investing
Who are Impact Investors?

Owners of Assets / Holders of Wealth

- Private Investors
  - Individual “angels”
  - Institutional Capital: angel and venture funds
- Venture Philanthropy
  - Community foundations
  - Private family foundations
  - Corporate foundations
- Public Sector
  - Government agencies and programs
Venture Value

High-Growth Venture

Enterprise Value

• ROI
• Exit / Liquidity Event
  • Open-ended Opportunity
  • M&A Market determines value
• Equity Capital
• Convertible Debt
• Investor Preferences
• Board Governance

Social Value

• SROI
• Structured Exit / Intentional Returns
  • Revenue Royalty
  • EBITDA allocation; Internal Capital Accounts
• Equity Capital
• Convertible Equity
• Buyback, “Put’s”
• Board Governance

Social Enterprise Venture
Impact Capital

• Flexible Capital Structures
• Creative Deal Structures
  • Equity
    • Common v Preferred
    • Quasi-Debt: “convertible equity”
  • Charitable Arrangements
    • Linked Deposits (buy down interest), Loan Guarantees, Pledged Collateral, Use of Assets, Recoverable Grants
• Debt Structures:
  • Bridge Loans, Lines of Credit, Delayed Draws, Grace Periods
• Structured Exits
  • Earn Outs, Revenue Royalty
  • Intentional Defined Returns
Pay For Success Model

1. Structures deal, aligns and coordinates stakeholders.
2. Investors provide up-front capital through bond or other investment.
3. Service Provider implements services using investor capital.
4. Payor (e.g., City, Water Utility) repays investors based on achievement of outcomes.

Project deployment.
Social Return on Investment (SROI)
Financial and Social Returns

ROI for Enterprise Value

- **ROI** measures financial returns to private investors
  - Pro rata cash distribution of enterprise value.
- Return Ratio: “Every $1 invested yields $X to investors”
- Motivation: maximize financial return, remain competitive, satisfy customers
- Simple: generally-accepted calculation, regulated, and standardized

SROI: for Public and Social Value

- **SROI** measures social returns to society as a whole
  - Accrued costs avoided and/or benefits attained.
- Return Ratio: “Every $1 invested generated $X of social value to the community.”
- Motivation: maximize impact on intractable social challenges, pragmatism
- Difficult: no universal standards to measure value
The Problem of Measuring Social Value

Enterprises, organizations, projects, programs, policies, etc. use resources to create and deliver social value, but there is no universal standard to measure and communicate success.

Solution: “Generally Accepted Impact Metrics”

Defining, measuring, and accounting for social value would change:

• Public Discourse
• Decision Making
• Resource Allocation
• Management of enterprises/organizations/programs
• How we understand “investment”
Criteria for Clear, Appropriate, & Effective Measures of Impact Value

- Relevant to Outcomes
- Helpful to Stakeholders
- Simple to Communicate
- Natural to Activities Involved
- Certain in Calculation

- Understood & Accepted
- Transparent & Well-Explained
- Founded on Evidence
- Verifiable
Solution: Social Return on Investment

Principles/Methods/Practices to
- Generate meaningful figures
- Demonstrate measures are accurate indicators of outcomes & impacts
- Use generally-accepted, widely-used indicators
- Validate indicators by ‘anchor studies’ from applied research
- Express non-financial value in financial terms
- Relate benefits measured to investment made
Essence of SROI: Fiscal Proxies

• Economic value of social benefits
  • Financial/economic expression of social value created
  • Value of social impact in financial terms – monetize social value

• Methodology:
  • Principles for assigning a dollar value to social, economic, and environmental outcomes of an activity or organization
  • Anchor Study – per unit values
    • Data-driven, transparent, verifiable, documentable, credible

• Key Measures:
  • Cost Avoidance
  • Benefit Achieved

"SROI is about value, rather than about money. Money is simply a common unit and as such is a useful and widely accepted way of conveying value."
- UK Cabinet Office Guide
Fiscal Proxies

- Direct Financial Value
- Public/Social Costs Avoided
- Market Value Comparisons
- Indirect Economic Value

Evidence-Based Supporting Documentation Increasingly Difficult to Obtain

How to “monetize” social value – examples

1. Cost reallocation
2. Changes in taxes paid
3. Cost savings - reducing scope of problem or cost of service delivery
4. Future cost avoidance
5. Increased individual or household income
6. Value of improved quality of life
Purpose of SROI: To Measure Success

• To assign a commonly understood value (financial proxy) to outcomes that are at-risk of being misunderstood, undervalued, or overlooked altogether.

• To document or forecast the “full” value of an enterprise, policy, organization, or project, incorporating non-cash benefits and “externalities.”

• To evaluate whether maximum value has been achieved and, if not, why not.

• To achieve ‘best value’ through procurement.

• To enhance communications, generate consensus, and create alignment.

• To make the case for funding, generate public support, message “up and out.”

• For an organization (all sectors) to present a clear picture of its value (financial, environmental, social).
Limitations of Social Enterprise
“No one is going to give you the education you need to overthrow them. Nobody is going to teach you your true history, teach you your true heroes, if they know that that knowledge will help set you free.”

— Assata Shakur
Thank You

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