

## Social enterprise in development, or for development?

by Clara Marquardt

*In the second part of the blog series on social enterprise and development, Clara Marquardt speaks with Dr Alex Nicholls, a leading academic in the field of social entrepreneurship. The interview examines some of the implications of social enterprise for the least developed countries (LDCs). The impact social enterprises have in developing countries depends on their interaction with local institutions and their effect on long-term capacity building – which, in turn, shapes the future role of social enterprise.*

Is social enterprise conceptualised as a source of development solutions or as type of *bottom of the pyramid* venture? Should the emphasis in our analysis of social enterprise be on the *social* or the *enterprise*? The social enterprise discourse cuts across disciplines and is conceptualised differently across sectors. Different interpretations of social enterprise's role and function are not necessarily compatible.

In the development literature, emphasis is placed on participation and empowerment as the engines of progress, and on institution building as the key to long-term development. The Paris Declaration reflects these conclusions in a commitment to developing countries' ownership of their development process and its alignment with their national interests.

Against this backdrop, the growing support for social enterprise by development institutions such as the World Bank suggests that the interplay of institutions and social enterprise needs to be examined.



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### The shifting social enterprise discourse

The early social enterprise discourse focused on social enterprise's microeconomic dimensions. Increasingly however it has been recognised that *social enterprise is inherently political*: social enterprises interact directly with governments, they influence community level socio-political structures and they are associated with activism and lobbying. According to Dr Alex Nicholls, across all levels, social enterprises are not simply a "mechanism to fix malfunctions in existing...systems" but rather a "challenge to their continued existence as static institutions".

This shifting conception of social enterprise is nowhere more significant than in context of the institution building efforts in developing countries. Reflecting such developments, Dr Alex Nicholls, the first lecturer in social entrepreneurship at the Saïd Business School, University of Oxford, has identified a need to "add a public sector dimension to theories of social enterprise"<sup>[1]</sup>. His recognition of social enterprise's political dimension notwithstanding, Dr Nicholls has argued that social enterprise can offer solutions for the "wicked problems of the 21<sup>st</sup> century", for "climate change, the crisis of the welfare state... social dislocation and inequality, and educational failure". Dr Nicholls' views from outside the development discipline provide insight into an increasingly broad and subtle social enterprise discourse.

### The meaning of development in an 'era' of social enterprise

An assessment of social enterprise's role in development calls for an understanding of social enterprise's impact on the conception of development. Dr Nicholls maintains that social enterprise has effected no shift in the focus or aims of development: "development has always been characterised by multiple approaches" and has combined an "enterprise, a local and a policy level agenda". That said, social enterprise has affected a distinct move away from a "redistribution model of development", based on donations and guided by a small elite, towards an "enterprise driven model of development", which seeks to encourage self-development.

Dr Nicholls' analysis suggests that social enterprises are challenging the paternalism and dependency culture associated with charity-led development. But given the prevalence of Western social enterprises in developing countries, could social enterprise not evolve into a new dependency culture?

Dr Nicholls contests this argument on the basis of the "hundreds and hundreds, if not thousands, of local social enterprises operating in India, Africa, Latin America and across Africa". That said, he agrees that these indigenous enterprises are faced with a range of institutional, legal and structural constraints.

Moreover, social enterprises operating in developing countries are largely excluded from social investment innovation, which is almost exclusively directed at UK based social enterprises.

All in all, Dr Nicholls concludes that "social entrepreneurship *can* be elitist and exclusive...the genuine democratization of

social entrepreneurship remains a pressing challenge” [2].

Dr Nicholls argues that a balanced development of Western and indigenous social enterprises depends on the “appropriate framing of the public discourse by organisations such as Ashoka”. *If* such a balanced development can be achieved then the envisaged shift of the development paradigm can be realised.

### **A move from charity towards empowerment – all good?**

*“If we find approaches that meet the needs of the poor, that generate profit for business and votes for politicians we will have found a sustainable way to reduce inequity in the world.”—Bill Gates, 2007*

Social enterprises do not (usually) challenge governments or institutions overtly. But do they generate votes *for* politicians? The advancement of social enterprise could depoliticise development by presenting it as the sum of step-by-step solutions to ‘pathologies’: development as the solution of the ‘education problem’, of the ‘healthcare problem’, of the ‘crime problem’. This may destabilise the hard-earned consensus that a synergy of top-down and bottom-up efforts is needed: development does not materialise organically from the grassroots, no more than it trickles down from the top.

Development requires a provision of public goods but it also requires an emergence of national identities, of national cohesiveness and of state legitimacy. These objectives may be inseparable.

This critical view can be expressed in terms of a potential trade-off between short-term improvements and long-term institutional inertia. A link between social enterprise and institutional inertia is very conceivable in developing countries. Low state-capacity governments are *confronted* with social enterprises that are providing the foundation for *non-existing* services outside the government. By contrast, in developed countries, governments act as originators or contractors of social enterprises seeking to fill the gaps of *existing* services [3].

In light of this asymmetry the expansion of social enterprise in developing countries may shift the public development discourse (and development funding) towards organisations *outside the government*. The critical interrogation of institutional outcomes may be blunted. Governments’ responsibility may be diluted as “the boundaries of public–private action are blurred”. Governments may be induced to free ride on the services provided by social enterprises. Moreover, if successful projects fail to generate votes *for* politicians but failed projects lead to votes *against* politicians then governments may be actively weakened. In short, social enterprise may excuse and perpetuate state failure rather than fighting against it.

Dr Nicholls concurs that these are “major issues” which are “very problematic”. The possibility of a trade-off is actual: “social entrepreneurship can present a political problem to policymakers in developing countries”. His main concern is the “absence of a democratic mandate for the way these operations operate” or the way they define their vision of social change – a limitation of social entrepreneurship when compared with the tax-based state provision of welfare. For example, BRAC provides 50% of the primary education services in Bangladesh yet Bangladeshi citizens have no way of commenting on BRAC’s operation [4]. This is especially problematic as the provision of goods normally considered unsuited to market provision is occurring in absence of counterbalancing social welfare systems. Dr Nicholls stresses that the emergence of such “shadow states [is] deeply problematic for normative theories of democracy and theories of citizen participation in decision making around their lives”.

### **Will social enterprise reduce or exacerbate inequality?**

Reducing inequality is a cornerstone of development efforts. While governments are (at least theoretically) bound to develop regions, equally social enterprises are unbound by such constraints. Social enterprises’ dependence on developed markets for sustainability could induce them to mimic the spatial concentration of NGOs. This could further regional inequality *in an unaccountable manner* – an illustration of the negative outcomes of an expansion of social enterprise at the expense of institutional development.

Dr Nicholls argues that while theoretically sound this criticism is not validated by empirical evidence: “it is not appropriate to say that social enterprises do not address the very poor – they do”. Some enterprises, looking to maximise their profitability will operate in developed areas where they can achieve this end. But for every such profitable social enterprise there are “hundreds, if not thousands that are not” and which work with “very small, very poor communities”. Microfinance is illustrative in this respect as “more than three quarters of microfinance institutions are not profitable and will most probably never be”.

On the other hand Dr. Nicholls agrees that “social entrepreneurship...can generate problematic externalities... [can have a] ‘dark side’”: Social enterprises may generate perverse effects in case of operational failure where vital public goods are suddenly no longer provided. Furthermore, given the “issue-driven nature” of social enterprises and a “lack of cooperation across organizations”, a “patchwork or serendipitous landscape of provision” can result [5]. Taken together these concerns do suggest that “social entrepreneurship will not necessarily function well in terms of equity of access across a whole population”.

### **The interaction of social enterprises and governments**

Dr. Nicholls highlights how “well thought out social enterprises” do make strong attempts to partner with governments. BRAC “has been deliberative in trying to bring the Bangladeshi government into its education programme, with the aim that eventually the state will be capable of taking its model on, thereby allowing BRAC to step back”.

The best-designed interventions “move from crisis intervention towards an engagement of public policy makers”. The transition of responsibility may involve the building of broad and unconventional interest coalitions: When the Bangladeshi government failed to provide mobile telephony, the task was taken on by a social enterprise (Grameen) and a Scandinavian for-profit company (Telenor) who partnered in a joint venture (Grameenphone). This led to a successful reform of telecommunication, which was subsequently endorsed by the Bangladeshi government. The government provided additional resources to grow

and stabilise the network.

In the ideal case successful collaboration may occur, but in general, according to Dr. Nicholls, social enterprise is “rarely a deliberative process. Social entrepreneurs are about action and action as soon as possible, rather than about carefully thinking through long-term implications of what they do”. The relevant development literature or the political dimension of their undertaking is “the least of their worries”.

Social entrepreneurs’ approach to governments is pragmatic: “if they need to work with governments they will work with governments, if they need to oppose governments they will oppose them and if they need to ignore them they will ignore them”. Dr. Nicholls cites the example of Ecoclubes, an environmental social enterprise operating across South America. The organisation has adopted a different model in almost every country. Depending on the institutional context the organisation may work closely with national governments, with regional governments, with business, with other NGOs or with none of them. While there are “examples of social enterprises working with national governments [there are] plenty of examples where they don’t”.

### **How to encourage collaboration, imitation and take-up**

“In an aggregate, utilitarian analysis it is better to have social enterprises with no democratic mandate delivering education than having no education at all”. This argument, made by Dr. Nicholls, does not however justify complacency: the focus needs to be on designing models which mitigate the ‘institutional concerns’.

Small scale, disruptive initiatives have played a role in development: “the idea of business for a social purpose can be traced to at least the cooperative movement in 19<sup>th</sup> century Britain”. But critical to the emergence of states which are more than an amalgamation of innovative solutions was the take-up of private sector initiatives by governments which integrated them into welfare states. This historical perspective reflects the Bangladeshi experience and highlights the need to focus on collaboration between social enterprises and governments and the take-up of initiatives by governments.

Dr Nichols argues that social enterprises will not be interested in supporting institution building unless institution building is within the scope of their activities. Based on this, is there a potential for governments to represent the locus of initiative? Could developing countries’ governments develop policies to coordinate social enterprises’ activities and stimulate social innovation? “A very good question” says Dr. Nicholls. But “to some degree [governments] have got better things to do...[They have to] provide a policy platform to have a functioning welfare state before worrying about social enterprise”.

That said, could the development of a social enterprise framework allow governments to target both objectives? Shifting the locus of initiative towards governments may allow them to develop a welfare state on the basis of social enterprise services while fending off the risk of institutional inertia. Publishing national priority lists of objectives; organising public policy competitions or signing (symbolic) service agreements with social enterprises – these are policies which could conceivably be implemented even by low state-capacity governments.

However, as Dr Nicholls points out some governments may simply be “uninterested in social enterprise”. In other cases, where developing countries’ governments do attempt to ‘coordinate’ bottom-up developments, they may encounter public mistrust – attempts at mandatory NGO-registration in Peru, Ethiopia or Cambodia illustrate this. Public trust in governments is often conditional on public good provision – a dilemma for developing countries’ governments.

Dr Nicholls suggests an altogether different approach to foster collaboration. He argues that “the one thing that the social enterprise sector can do is to demonstrate success. The most compelling reasons for governments to engage with something is that it’s been successful somewhere else, addressing some issue which they want to address” – a motivation which underlies the Chinese government’s forays into social enterprise.

Demonstrable success may facilitate cooperation between governments and social enterprises, whose bargaining position is strengthened. Based on this argument, Dr Nicholls concludes that “the bigger problem is that we have so little data around the performance of social enterprises that we can’t prove their success most of the time. Better data, that’s what it is all about” – a conclusion mirrored in the [first article in this blog series](#).

### **Leapfrogging institutions?**

Throughout his analysis of social enterprises’ development, Dr Nicholls cautions that “no framework can be imposed [on the development of developing countries]”. This cautionary tone links to a broader question: Can social enterprise interventions, such as the provision of community water access in India, be seen as temporary solutions expected to prompt institutional imitation—or are they in themselves long-term solutions?

In other words, will developing countries follow the path of more developed countries in initially moving towards larger states, or will they leapfrog straight towards a model of minimal states engaging in private sector contracting?

Dr Nicholls notes that the later position is reflected in *The Economist’s* analysis (2012) of welfare states in developing economies, an analysis which focused on the fast growing Asian economies. “But why not also Africa? Developing countries have the opportunity to leapfrog two or three stages in welfare policy in the West [as they did for mobile technology] and go straight towards the model that we are trying to create here in the West... it is plausible... we have no evidence to say that it will not happen”. The only evidence there is – the diversity of approaches to public good provision in different Western countries – suggests that policies are shaped by countries’ economic, social, political and historical contexts.

What is clear is that new and innovative forms of service delivery are emerging: “solutions which integrate the relationship between commercial enterprises, social enterprises, multinational companies and governments in ways that don’t look familiar to us in the West”. Social enterprises may be particularly well placed to deliver public goods “without recourse to established models and out-dated methodologies” given their flexibility and sectoral fluidity.

The (unsatisfactory) takeaway: “while such developments are not necessarily a good thing [given the examined potential problems] there is a grave danger of assuming that the model that we are familiar with is the best model...or even a model at all”.

### **Social enterprises’ contribution to development and its role in 20 years**

Dr Nicholls concludes that “if we think that social enterprises are the vehicle by which we build national cohesion, by which we build due democratic process, by which we build proper functioning welfare states, then we are deceiving ourselves. Social enterprises will not do that and are not really trying to do that, this remains the function of social movements or political parties”.

Is there then no broader role of social enterprise in development than that of providing short-term solutions? Dr. Nicholls provides an unconventional answer <sup>[6]</sup>: “maybe the real point of social enterprise is to produce ethically, morally-sound, publicly-minded young individuals to eventually populate the structures of government – this may be the biggest thing that social enterprise can do for development”. Whether this vision will be realised or whether brain drain from the government towards social enterprises will dominate such positive effects remains open.

In light of social enterprise’s interaction with institutions in developing countries and the potential implications for development, what will be role of social enterprise in 20 years? Dr Nicholls maintains that their future role is contingent on the trajectory of developing countries. “Social enterprise will [simply] continue to respond to failure” as they did historically in present day developed countries.

Ajaundiced view of developing countries’ trajectories implies that “social enterprises’ role could become more important as inequality multiplies, the poor get left behind...and a vast underclass suffers”. On the other hand, adopting a positive view, “many enterprises will naturally disappear over time as countries’ economies grow, their politics become more stable, democracy spreads, and violence is reduced” – developments which diminish the need for social enterprises.

*In the third article in this blog series, the process of social innovation which underlies the contribution of social enterprise to development will be examined in more detail.*

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[1] Alongside an interview, the article also draws upon a chapter written by Dr. Nicholls, “The social entrepreneurship-social policy nexus in developing countries” in *Social Policy in a Developing World* by R. Surender (publication forthcoming). as well as an earlier publication “Social Entrepreneurship, New Models of Sustainable Change” (2008).

[2] Dr. Nicholls however notes that inclusion/exclusion is not necessarily determined by national origin of the entrepreneur, i.e. by Developed or Developing country background. Rather the line of inclusion/exclusion runs within communities between individuals and “hero entrepreneurs – extraordinary individuals with special skills and abilities, often from privileged financial and academic backgrounds”.

[3] As Dr. Nicholls points out this dichotomy is complicated by the recognition that within, for instance the UK, only a fraction of social enterprises work with governments under the contracting model. Others work on welfare provision but have no association with governments – underlying their work is nevertheless a basic government provided safety net.

[4] Taken together the two non-state actors, BRAC and the Grameen Bank, “deliver financial services, employment, health, and education to many more Bangladeshi citizens than the elected state”.

[5] While some organisations such as the Grameen bank have reached a significant scale, Dr. Nicholls argues that these remain exceptions: “there is very little evidence as yet of social entrepreneurship delivering welfare interventions and systemic changes on the same scale as governments”.

[6] Dr. Nicholls attributes this idea to Dr. Collier, an economist at the University of Oxford.

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