

The Global Social Benefit Incubator: Toward a New Pedagogy for “Scaling” in Social Benefit Entrepreneurship

JAMES L. KOCH • KAREN COPPOCK • PATRICK GUERRA • ALBERT V. BRUNO

Introduction

From July 26 to August 6, 2004, fifteen social benefit entrepreneurs from around the world—all Tech Awards Laureates or World Bank Development Marketplace winners—worked intensely in a unique program at Santa Clara University to address the challenges of sustaining and scaling up their innovations for serving urgent human needs. This article summarizes highlights of this program, the Global Social Benefit Incubator (GSBI). The GSBI is an action learning program that applies the discipline of the business planning process to the challenges of technology-based ventures that seek to achieve a measurable impact on social benefit outcomes and growth through self-sustaining sources of revenue.

What is Scaling?

There is considerable debate about whether social benefit innovations can be “scaled” and, if so, under what circumstances and by what means. Scale, in fact has a number of definitions in the emerging field of social entrepreneurship that are quite distinct from common economic references to scale in for-profit sectors. In for-profit sectors, scale almost invariably refers to size in relation to revenues, customers, or organization. Firm surplus, or the difference between the market price and cost, is allocated to profit and investments for subsequent growth. In the not-for-profit sector there is not a direct analogy to firm surplus and the term “scale” takes on various meanings. For example, in social benefit sectors scale may refer to fundraising capacity, ability to mobilize and sustain grass roots movements, or influence on public policy—factors that may turn as much on credibility and social capital as on financial capital. Scale may also refer to factors that are more analogous to the for-profit sector, such as increased independence or self-reliance through internally generated resources, and the capacity to sustain innovation, develop new programs, and/or intensify services in the form of new activities within existing programs. A variation on the social benefit enterprise is the blended value organization, which overcomes constraints to scaling by generating profits and social benefits.

For the GSBI, scaling social benefit ventures meant equipping social benefit entrepreneurs with tools and techniques to effectively accomplish their goals related to serving more of their target beneficiaries.

Who Are Social Benefit Entrepreneurs?

Social benefit entrepreneurs are motivated primarily by the desire *to make the world a better place*. The term social entrepreneurship is often used loosely or expansively to include those who exhibit entrepreneurial attributes such as vision, passion, leadership ability in overcoming seemingly insurmountable obstacles, and the deployment of innovative approaches to addressing long standing social, cultural, governmental, and environmental issues. A further refinement of the term “social entrepreneur” as posited by the Roberts Enterprise Development Fund (http://www.redf.org/se_intro.htm) is: “those who are involved in the operation of *social purpose enterprises*—market-based businesses that pursue a social mission.”

Moving from a philanthropic to a market approach to sustainability entails generating internal resources for achieving growth objectives. This involves adopting a new mental model, one that includes building organizational capacity around well-defined target beneficiary needs, value creation, value delivery, and the development of business models aimed at monetizing this value as a means of sustaining growth at least in part through internally generated resources. In practice, social benefit entrepreneurs are more likely to report that they spend the majority of their time fundraising. A common lament of a social benefit entrepreneur might be: it’s like driving from San Francisco to New York and being forced to stop every 50 miles to get gas. The purpose of the 2004 Global Social Benefit Incubator at Santa Clara University was to address this challenge. The GSBI two-week, intensive, residential program provided a highly select group of fifteen social benefit entrepreneurs—like many of those being honored in the 2004 Tech Museum Awards—with business planning knowledge and seasoned mentor support for scaling up their ventures.

Toward A New Pedagogy for Scaling Social Ventures

A fundamental premise of the GSBI is that the disciplined logic of business planning is equally applicable to for-profit and not-for-profit organizations. Social benefit entrepreneurs can only do “good” if they do well. Even if they remain donor dependent, they will not continue to attract resources if they lack sound strategies for execution and achieving a *return on social benefit investment*. Business planning encourages social benefit entrepreneurs to develop a *business model* for achieving a positive *cash flow* and economic sustainability, and to be explicit about the *unique value* they provide to beneficiaries, *channel strategies*, and *key drivers* for their venture’s success or failure.



GSBI 2004 Class

Robert Bortner, Acumen International/Greenstar, U.S.	Joe Madiath, Gram Vikas, India
Jody Ehlers, STARBRIGHT Foundation, U.S.	Mario Mariscotti, Thasa, Argentina
Faris Gammoh, United Group, Jordan	Oviemo Ovadje, Eatset Blood Transfusion, Nigeria
Ronni Goldfarb, Equal Access, U.S.	Kristine Pearson, Freeplay Foundation, South Africa
Alice Hartley, Green Map Systems, U.S.	Ramani Sankaranarayanan, CT-x Green, Canada
Roberta Hollimon, The League of Women Voters of California Education Fund, U.S.	Mai Sriphongphanh, Digital Divide Data, Laos
Ana Sylvia Huertas, INBio, Costa Rica	David Sowerwine EcoSystems, Pvt. Ltd., Nepal
Robert Levin, Transclick, U.S.	

The core of the GSBI is an intensive, two week, residential program. A typical day involved eight hours of classroom work and three hours of evening work, with the two week program culminating in the presentation of a business plan to an elite group of review panelists comprised of seasoned entrepreneurs, venture capitalists, and senior executives. During the course of the business plan presentations, panelists honed in on people, market, and technology risks, as well as unique contextual factors. For example, in ventures addressing needs of the four billion people who live on less than \$1,500 per year, business plans were constructed to make these markets structurally attractive by creating an economic buyer (e.g., through aggregation, micro-finance, and blended public and private funding for social goods).

The Basics: Income Statements and Balance Sheets

The scope of learning about how to “scale up” social ventures was broad. It began with Santa Clara University Professor Al Bruno’s analysis of income statements and balance sheets—where better to start a “boot camp” experience than with the basics of how financial decisions will shape margins and the ability to get to break even? Social ventures typically experience *stepwise* as opposed to smooth patterns of growth. Preserving cash and managing cash flow is critical to survival and to marshalling scarce resources for greater market penetration. Similarly, allocating capital for product and service enhancements to areas with higher margins can generate internal revenues for funding growth or sustaining services in less attractive service areas. Beginning with income statements and balance sheets achieved the intended outcome of affirming that “profit” is not a dirty word.

For some cultures profit generation carries a negative connotation. In fact, capitalism may be viewed with skepticism or mistrust for its insensitivity to instances of market failure in serving human needs. Many assume, for example, that the poor can only be served by private charity or government welfare. Even in the U.S., a market-based model may appear to be antithetical to maintaining not-for-profit status, and the conventional wisdom of some suggests that public or social goods are the province of governments and private philanthropy. Overcoming the mental model bias against market-based approaches is especially vexing in instances where the economic standing of nations and collective experience in enterprise creation and capital formation simply deprive regions of the necessary know-how and financial capital.

Understanding margins, market size, and growth opportunities provides social benefit entrepreneurs an ability to assess opportunities for investing capital and allocating expenses from a market viability perspective. All of the participants in the GSBI class of 2004 seemed to draw the conclusion that, in the presence of uncertain *charity* flows, long term social returns cannot be realized without an economically viable *business model* that includes alternative revenue streams. They also came away with an appreciation of the fact that potential investors in their social ventures would focus a keen eye on the degree to which they were allocating resources optimally to build capacity in the form of critical processes, skills, and resources for becoming self-sustaining.

GSBI 2004 Mentors

Carlos Baradello, Adjunct Faculty, School of Business and Management, University of San Francisco

Robert Dench, Private Investor

Steve Eglash, Senior Associate, Worldview Technology Partners

John Gottsman, President and Chief Executive Officer, The Clarity Group

Jon Guice, President, Point Power Systems

Shirish Hardikar, Chairman and Chief Executive Officer, Trimbak Systems Corporation

Aaron Heinrich, Practice Director/Technology, Ketchum

Gunnar Hurtig, Managing General Partner, Incites Ventures LLC

Anne Perlman, Consultant

Bill Unger, Partner Emeritus, Mayfield

Beyond the Basics

Managing Innovation

The GSBI focuses exclusively on *technology-based* social benefit ventures. By definition, this means that they must compete not only on the basis of the value they deliver today, but on the basis of their ability to continuously innovate. Santa Clara University Professor Dave Caldwell’s examination of innovation as a function of the norms that reinforce both *creativity* and *implementation* provided concrete examples of how team selection, leadership, and organizational architecture must align to ensure innovation. In addition, Stanford Professor William Behrman illustrated best practice examples of how this works at IDEO, perhaps the most pre-eminent organization for design innovation.

The Value Proposition

In various stages of the GSBI curriculum participants were provided with insights for sharpening the definition of their “target customers” or beneficiaries and the factors that determine how *they* define value. “Value=Benefits-Cost (in relation to alternatives)” is a basic concept that may, inappropriately, be taken for granted by social benefit entrepreneurs, especially where they are serving previously unmet needs or addressing areas of market failure. Market failure can occur where there is no economic buyer because of price in relation to the income of potential early adopters. Without early adopters it is not possible to develop economies of scale and penetrate mass markets. But, a lesson that the GSBI seeks to drive home is that the price, or *cost* to the beneficiary may not be as important as perceived *benefits*. If benefits are increased, beneficiaries—both direct and indirect—will be willing to pay more.

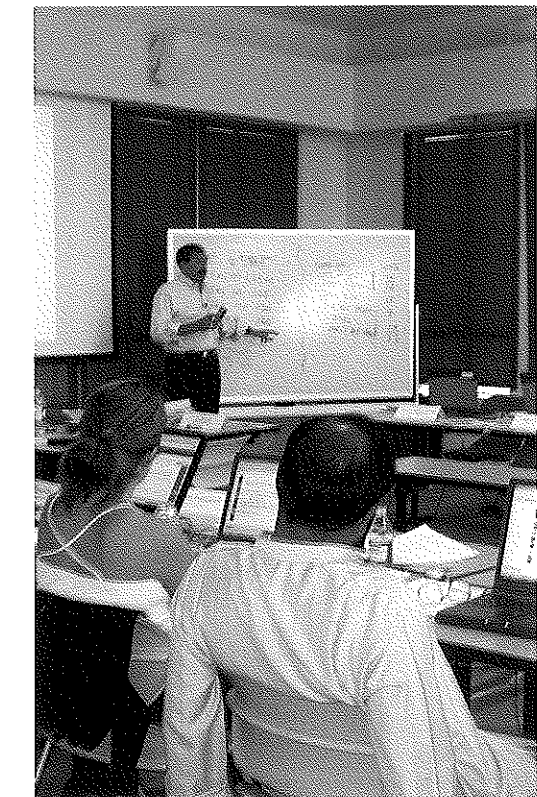
Crossing the Chasm

Social benefit entrepreneurs, like entrepreneurs in other sectors, need to understand product life cycles and the different considerations that influence “market acceptance” for early as opposed to subsequent and mass market adopters. Product leadership, for example, may be most important for early adopters, while a strategy that focuses on customer intimacy or operational excellence takes on added importance in achieving wider adoption. Jeff Miller, former CEO of Documentum, Inc., led a discussion of the Harvard Business School case that examined the challenge of crossing the chasm during his tenure at Documentum. The decisions he made to focus organizational resources on a vertical market strategy as a way of catalyzing wider scale adoption—in effect, one vertical at a time—was an invaluable insight for participants who took great pleasure in trying to outsmart the “live” decision making protagonist in the case.

Business Model Innovation

Ted Moser, Managing Director of Mercer Management Consulting, took each dimension of the classic elements of business strategy and clarified their application to relevance, influence, and sustainability of non-profit organizations. This session illustrated that, over time, business model innovation may become significantly more important than product innovation. The evolution of Opportunity International’s micro-lending business model was used to illustrate how value migrates over time and can be captured through changes in business models. Micro-lending provides a natural avenue for “scaling up” through franchising in developing countries.

“The GSBI focuses exclusively on *technology-based* social benefit ventures.”



"One unifying thread in the GSBI is the causal relationship between technology, productivity, and material standards of living."

Strategy and Product Features

Santa Clara University Professors Tammy Madsen and Terri Griffith illustrated important themes in strategy and the choice of product and service features that add unique value from a customer or beneficiary perspective. David Green, Executive Director of Project Impact Inc., applied these and related concepts in strategy to address the challenges of developing affordable health care products. He utilized his successful efforts to develop hearing aids for the poor to illustrate how critical it is to grasp the underlying economics and manufacturing costs of a particular product category. With this information it is possible to define the financial and managerial strengths that would be needed, for example, to make and distribute an affordable hearing aid on a global scale. His break-through work in hearing aid and with the affordable intraocular lenses of Ararvind are examples of the ability to develop and successfully execute earned income strategies for providing quality healthcare for the poor. Green suggested that scaling up strategies must include multi-tiered pricing, an emphasis on higher volume, low margin, business models that share a greater portion of the economic surplus with beneficiaries, and "social franchising" or licensing with trusted production and distribution partners.

Other Recurring Themes

One unifying thread in the GSBI is the causal relationship between technology, productivity, and material standards of living. This phenomenon is well documented in the history of technology. ApproTEC, a 2002 Tech Awards Laureate, offers an example of the transforming effect of technology on quality of life. Its manual irrigation pump has moved thousands of African families from poverty level incomes of \$120 per year to middle class incomes of \$1,200 per year. Their case study, facilitated by ApproTEC's Director of Business Development, Aaron Slettehaugh, illustrated critical concepts for social benefit entrepreneurs:

- The need for marketing and upfront investments
- The need for measures of accountability
- The need to overcome market failure, or the absence of early adopters
- The need to have realistic time horizons for achieving success.

Regis McKenna, widely respected Silicon Valley technology market authority, underscored two additional themes: the importance of *credibility*, especially in areas related to human health and well-being; and the importance of *alliances*. With respect to the latter, he cautioned about the importance

of "fit" and added that "you will be known by the company you keep." Maureen Conway, Hewlett-Packard Vice President of Emerging Market Solutions, provided vivid examples of effective cross-sector partnering between business, government, and civil society to address emerging market opportunities. Finally, *partnering strategies* and the *role of governments* (e.g., in policy or regulatory stance, in incentive-based contracting, and in providing funding for public goods) were keys to success for several participants in the GSBI Class of 2004.

Conclusion

To help ensure that the GSBI met its own objective of continuing effectiveness as an action learning program, Karen Coppock gathered data from not only participants but also mentors and staff. She found that the three greatest reported strengths of the GSBI were: the networking opportunities offered the participants (with the mentors, each other, and the broader Silicon Valley community); the learning and business skills from which they "obtained great benefit;" and, the quality of teaching and "knowledge of the presenters" (rated 6.7 on a seven-point scale). Within this global learning community the relationships of trust, respect, and reciprocity that were fostered enabled participants to adapt the insights of faculty and the innovations of their fellow classmates into their own operations.

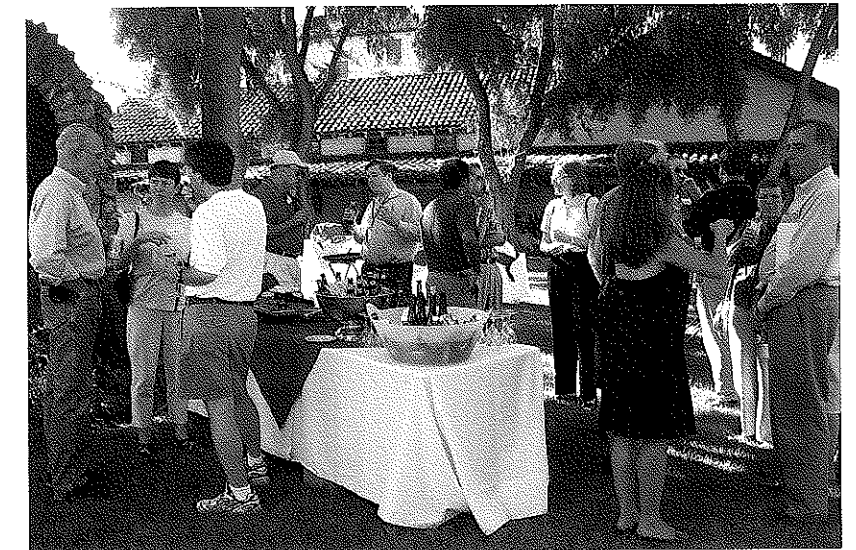
While we are pleased with the success of the program, this is a "work in progress" that involves learning on "both sides of the lectern." From a program design perspective, admissions, content, and the development of program effectiveness measures are all areas for further development. In addition, augmenting support for the GSBI work products and post-program continuing education, as well as the development of collaborations to support access to funding for well conceived business plans, would further strengthen this promising program launch.

On the eve of the business plan presentations anxieties were running high among GSBI class participants. Venture capitalist Bill Unger provided an extraordinarily insightful session on best practices in business plan presentations that seemed to empower the right combination of thinking and heart for the presentations that followed the next day. Here are the words of one class participant that many others seemed to echo in their own way.

"Hopefully by now you and your team are rested from our whirlwind visit to Santa Clara. You provided us all with such amazing access to beneficial resources that I am still telling everyone how GSBI changed my life. I know it sounds strange, but attending GSBI, and being in the atmosphere you and the team created, inspired me in so many ways. I left the program feeling like I could conquer the world and wanting to start doing so immediately."

"The final presentation day for me was the most exhilarating. I am comfortable presenting to large groups and "selling" my organization, but the structure of this presentation was so different for me and I wasn't sure if I was going to be able pull it off. Well, GSBI gave me the tools to do it and do it well. Everything that we had learned came into play. I was very thankful for Bill Unger's final presentation on Thursday about keeping your enthusiasm in your presentation. This helped me to shape my story like a news anchor, but keep my presentation engaging. When I completed my presentation I felt a huge sense of accomplishment. I had completed a journey that was long and hard but worth every moment of it."

"Within this global learning community the relationships of trust, respect, and reciprocity that were fostered enabled participants to adapt the insights of faculty and the innovations of their fellow classmates into their own operations."



GSBI 2004 Review Panelists

Dennis Barsema, Chairman,
BlueLane Technologies, Inc.

Carlos Baradello, Adjunct Faculty,
School of Business and Management,
University of San Francisco

James Frutcherman, Founder,
President, Chief Executive Officer,
and Chairman, The Benetech
Initiative

John Gottsman, President and
Chief Executive Officer, The Clarity
Group

Russ Hall, Co-Founder, Legacy
Venture

Karl Kleissner, Ph.D.

Carol Kraus Lauffer, Principal,
Business Cluster Development

Jeff Miller, Former Chairman and
Chief Executive Officer, Documentum,
Venture Partner, Redpoint Ventures

Ted Moser, Managing Director,
Mercer Management Consulting,
Board of Directors, Opportunity
International-USA

Claudio Pinkus, Entrepreneur

Acknowledgement

The authors gratefully acknowledge the contributions of the presenters for the GSBI 2004 curriculum:

William Behrman, Consulting Assistant Professor of Civil and Environmental Engineering, Stanford University

David F. Caldwell, Stephen and Patricia Schott Professor of Business, Senior Associate Dean, Leavey School of Business and Administration, Santa Clara University

Maureen Conway, Senior Vice President, Emerging Market Solutions, Hewlett-Packard

James R. Fruchterman, President, Chief Executive Officer, Chairman, and Founder, The Benetech Initiative

David Green, Executive Director, Project Impact

Terri Griffith, Breetwor Fellow, Professor of Management, Leavey School of Business and Administration, Program Director, Innovation and Organizational Change, Center for Science, Technology, and Society

Kirthi Kalyanam, J.C. Penney Research Professor, Department of Marketing, Leavey School of Business and Administration, Santa Clara University

Tammy Madsen, Dean Witter Foundation Fellow, Assistant Professor of Strategy, Department of Management, Leavey School of Business and Administration, Santa Clara University

Maragret McCarthy, Director of Corporate and Foundation Relations, Development Office, Santa Clara University

Regis McKenna, Chairman, Center for Science, Technology, and Society Advisory Board, Santa Clara University

Jeff Miller, Former Chairman and Chief Executive Officer, Documentum, Inc. Venture Partner, Redpoint Ventures

Ted Moser, Managing Director, Mercer Management Consulting

Marck Nicolson, Leadership Consultant and Coach, Ventana Project

Joni Podolsky, Consultant, Director of Community Programs, Entrepreneurs Foundation, Bay Area

Aaron Slettehaugh, Director of Business Development, ApproTEC

Tysoon Tyejee, Professor of Marketing, Department of Marketing, Leavey School of Business and Administration, Santa Clara University

Cynthia Typaldos, Founder, Typaldos Consulting

Wilson Winner, Entrepreneur

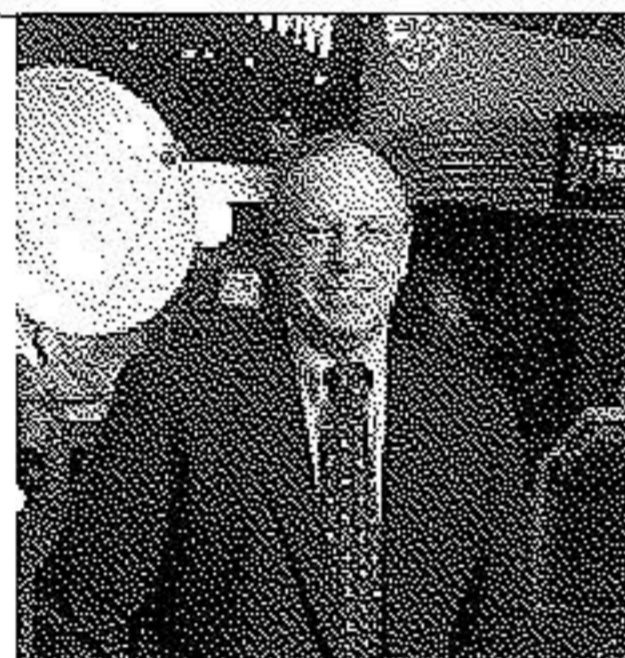
Santa Clara's GSBI 2004 class of social entrepreneurs now have a roadmap for success (their business plans) and the confidence they can implement them. They also have a support structure (their fellow classmates, mentors, and GSBI staff) in place to assist them with their quest to scale up. The fellowship and bonding that grew from these two weeks of intensive study and reflection mirror vibrantly U.N. Secretary Kofi Annan's 2003 charge that "we must take a proactive approach if the wider agenda for human rights is to be realized everywhere." The GSBI creates a framework to enhance human dignity and opportunity by joining people from diverse cultures and facilitating programs committed to creating sustainable businesses that are agents of change in communities around the world—communities connected in part by the shared experiences of the entrepreneurs and their commitments to not only their own countries but to a more ethical and just world at large.

For more information on the GSBI and an application to the 2005 program please go to <http://www.scu.edu/sts/programsandpartnerships/gsbincubator.cfm>

About the authors

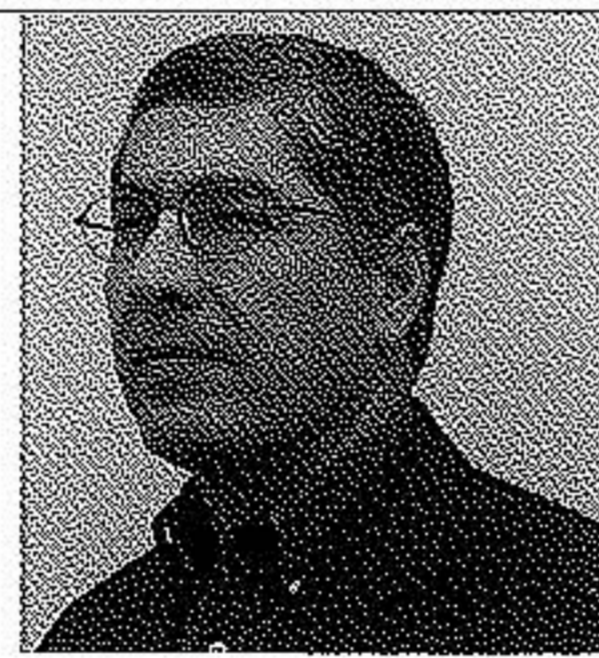
JAMES L. KOCH

is founding director of the Center for Science, Technology, and Society, Executive Director of the Global Social Benefit Incubator, and Professor of Management at Santa Clara University. Jim received his MBA and Ph.D. from UCLA. Prior to founding the Center, he served as Dean of the Leavey School of Business from 1990 to 1996—a period in which the School's MBA program rose to national recognition. The Organizational Planning and Development group that he founded and led at PG&E from 1980-1990 received the National Excellence Award for organization development from the American Society for Training and Development. Jim's research and consulting focus on socio-technical systems and high performance organizations. His current work examines information technology and organizational change, social capital and the psychological sense of community in organizations, and the role of technology in improving the quality of life in developing nations.



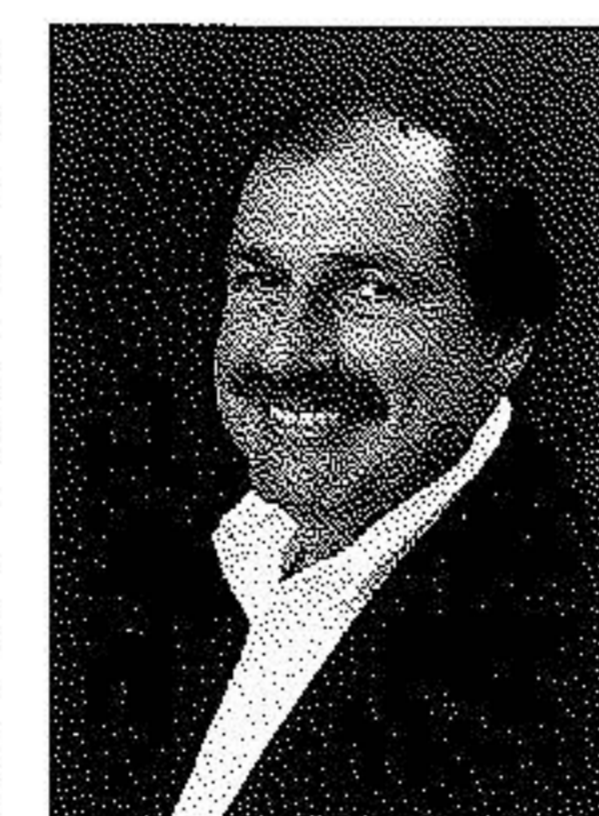
PATRICK GUERRA

is Program Director, Global Social Benefit Incubator, and Executive Entrepreneur in Residence, Center for Science, Technology, and Society at Santa Clara University. He has served in senior management, information technology, manufacturing, distribution, product management, and business development roles with Hewlett-Packard, Advanced Micro Devices, PSB, Ariba, and SpinCircuit, where he was President and CEO. Pat holds a Bachelor of Science Degree in Economics and an MBA in Operations Management and Information Systems from Santa Clara University.



ALBERT V. BRUNO

is the William T. Cleary Professor at Santa Clara University, where he has at various times served as founding director of the Center for Innovation & Entrepreneurship, associate and acting dean, and marketing department chair. Professor Bruno earned an MBA and Ph.D. at the Krannert School of Management at Purdue University. He has an international reputation as a consultant and seminar leader. He has lectured and consulted for many organizations worldwide, and has served on the board or advisory boards of a number of private and public companies. In 1982, Professor Bruno was one of 13 recipients in the United States of the Leavey Foundation Award for excellence in private enterprise education. In the same year, he was honored with the Glenn Klimek Professorship at Santa Clara, which he held for 16 years. His many articles, research publications, and book chapters have been published in a diverse set of business journals and periodicals. His book, *The Market Value Process: Bridging Customer and Shareholder Value*, was published by Jossey Bass in 1996 and republished in German in 1998.



KAREN COPPOCK

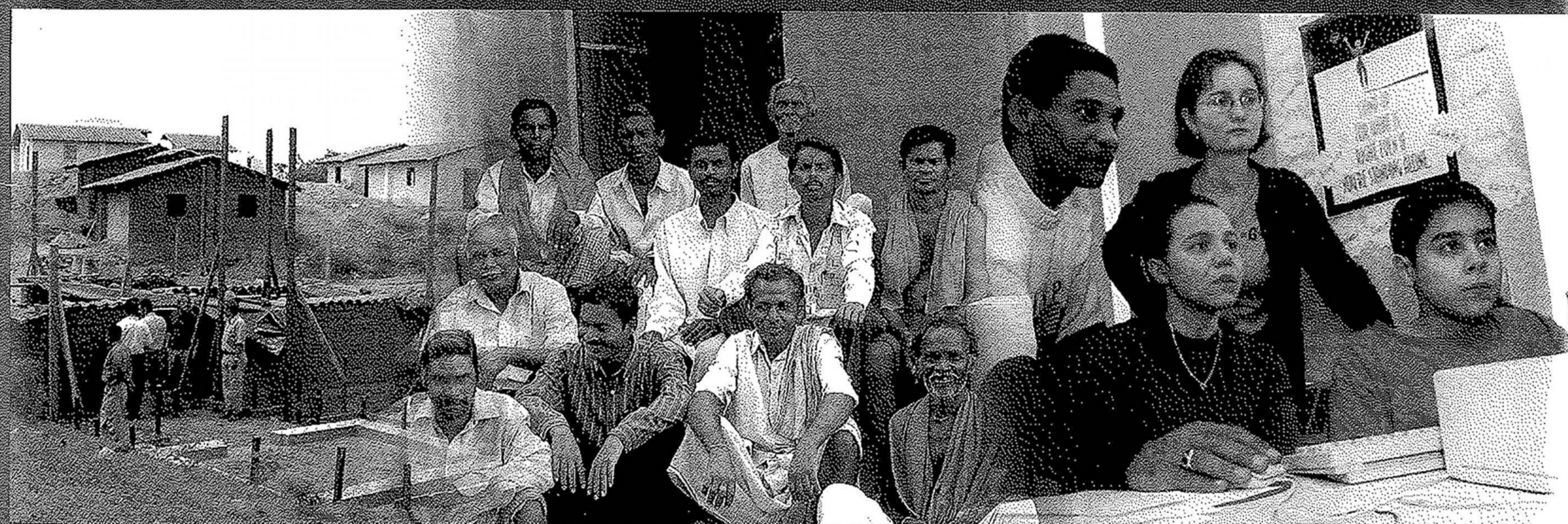
is a Visiting Fellow at Santa Clara's Center for Science, Technology and Society where she is finishing her doctoral dissertation research on market expansion strategies (Improving multi-stakeholder partnerships created to increase Internet demand in Mexico). Karen has a diverse international background, including extensive experience in the high-tech industry (Telcordia, Williams Communications, INTELSAT, AT&T, and Pacific Bell), three years in grass-roots economic development (Peace Corps), and interdisciplinary research (Harvard's Center for International Development). Karen is expecting to receive her doctoral degree from the Fletcher School, Tufts University, in Spring 2005.



THE TECH MUSEUM AWARDS 2004

Technology Benefiting Humanity

Presented by Applied Materials, Inc.



Innovate Impact Inspire