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# **The Illusive Nature of Social Enterprise at the Base of the Pyramid:**

## **Case Studies of Six Kenyan Social Enterprises**

**By Karen Panum<sup>1</sup>, Michael W. Hansen<sup>2</sup> and Elder Davy<sup>3</sup>**

### **Abstract**

This paper aims to critically assess prevailing definitions of social enterprise and provide reflection on how the social enterprise is conceptualized at the base of the pyramid (BoP).

The paper draws on multiple case studies to challenge traditional notions of ‘social enterprise’. Six social enterprises operating at the BoP in Kenya are analysed. Interviews are conducted with entrepreneurs from each enterprise, during which the enterprises’ business models are mapped and scrutinized.

Findings contrast with existing notions that social enterprise requires a trade-off between social and commercial objectives, that social enterprise demands primacy of the social over the commercial, and that various social objectives are mutually supportive. In the cases studied, entrepreneurs viewed social and commercial orientation as equally important, in that social enterprise status was seen as a competitive advantage and that the achievement of social goals was considered contingent on commercial orientation.

This paper adds perspective to existing literature on social enterprise at the BoP and provides empirical evidence that can help shape the understanding of social business activities in East Africa. The paper demonstrates that in BoP environments, the boundaries between social and commercial enterprise become illusive.

The paper adds original insight to the social enterprise literature by presenting unique cases of social enterprises operating at the BoP in Kenya and using these case studies to challenge the extant literature.

**Keywords:** Social enterprise, base of the pyramid, Kenya, case studies, business model canvas

**Paper type:** Research paper/conceptual paper

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## Introduction

The perseverance of poverty, the lack of employment, and the absence of basic welfare of millions mark large parts of the African continent. In their search for effective engines of development, aid organizations such as the World Bank, the UN, and bilateral donors are increasingly regarding private sector development as key to solving many of the continent's ailments (Tvedten et al, 2014). The focus on private-sector-driven development in Africa, as well as pioneering endeavours such as the Grameen Bank, championed by Nobel prize winner Mohammed Yunus, has encouraged the emergence of a range of business model hybrids; businesses which seek to combine the efficiency and innovativeness of a commercial enterprise with the provision of developmental goods such as infrastructure, welfare, jobs and education. A rising number of such businesses are presenting themselves under the vaguely defined category of Social Enterprise (SE), a concept that is yet to be conclusively defined (Battilana and Lee, 2014). While the SE concept has received growing attention by scholars in the last decade, it is still in its infancy as an academic field and is yet to move beyond a pre-paradigmatic state (Nicholls, 2010). The task of reaching a universal consensus on the concept is not made easier as an increasing number of firms are adopting the SE label for marketing purposes and in order to attract financial support (Mair et al., 2012; Battilana and Lee, 2014).

The majority of firms that define themselves as social enterprises justify the definition through their commitment to addressing social issues with the ultimate goal of bringing about systemic social change (Alvord et al., 2004; Martin and Osberg, 2007). However, the social impact a firm has on its stakeholders differs considerably in low-income countries compared to advanced economies. It has been argued that firms operating in environments marked by poverty, endemic unemployment and institutional voids – the so-called base of the pyramid (BoP) - contribute to social and economic growth merely by managing to organize markets in these environments (Prahalad and Hammond, 2002). This occurs, for example, through providing goods, services and employment, improving standards, and building infrastructure (see Prahalad and Hammond, 2002; Chatterjee, 2009). Following this logic, the SE concept takes on another dimension at the BoP, where social impact is not necessarily determined by the firm's explicit objectives and social orientation, but by its de facto impact on the poor, which occurs regardless of objectives and social orientation. Consequently, it can be hypothesized that the boundaries between traditional, market driven business models and those that are termed Social Enterprises become particularly blurred as we move toward the BoP.

The attributes that distinguish a firm as a SE and set it apart from other organisations are further blurred by the fact that commercial enterprise at the BoP often demands a strong social orientation to succeed (Dahan et al., 2010). For instance, firms operating at the BoP will typically be unable to attract investment capital based purely on the expectation of financial returns, given the risks involved. Firms must therefore turn to donors and 'patient' social investment funds, which are willing to invest in social

initiatives. Moreover, firms operating at the BoP will have to adopt business models that take into account the specific conditions of the BoP. For instance, this can imply collaboration with NGOs, more inclusive employment practices and alternative ways to deliver products to consumers, all practices that resemble those of social enterprises. While there are a growing number of conceptual papers on social enterprise, few studies specifically consider the conceptual aspects of social enterprise at the BoP. Moreover, the academic debate on social enterprise includes few empirical insights from an African perspective (Rivera-Santos et al., 2015). In this paper the boundaries of SE at the BoP are examined and it is discussed whether, to what extent and how the SE concept can be meaningfully applied in a BoP context. This conceptual discussion takes its point of departure in six case studies of self-defined social enterprises in Kenya. The paper is structured as follows: First, a literature review is provided where it is examined how the literature defines SE and how the literature discusses the relationship between the SE and BoP concepts. The purpose of this section is to define the main concepts of the paper and to identify key characteristics of a SE against which we can benchmark the case companies. Second, methods and approach is outlined and the six case studies introduced. Third, it is discussed how the six case studies challenges core assumptions of the SE literature and implications for the SE literature as well as SE practice are outlined.

## **The Social Enterprise and Base of the Pyramid literatures**

This section provides a review the SE and BoP literatures aimed at examining the boundaries of the two literatures and identifying analytical dimensions that can structure an analysis of social enterprise at the BoP.

### **Defining the Social Enterprise**

The social enterprise concept is of relatively recent origin and the academic literature on social enterprise is still in its infancy (Zeyen et al., 2012). The embryonic state of the SE literature currently leaves the concept vulnerable; to be moulded one way or the other by dominant actors (Nicholls, 2010). This is reflected in the considerable range of definitions, which either highlight or downplay different attributes and features of the firm's business model:

The British Social Enterprise Agency (SEUK) stresses the importance of the firm's intentions and motives for determining its social enterprise status, which must include "a clear social and/or environmental mission" in its guiding documents (Seuk, 2012). This is echoed by Dees (1998a p.3) who maintains that "For social entrepreneurs, the social mission is explicit and central" and that "Mission-related impact becomes the central criterion, not wealth creation". Yet, as Van de Ven et al. (2007) caution, the relation between motivations and behaviour is unreliable and difficult to observe and motives are a poor indicator of (potentially unintended) outcomes.

Others, such as Yunus (2008) draw attention to the ownership aspect of the firm. According to Yunus, in order for a firm to qualify as a social enterprise it must not pay financial dividends to investors. Through business model analysis, Yunus et al. (2010) distinguish SEs from traditional businesses by comparing their value propositions, value constellations and profit equations (p. 319). They describe the value proposition as the value a firm delivers to its customers and/or stakeholders in the form of products and/or services. The value constellation represents *how* the firm delivers the value proposition including the way it interacts with partners and stakeholders. The profit equation is the result of the value proposition and value constellation and describes how value is captured. According to Yunus and colleagues, the difference between traditional and social businesses is evident in their value propositions: Unlike the value propositions of ‘regular enterprises’, which tend to focus on the value delivered to their customers in the form of products and services, the SE’s value proposition extends beyond this to include the value gained by internal stakeholders, namely employees. Moreover, Yunus et al. (2010) differentiate the business models of SEs by the way they measure profit. Unlike the business models of regular enterprises, they maintain that the SE’s profit equation not only accounts for financial returns, but also ‘social profit’, which equates to the social value the enterprise generates, for example, by creating employment.

Yet others have defined SEs by their use of business approaches to achieve social objectives, where profit is seen as a tool for sustainability or social impact (Gradl and Knobloch, 2010a, 2010b; Boschee, 2006; Perrini and Vurro, 2006). In this way, SEs move away from grant dependency to become self-sufficient via the creation of income streams. As such, it has been argued that the primary distinction between SE’s and non-profit organisations, such as NGOs, is found in the funding model (Boschee, 2006; Nicholls, 2006).

Gras and Lumpkin (2012) argue that social enterprises differ from their commercial counterparts with respect to their goals, resources and stakeholders. They contend that each of these three factors is much more externally oriented for social than for commercial enterprises, which results in SEs choosing more externally focused strategies. For instance, SEs tend to rely on “community-based resources”, such as local networks and receive funding from a broader range of financiers (donors, governments and impact investors) than do typical commercial enterprises (Gras and Lumpkin 2012)

Since SEs typically, rely heavily on external channels for a large part of their resources, they must be skilled at managing relationships with local firms, government agencies and NGOs (Dahan et al., 2010; Austin et al, 2006). Accordingly, some scholars associate social enterprise with the firm’s ability to build close relations with local stakeholders (see Battilana and Lee, 2014; Dufays and Huybrechts, 2014). Thus, the inclusiveness of the firm in the way it develops products, interacts with local stakeholders and is positioned in the value chain can be considered a defining attribute of the SE.

Finally, a number of accounts link social enterprise to the firm's innovative drive to find solutions to large intractable problems that other firms are not able or willing to address (Huybrechts and Nicholls, 2012). In his seminal article on social entrepreneurship, Dees (1998a) describes the social entrepreneur as a 'change agent' whose role is to tackle fundamental and systemic social issues with the aim of creating long lasting and widespread impact. These 'change agents' frequently enter regions with little perceived economic value and are often first to establish themselves in markets that are yet to exist, so-called 'blue ocean markets' (Kim and Mauborgne, 2004).

As seen from the above, there is widespread confusion as to what constitutes social enterprise. Peattie and Morley (2008) argue that this conceptual ambiguity may be due to the tendency to define the social enterprise according to specific characteristics without differentiating between the characteristics that *describe* SEs and those that *define* them (Peattie and Morley, 2008). They argue that "the only clearly defining (rather than typical or desirable) characteristics are: the primacy of social aims; and that the primary activity involves trading goods and services." (p. 95). The exact balance between trading goods and services and social orientation remains however un-resolved within the social enterprise literature:

Hence, according to Peattie and Morley (2008), the essence of social enterprise lies in how the social and commercial aims are balanced. Although both objectives are intertwined in the SE's DNA, they are not equal partners (Alter, 2006), and the core challenge for defining the social enterprise phenomena is then to identify how profit seeking and socially oriented objectives, strategies and activities are prioritised. The 'double bottom line' describes the SE imperative of balancing the economic with the social mission. The SE's balancing act is termed by Emerson (2003) as the "*blended value proposition*". He argues against a black and white portrayal of the SE, where there is a trade-off between social and financial returns, and upholds that both goals can and must be achieved at the same time. It is not a zero-sum game, "not a question of either/or, but rather both/and" (Emerson, 2003, p. 38). Hockerts (2006) echoes the notion of a blended value proposition by stating that: "Social purpose business ventures are hybrid enterprises straddling the boundary between the for-profit business world and social mission-driven public and non-profit organizations. Thus they do not fit completely in either sphere." (Hockerts, 2006, pp. 145-146).

This grey zone has led several theorists and practitioners to develop scales to classify and grade SEs. These scales take various forms and sizes, but there is a tendency of placing social and commercial orientation at opposite ends of the same scale. As an example, Dees (1998b) places all social enterprises on a scale according to their degree of commercial orientation, which ranges from purely philanthropic to purely commercial (see fig. 1).

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Insert Figure 1. about here.

## **Social Enterprise at the Base of the Pyramid**

Despite the growing number of conceptual papers addressing the social enterprise, few studies focus on the conceptual aspects of social enterprise at the BoP. In the following, the paper will seek to expand the understanding of this area by examining the relation between the BoP and SE concepts.

### *The BoP Approach*

The BoP approach, first introduced by Prahalad and Hart (2002), outlines the business case for entering low-income countries. The BoP approach suggests that the approx. 4 billion people earning less than USD 2000 per year (two thirds of the world's population), represent attractive markets with considerable economic potential for multinational corporations (MNCs). Proponents of the BoP approach argue that MNCs may be able to develop commercially viable activities by servicing the poor. Prahalad and Hammond (2002, p. 48) emphasise that poverty reduction “does not require multinationals to spearhead global social development initiatives for charitable purposes” and that the BoP firm's explicit aim should be to generate profit.

### *Differences Between BoP Strategies and the SE Logic*

Overall, the BoP approach closely resembles the SE logic: that there is a positive relation between the firm's economic sustainability and the social value it creates. There are however important differences. For example, the SE literature primarily accounts for companies that have been started explicitly with the purpose of creating long-lasting social change (Tan and Yoo, 2015; Dees, 1998b). In contrast, the BoP approach does not discriminate between social and commercial intent, since it is assumed that the firm's activities will invariably lead to social improvements (Prahalad and Hammond, 2002). In their analysis of BOP business models in rural India, N. Sinkovics, Sinkovics, and Yamin (2014) find that social value creation can still be a central outcome of companies' business activities despite the absence of an explicit social mission. They caution against dismissing the social value of regular firms as a ‘by-product’ or “secondary outcome”, and maintain that “people in the BOP may find it difficult or impossible to conceive, let alone create and sustain businesses that do not have social value creation as a major outcome or benefit” (N. Sinkovics et al., 2014 p. 693)

Thus, a key difference between the SE and BoP literatures is that while the SE, as defined by Peattie and Morley (2008) and others (e.g. Bull, 2008), gives primacy to social objectives, the BoP approach downplays the firm's social motive.

Another key difference between BoP and SE is that whereas the SE literature often seems to imply a high level of harmony between various social objectives, the BoP literature is under no such illusions: For instance, according to Yunus et al. (2010), value generated for internal stakeholders, for example,



employees is consistent with value generated for external beneficiaries. This harmonious view of value creation clearly conflicts with that of the BoP approach. The BoP approach assumes that the firm's value proposition is the product or service it delivers to its customers and the social impact is created through supplying the product or service efficiently, allowing the firm to scale-up, employ more staff and to price its products or services competitively. Indeed, the BoP approach would tend to argue that the ability to deliver the value proposition to wider stakeholders, such as employees, may come at the expense of the value offered to customers through products and services. Thus, firms whose core value propositions are explicitly linked to the social benefits of employees risk ignoring basic market principles, leaving them vulnerable to market forces (Austin et al., 2006; Huybrechts and Nicholls, 2012). This holds true especially during times of low demand when these firms, as Battilana and Lee (2014) caution: "may face tradeoffs between keeping their beneficiaries employed and lowering staffing levels accordingly" (p.414). While the BoP and the SE concepts evidently are different concepts, they are closely related in that the business conditions associated with the BoP environment often require social orientation and vice versa:

*BoP Strategies are Facilitated by 'SE Attributes'*

It has been suggested that many of the characteristics of SEs, such as the affinity to establish close relations and interaction with stakeholders, the need for building and creating markets, their innovative drive for social solutions, and the use of 'patient' capital, constitute an advantage over conventional business forms when operating in a BoP context (Battilana and Lee, 2014; Austin and Leonard, 2008). Hence, at the BoP, the ability to establish relations with local stakeholders can allow firms to gain more accurate and immediate feedback of consumer preferences and demand patterns as well as provide opportunities for co-creating products and services that are tailored to consumers' needs (NFBI, 2009; Agnihotri, 2012). As such, by aligning their missions and value propositions with social imperatives to address basic 'needs', firms may achieve an advantage over those catering to the unpredictable 'wants' of under-developed markets (Lumpkin et al., 2013). This implies that firms will naturally gravitate towards the market for needs regardless of their status as a SE.

Another advantage of SE orientation at the BoP is related to innovation: An enterprises' capacity to identify opportunities, leverage resources and enter new markets is typically attributed to entrepreneurial qualities inherent in the firm or individual. However, Van de Ven, et al. (2007) contend that the entrepreneur's propensity to discover innovative solutions to systemic problems is greatly amplified when the entrepreneur considers collective interests, such as those of the local community or society at large. Thus, having a clearly defined social mission can represent a significant advantage, especially under the resource-constrained conditions at the BoP. It has been argued that an enterprise with a social mission that resonates with public or societal priorities is more likely to galvanize the

support of impact investors, governments and community stakeholders and thus pave the way to otherwise inaccessible opportunities (Henry, 2015; Lumpkin et al., 2013; Simmons, 2008)

Finally, it has been argue that organizational traits linked to the SE label, such as strong entrepreneurial capabilities and aptitude for solving social problems in resource-constrained environments, are particularly beneficial to firms operating in BoP markets. SEs with their innovative solutions realize the potential in a hitherto unexplored market and enter this new area, thereby creating market disequilibrium (Chege, 2007). The SE will create and develop the market and with time, conventional businesses will follow to drive the market equilibrium to a new level, which, according to the BoP assumptions, will entail greater social benefit than the previous equilibrium. In this way, one may argue that SEs are first movers in ‘Blue Ocean markets’ which have no competition, but great potential (Kim and Mauborgne, 2004) and that SEs are able to compete here because of their social orientation.

#### *Social Impact Requires Commercial Viability*

While it can be shown that socially oriented firms can leverage their social attributes to achieve commercial success at the BoP (Battilana and Lee, 2014; Hanley, Wachner and Weiss, 2015), the inverse also applies. As dictated by the BoP approach, if businesses are not able to maintain profitable activities at the BoP independent of donor assistance, the scale these firms can achieve is limited and with it the means to effectuate wide spread social impact (Prahalad and Hammond, 2002). This has consequences for the way firms are defined, since, as outlined by Dees (1998a) the actions of social entrepreneurs must “have the potential to stimulate global improvements in their chosen arenas” p.5). For SEs to make a difference for the poor, they must, as asserted by Boschee (2006), make sure they are not amongst them (p. 388).

#### **Summary**

From the above brief account of the BoP and Social Enterprise literatures and how they are related, it is evident that we are talking about phenomena that have different empirical and theoretical antecedents, yet their boundaries are evidently highly blurred and the interdependencies are high.

In the following the six self-declared social enterprises at the BoP in Kenya will be analysed in order to explore the boundaries between the two concepts in an empirical context. The analysis will focus on three key claims of the SE literature and explore their relevance in a BoP context: (1) primacy of social orientation; (2) dichotomy between commercial and social orientation; and (3) harmony between various social objectives. These three claims will be critically discussed by contrasting them with evidence from six social enterprises from Kenya. This will allow for generalizations regarding the applicability and validity of the SE concept in a BoP context.

## Methods

The methodologies used by social entrepreneurship researchers have so far tended towards either individual case studies or purely theoretical approaches with at best anecdotal evidence and little empirical backing (Nichols, 2010). In this paper we gather empirical data from multiple case studies. These data serve as a basis to illustrate and discuss our conceptual arguments rather than as evidence for any causal relationship or inference. The multiple case study design is considered advantageous in that it can lead to more robust analytical conclusions than studies relying on a single case design (Yin, 2014). In order to allow for a critical assessment of SEs at the BoP, efforts were made to select enterprises that represented the social enterprise ideal, as identified in the received SE literature and that were at the same time operating at the BoP. The cases were selected against the following criteria: (1) They had a stated social vision and mission; (2) They had been conceived by their current owners, which helped ensure alignment between the business model and social mission; (3) They had the ambition of achieving their social missions through commercial means and were able to provide viable projections of commercial sustainability; (4) They had been in operation for at least two years and could therefore demonstrate that their operations were viable; and (5) They were operating at the BoP, either employing the poor and/or considering the poor as their main beneficiaries.

Both secondary and primary data were collected. The former included books, journals, web articles and webpages, while the latter included data collected through interviews and questionnaires. When conducting the interviews with owners of the enterprises, the Business Model Canvas was used as an analytical tool to structure the discussion (Osterwalder et al., 2010). The business model is a system-level, holistic approach to explaining how firms capture and create value and has emerged as a recent unit of analysis for business research (Zott et al, 2010; Teece, 2010). The business model can be used to understand how the firm configures resources and capabilities to manage its *raison d'être*. Osterwalder et al. (2010) provide a generic business model canvas with nine components that illustrates how a company intends to generate revenue (see fig. 2).

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Insert figure 2. about here.

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The Business Model Canvas was used to facilitate uniform collection of data and served as a platform for the cross-case analysis. During the interviews, managers from the case studies were asked to identify each of the canvas' nine business model components as they related to their respective operations. In this way, it was possible to observe specific traits, at different levels of the business model. Business owners were also asked to place themselves on a scale according to their social/commercial aims (see

fig. 4). Besides the interviews of management staff, all companies except Farm Shop were visited at their headquarters and/or production facilities and additional members of staff were consulted.

## **Six Social Enterprises in Kenya**

Although Kenya is a poor developing country with a GDP per capita around USD 1200, it is also one of Africa's most dynamic economies (WorldBank, 2014). Compared to most of East Africa, Kenya has a vibrant and broad based private sector and a relatively conducive business environment. The SME sector is relatively developed with good entrepreneurship conditions compared to other African countries, as reflected in Kenya's cutting edge mobile phone industry (Robb, Parton, and Valerio, 2014). Nevertheless, outside the main urban centres, market integration remains low and poverty is endemic (Radeny, van den Berg, and Schipper, 2012). Given the all-pervasive poverty, many Kenyan enterprises have a strong social orientation and an increasing number of Kenyan firms depict themselves as social enterprises (Griffin-El et al, 2014; Smith and Darko, 2014). In the following six such cases of social enterprises in Kenya will be introduced. Four of the enterprises are located in and around Nairobi, one in the suburban town of Thika, and one in the quiet coastal town, Kilifi. Four cases are related to the agricultural sector, which is dominant in the Kenyan economy in terms of employment, and two are involved in manufacturing activities. All cases are privately owned enterprises and employ between (approx.) 7 and 130 staff. Annual revenues (from the data available) range from USD 150,000 to over USD 1.8 million. The companies are mostly managed by their founders, who is also typically the driver behind the company's mission. All have concentrated their activities in the local Kenyan market, although two enterprises engage in modest export (see table 1. for a summary of key data).

### **Pwani Feeds**

Pwani Feeds (PF) is a poultry-feed manufacturing firm. The company is owned and managed by Shem and Faith Mwaura, who were motivated to establish the business by their experience of the desperate conditions facing subsistence farmers in the region. These conditions were the result of a skewed value chain where feed manufacturers secured most of the profit at the expense of the farmers. Pwani Feeds aims to integrate the farmers into the value chain by providing them with quality, affordable fodder as well as transporting their eggs to market. With the profit earned from the sale of the eggs, Pwani Feeds assists the farmer to establish a bank account, which in most cases would have otherwise been impossible. Through a partnership with Consolidated Bank, Pwani Feeds acts as collateral on behalf of the farmers and deposits an agreed amount of the profit from the egg sale. After a few months of saving, the farmer can get a micro loan without collateral and, thereby, expand the business and enhance the livelihood of his/her family. Pwani Feeds also arranges seminars and training and attribute their success to the high degree of trust and loyalty they have managed to build with the farmers.

## **KOMAZA**

KOMAZA is a micro-forestry enterprise, which was initiated in 2005 by Tevis Howard, an American neuroscientist, with the objective of helping to alleviate poverty. The company's aim is to exploit the arid, otherwise unused land of subsistence farmers for the planting of drought resistant trees, which can be harvested and sold with a significant added value. KOMAZA supplies the seedlings to the farmer and when the time comes, harvests and guarantees a market for the trees. The farmer pays a commitment fee of KSH 200, which is symbolic in size and serves to combat the 'aid dependency syndrome' and creates a sense of ownership. The farmer also prepares the land for planting. The revenue from the sale of the wood is split equally between the farmer and KOMAZA. Howard explains how the embeddedness of the employees in the local communities has helped to create trust with the farmers. Without this trust it is doubtful the farmers would have allowed KOMAZA access to their land. The company aims to expand by 2000 farmers each year eventually scaling up its operation to other regions in Kenya. KOMAZA relies heavily on grants and soft capital, prompting Howard to move to the US in 2012 to raise funds, a practice he aims to continue until revenues from trade increase. KOMAZA has the explicit objective of becoming independent from donors by the year 2019 and by proving the company is commercially sustainable Howard is confident that KOMAZA will be able to raise capital from commercial investors.

## **Alive & Kicking**

Alive & Kicking (A&K) is a football manufacturing enterprise, founded in 2004 with the help of grant money from various aid organizations. The company defines itself as a SE by its mission to create decent jobs at the BoP. A&K distinguishes itself from a conventional business through its commitment to its employees. This is reflected in the wages it pays its employees, which are twice those of competitors, as well as in its dedication to ensuring good working conditions.. The company donates footballs to local schools as part of health awareness campaigns, which are entirely financed by sponsors, and "uses business practices to pursue [their] charitable objectives" (AliveandKicking, 2009). The social aspect has meant that the company is not only able to sell quality footballs but also a compelling story. A&K's SE status has been instrumental in helping it to apply for social start-up capital as well as attracting volunteers and pro-bono services providers, such as KPMG, who have continued to provide significant support since A&K's inception. A&K views and measures its success by the number of footballs sold, reasoning that as sales increase so does the number of jobs created. Over time, the company has gradually shifted its target group in response to changing market conditions. First it targeted public schools that later proved to be unable to pay for the footballs; then corporations who eventually had to reduce their CSR budgets; and today it targets retailers, who now comprise the main target market. A&K's business model has so far remained commercially sustainable; however, on-going continuous scaling will depend on the company's ability to unlock untapped demand around the world.

## **Ocean Sole**

Ocean Sole (OS) was founded by Julie Church, a marine conservationist, with a mission to create social and environmental value. The business model revolves around collecting the vast number of non-degradable flip-flops that are washed up on the Northern coast of Kenya and recycling them into crafts, through employing local people at the BoP. The start-up was initially funded by the World Wildlife Fund (WWF), but Julie soon realized that in order to have a long lasting impact she needed to convert the project into a profit-earning venture. Accordingly, a CEO was appointed, a competent management team was set in place, and the company was re-branded through a business plan and strategy.

The crafts are sold to retailer outlets in Kenya and to international wholesalers, who make up eighty per cent of total sales. OS's end customer segment is the conscientious consumer in Kenya and overseas with sufficient purchasing power. OS ascribes its SE status primarily to its focus on employment conditions and offers, among other benefits, comparatively high salaries, medical coverage, paternity/maternity leave, and free lunch. The social and environmental aims of OS allow it to market its products to its customers who are willing to pay a premium for the cause. Commercial sustainability is pivotal as it is seen as a means to achieve the company's mission; however, it is a tough struggle, especially since the company must adhere to the same rules and regulations as conventional businesses.

## **Farm Shop**

A common social problem in the agricultural value chain in Kenya is that subsistence farmers are caught in a web of poor infrastructure, lack of market access and inaccurate knowledge of production inputs leaving them susceptible to middle-men, such as the so-called agro-vets, who take advantage of the farmers' vulnerable position. Farm Shop (FS) was established to address this problem through a commercial solution. Farm Shop was started by grants of just above USD 1 million raised through the founders' network. It leverages the existing network of agro vets by consolidating some of the 10,000 agro-vet shops in a series of micro-franchises. Each franchise is still regarded as a prototype and the business model is constantly tested, evaluated, and adjusted. Remarkably, it took three months for one franchisee to break even and Farm Shop is now replicating this model for new franchisees.

The value proposition is to increase the productivity of subsistence farmers by providing high quality products, services and information through franchised agro-vet shops. To achieve this, FS undertakes management of warehousing, inventory and logistics as well as providing community education programmes that help farmers understand the products, services and methods, which in turn stimulates the demand for the local franchise. These programmes also serve as networking events and allow FS to leverage local community knowledge, which has proved invaluable. Farm Shop carefully selects franchisees from the pool of agro-vets and provides them with a loan of approximately USD 4,000 for

working capital and inventory with a repayment period of 24 months. As such, the franchisee is able to offer farmers quality products, services and receives on-going training and skill upgrading. Moreover, the company aims at incorporating financial services into its business model. The ultimate goal of the business model is to create well-managed one-stop shops, which provide multiple services and products to smallholder farmers.

## **JUHUDI KILIMO**

Few financial institutions serve Kenya's rural areas, where people struggle most to escape the poverty trap, since providing these loans involves comparatively higher risk. JUHUDI KILIMO (JUHUDI) was started in Nairobi in 2004 with the desire to fill this gap by exclusively targeting this part of the population despite the relatively high risk and extra costs involved.

JUHUDI offers a creative solution to this social problem by providing loans exclusively for the purchase of an agricultural income-generating asset. The income generated by the asset serves to repay the loan. At the same time, it reduces the risk for JUHUDI, since the asset serves as collateral should the farmer default on the loan. JUHUDI further provides training in business management and aims to strengthen partnerships with input providers, such as feed suppliers, to increase the yield on the asset and further minimize the risk of a default. The company's "B-Corporation Certification", which is given to corporations that "use the power of business to solve social and environmental problems" (B-Corporation, 2013), has made a great difference, as discounts on software systems have enabled JUHUDI to expand into new rural areas without extra cost. Furthermore, patient capital investors such as MFI KIVA proved to be critical to JUHUDI's success especially during the early stages. KIVA's approval encouraged additional interest and investment from other social investors such as the Acumen Fund, the Rockefeller Foundation and the Grameen Foundation.

Due to the costs and risk associated with operating in rural areas as well as the size and potential of the market, JUHUDI does not see any serious threat from competitors, at least within the next 5 years. The operations manager Benjamin stressed his motivation and job satisfaction. He explained that while he could be earning a much higher salary elsewhere, experiencing how JUHUDI benefits local clients gave him enormous motivation which he did not have in previous jobs.

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Insert table 1. about here.

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## Findings

All six cases in our study see themselves as social enterprises and all have achieved, or are striving to achieve, commercial viability in their pursuit of social objectives. The way in which these SEs have balanced social and commercial mandates offers a perfect setting for exploring the boundaries of social enterprise at the BoP. In the following, it will be discussed whether and how these Kenyan SEs relate to the - according to the SE literature – three defining features of SEs: 1. The primacy of social orientation; 2. The dichotomy between social and commercial orientation; 3. The harmony between social objectives:

### The Primacy of Social Orientation

As became evident from our literature review, the criteria for defining the firm as a social enterprise are manifold. However, it emerged that giving primacy to social objectives was widely seen as a pre-requisite for the firm to qualify as a social enterprise (Peattie and Morley, 2008; Boschee, 2006; Perrini and Vurro, 2006; Huybrechts and Nicholls, 2012; Dees and Elias, 1998). All six cases meet this criterion –at least initially - since they were all conceived with the explicit purpose to address a social issue. Interestingly however, while the six cases all define and perceive themselves as SEs, when asked to define their degree of social orientation the answers were as follows:

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Insert figure 3. about here.

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Three of the cases place themselves to the left of the scale (fig. 3) with primacy for commercial orientation and only three place themselves to the right with primacy of social orientation. JUHUDI explains how it has moved to its current position (from a high social orientation) and likewise, both KOMAZA and Farm Shop have aspirations to move to the far left of the scale. This leaves Pwani Feeds as the only company to the right of the middle, consistently giving primacy to social objectives. Overall this shows that most firms are becoming commercially oriented, or have the ambition to do so.

The perceived primacy of commercial orientation in at least five of the six case studies may be initially interpreted in one of two ways: (1) that the cases were never SEs as defined by the literature, or (2) that the cases merely pay lip service to social objectives while in reality they always strived to become commercial enterprises.

A third interpretation may however also be relevant, namely that the apparent primacy of commercial orientation is rooted in an in-adequate specification of the term *social orientation*. While *social orientation* appears frequently in the literature as a parameter for defining social enterprise (Dacin P.A., Dacin T.M. and Matear, 2010; Huybrechts and Nicholls, 2012; Massetti, 2008), the term itself is rarely



defined and is typically (mostly implicitly) linked to the enterprise's primary objectives and outcomes (see Dacin et al., 2010; Huybrechts and Nicholls, 2012). Although less commonly referred to in the literature, *social orientation* may also concern the *means* employed to achieve the enterprise's objectives (see Gras and Lumpkin (2012)). Thus, while the firm's stated social objectives may remain intact, its strategy, comprising the paths taken to achieving them can change as the firm increasingly views strong commercial performance as a necessity for reaching its social goals (see Austin et al., 2006 for a similar argument). From the latter interpretation, responses from the case firms may simply indicate that rather than shifting towards a commercial orientation in terms of their objectives, the paths the cases are taking or intend to take are becoming commercially aligned in response to market forces as they attempt to acquire the resources necessary to carry out their social objectives. That all six cases indicated a progression towards commercial means, suggests there is a time dimension to this observation, where the realisation of commercial means becomes increasingly apparent as the enterprise matures. This observation is perhaps best illustrated by KOMAZA and Farm Shop and their efforts to scale-up and improve the efficiency of their operations.

In terms of the implications for the SE literature the cases highlight a need to clarify the terminology that underpins social enterprise definitions: The tendency to link social output with social objectives and the lack of distinction between the firm's stated objectives and the path taken to achieve those objectives can lead to confusion, especially at the BoP, where means and ends are closely intertwined (Prahalad and Hammond, 2002).

### **The Dichotomy between Social and Commercial Orientation**

Our case studies also raise a deeper conceptual issue in relation to the SE literature. That is, whether it makes sense at all to maintain the dichotomy between social and commercial orientation, especially in regard to enterprises operating at the BoP:

In contrast to prevailing notions within the SE literature, which argue that commercial and social orientation occur at opposite ends of the scale (Dees, 1998b) and that firms must strike a balance to manage the trade-off between social and commercial objectives (Boschee, 2006), findings from the cases, which are all self-proclaimed social enterprises, suggest that commercial orientation and social impact are mutually supportive or at least are perceived that way. According to all entrepreneurs interviewed, the more commercial they become, the greater the social impact they create. Hence, it seems that on the one hand the case firms view social orientation as a precondition for commercial success, while on the other, they consider commercial success as a precondition for social orientation:

#### *Social Enterprise as Supportive of Commercial Viability*

When asked whether being a SE constitutes a competitive advantage in the BoP, all six cases confirmed. The reasons given were a mixture of access to low-cost funds, trust from the local community and

beneficiaries, increased sales due to the compelling story behind their businesses, and passionate and dedicated employees. In other words, the cases demonstrate that social enterprise status can be seen as a competitive advantage allowing firms to overcome BoP-specific business hurdles. This is illustrated by KOMAZA's business model, which relies heavily on social ties and trust among local communities to ensure access to the farmers' land, without which it would not be commercially sustainable. One of the main advantages of having a social DNA appeared to be ability to develop new markets. It was found that all cases except A&K have entered new markets in which no or little competition seems to exist. JUHUDI explains that it does not expect competition in the next five years and KOMAZA is not aware of any potential competitors. In this way, one can argue, in line with Chege (2007) that SEs are 'market builders', able to promote genuine development at the BoP through the creation of new market equilibrium and effectuation of social change.

#### *Commercial Viability as a Source of Social Impact*

At the most basic level, long-term social impact depends on commercial viability: if there are no commercial revenue streams, there is no impact. But equally important is the fact that the scale of impact depends on commercial performance. As the magnitude of the firm's social impact depends largely on the number of stakeholders it can reach (Spitzeck, 2010), an essential criterion for the success of so-called SEs is their ability to scale up their activities. Several of the cases focus on scalability, for instance, Tevis from KOMAZA specifically mentions that his business model was designed from scratch to be able to scale significantly across Kenya and Sub-Saharan Africa – otherwise he did not regard the impact to be significant or even relevant. Similarly, Ocean Sole realises that in order for it to maintain its high salaries and steady employment it needs to ensure continued commercial success.

However, other cases are less focussed on scalability; for example, A&K does not attempt to measure how many children in fact receive the footballs it produces, and the locations of its health campaigns are arbitrarily selected with non-existent or only limited follow up. Hence, the scale of its social achievements is at odds with the SE definition as outlined in the SE literature. Likewise, Julio from Farm Shop expresses content with reaching 150 agro-vets. Thus, Farm Shop's decision to consciously limit the scale of its operation brings into question the enterprise's commitment to social change as its primary goal, and again raises doubt concerning its SE status as dictated by the social entrepreneurship literature. Hence, while socially oriented firms can exist at small scale, the magnitude of their impact depends on commercial performance.

#### **The Implied Harmony of Social Objectives**

The SE literature typically distinguishes between internal beneficiaries of social orientation (e.g. employees) and external beneficiaries (e.g. communities, consumers, suppliers etc.) (see e.g. Yunus, 2008). Rarely are the trade-offs between internal and external social objectives discussed. However,

our six cases clearly suggest that the social goals, by which they distinguish themselves as SEs, are not always mutually supportive. It was observed that the social focuses of the six firms varied between internal and external beneficiaries, some choosing one at the expense of the other. In terms of the actual implementation of an embedded social enterprise business model, the most remarkable or controversial cases are perhaps A&K and Ocean Sole. From interviews with the owners it was found that the main group of beneficiaries of these two businesses were the employees (and the environment in the case of the latter). The owners of A&K define the company as a SE through “the creation of decent jobs at the BoP” and distinguish themselves from conventional businesses by providing better labour conditions than competitors: the salary given to the workers at A&K is at least twice that of competitors. Similarly, Ocean Sole offers its employees comparatively high salaries, longer holidays, paternity and maternity leave, free lunch and medical cover among other benefits. As such, the ‘social change’ these firms create, as maintained by Dees (1998a), is arguably limited. Simply put, the social objectives of both firms are directed internally towards employee welfare and do not address wider societal issues. Consequently, it becomes difficult to detect the difference between this type of business model and the business models of “*good normal businesses*” as Tevis from KOMAZA denominates them.

By contrast, Pwani Feeds illustrates the opposite extreme: While the company creates life-changing opportunities for its customers (small scale poultry farmers), its own employees work under poor conditions. One group of employees works in eight-hour shifts, physically loading 70kg bags on and off trucks. Another group controls the mixing of ingredients into the feeding mill. This is done in a noisy and dust-filled environment, with no ear protection or masks. Hence, the internal practices paradoxically oppose the external, which may result in legitimacy loss: the ‘SE label’ might backfire and become counterproductive when stakeholders including potential social investors realise this deviance in the company’s social orientation.

Hence, the six case studies reveal that efforts to deliver value to one group of beneficiaries can come at the expense of the other and that in some cases, a fundamental conflict between serving internal and external social beneficiaries exists. The cases that attributed their SE status to internal beneficiaries, by improving employment opportunities and standards, displayed little difference from regular enterprises in terms of the social benefits to external stakeholders. Furthermore, by concentrating their efforts on employees as their main beneficiaries, these enterprises found that their value propositions were at odds with the value they were able to deliver through scale and efficiency. Consequently, companies that adhere to market forces as prescribed by the BoP approach, and regard customers living at the BoP as their main beneficiaries, may indeed be better positioned to deliver large-scale social benefits than companies with a strong orientation toward internal beneficiaries (Battilana and Lee, 2014; Prahalad and Hart, 2002).

## Discussion and Implications

In sum, findings from the six cases question the received notion of social and commercial orientation as extreme points on a continuum where firms must face stark trade-offs between one and the other. It was found that while all firms began their operations with an explicit social agenda, over time they found that the boundaries between social and commercial goals became less clearly defined. These firms recognised that their ability to effectuate the social change for which they had been conceived was closely related to the commercial success and thus the scale of their respective operations. Similarly, these firms found that the attributes that defined them as SEs, such as their entrepreneurial capabilities and close interaction with local stakeholders, as well as the SE status itself, proved to constitute distinct advantages that allowed them to overcome many of the institutional and infrastructural challenges associated with doing business at the BoP.

This has several implications for the literature. Findings from the cases suggest that definitions of the SE that assume a trade-off between social and economic outcomes (Dees, 1998b; Zahra et al., 2008), do not adequately account for how the SE is conceptualised at the BoP. The advantages firms enjoy due to their SE status or the attributes associated with the SE archetype, represent incentives that all market-based firms will naturally strive for (see Dahan et al., 2010; Conner, 1991; Friedman, 1970).

Moreover, these findings support assumptions of the BoP approach, where social impact relies on the firm's ability to remain profitable. When firms neglect their commercial aims and focus their efforts on providing social goods as illustrated by Ocean Sole, they remain susceptible to market forces and competition, which may ultimately result in a reduction in social impact as they are forced to scale down their operations. The cases thereby contradict the assumed social/commercial trade-off outlined in the SE literature (Zahra et al., 2008; Dees, 1998b).

Finally, our findings mirror the literature's ambiguity in defining the SE according to its focus on external or internal beneficiaries (see Lumpkin et al., 2013). The cases demonstrated a split between internally and externally oriented agendas, suggesting a mutually exclusive relationship. This questions the co-existence of simultaneous (internal/external orientation) definitions.

Ultimately, one may ask whether it is at all possible to be commercially successful at the BoP *without* creating employment and/or contributing to poverty alleviation. In other words, are not all businesses operating at the BoP by definition social enterprises? The rhetoric used by the founders of the BoP literature essentially blurs the distinction between profit making and poverty alleviation by arguing that businesses can achieve both objectives simultaneously. In this way, it can be argued that the BoP literature embodies Friedman's well-known statement that "*the social responsibility of business is to increase its profit*" (Friedman, 1970). This has indirectly been supported by Simanis and Milstein

(2012) who contend that poverty alleviation is not a key competence of firms and should not therefore replace commercial objectives as the core focus of BoP projects.

Apart from these implications for the literature, our examination of the boundaries of SE at the BoP has implications for development practitioners. The criteria for defining the social enterprise, as shown in the literature review, is typically oriented around the firm's stated objectives and mission with less focus on the outcome or the means by which the firm achieves its objectives. As the cases illustrate, the firm's stated mission or agenda may have little to do with the final outcome. This was particularly evident from cases that focussed on internal beneficiaries such as Ocean Sole and Alive and Kicking. The apparent inconsistency between explicit social objectives and corresponding results speaks for a more nuanced approach to development funding. By basing investment decisions on ostensibly social categorisations, stakeholders, such as impact investors, policy makers and development agencies risk overlooking regular firms with equal or greater potential for delivering social or developmental improvements (see Sinkovics et al., 2014 for a similar argument).

An important caveat regarding the conceptual ambiguity of SE at the BoP must be observed: Although our conceptual study provides insights into the challenges of defining BoP organisations according to their social orientation, our data is limited to case examples embedded in the Kenyan business context. While the cases were able to illustrate discussions of SE definitions at the BoP, it is not known if the same challenges would pertain to a non-BoP context.

Further studies making use of comparative case study analysis from a range of both BoP and developed-country SEs, may provide valuable empirical insight into the conceptual clarity of the SE concept,

## Conclusion

This paper set out to explore the concept of the social enterprise as it is operationalized by firms at the BoP in Kenya. Three key assumptions regarding the nature of SE were identified, assumptions that are used in the SE literature to distinguish firms as social enterprises: (1) the primacy of social orientation, (2) the dichotomy between commercial and social orientation and (3) the implied harmony between various social objectives. When compared to findings from our six case firms, these assumptions were challenged:

First, where it was expected that firms give primacy to social orientation, it was found that in most cases, the enterprises became increasingly focused on the commercial aspects of their operations. This behaviour contrasts with definitions in the SE literature that give primacy to social objectives, and is more closely aligned with the BoP logic, where social impact is seen as a function of the firm's commercial success (Prahalad and Hammond, 2002). It was argued that this inconsistency can be explained by the vague notion of *social orientation* as it ambiguously appears in the literature. The

paper argued that the apparent conflict can be reconciled by making a distinction between the firm's (social) *objectives* and the (social) *means* employed to achieve these objectives. Thus, while the firm's stated objectives may remain intact, over time, the path it takes to reach them becomes commercially oriented as the firm responds to market forces.

Second, where a dichotomy between social and economic objectives was expected, it was found that all cases perceived these two agendas as mutually supportive. The very characteristics that defined these firms as SEs were perceived as a competitive advantage, allowing them access to patient capital and informal distribution networks as well as enabling them to operate in markets with little competition. This question the SE on a conceptual level: if indeed the attributes and status of SEs constitute a competitive advantage then a significant incentive for all firms to adopt this behaviour exists, which in turn undermines the distinction between social and other enterprises at the BoP. Third, where the SE literature tends to conceive social orientation as one-dimensional and harmonious, the cases displayed serious conflict between the pursuit of internal and external social objectives. In particular, it was found that the social missions of several cases were linked to internal beneficiaries and that this seriously constrained the scope for large-scale impact on communities and other external beneficiaries.

In short the argument is that the SE concept becomes illusive at the BoP, as commercial means increasingly take precedence to ensure social impact when project mature and as no business can ignore social impact if it is to succeed at the BoP!

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## List of figures and tables

**Figure 1. Dees' Social Enterprise Spectrum**

		Purely Philanthropic	← →	Purely Commercial
<b>Motives, Methods and Goals</b>		Appeal to goodwill Mission driven Social value		Mixed motives Mission and market driven Social and economic value
<b>Key Stakeholders</b>	<b>Beneficiaries</b>	Pay nothing		Subsidized rates, or mix of full payers and those who pay nothing
	<b>Capital</b>	Donations and grants		Below-market capital, or mix of donations and market-rate capital
	<b>Workforces</b>	Volunteers		Below-market wages, or mix of volunteers and fully-paid staff
	<b>Suppliers</b>	Make in-kind donations		Special discounts, or mix of in-kind and full-price donations
				Market-rate prices

Source: Authors' own construction based on Dees (1998b)

**Figure 2. The Business Model Canvas (JUHUDI KILIMO)**

<b>Key Partners</b> Funding partners (Grameen, Acumen, KIVA, GBF etc.) Loan interest from farmers Pro-bono service providers (e.g. IDO, Swiss contact) Insurance provider (CIC) Branch organisations and private research institutes (TechnoServe, EADD, SPADE, STRIDE)		<b>Key Activities</b> Provision of loans to farmers Training of farmers Assessment of farmers' collateral <b>Key Resources</b> Locally embedded employees Modern technology and software systems	<b>Value Proposition</b> To provide small scale rural farmers with micro credits earmarked for income generating assets and thereby fill the gap between commercial banks and MFIs. Altogether, this empowers hitherto un-served smallholders as they – besides the loan – receive training in loan management and management of the asset.	<b>Customer Relationships</b> The locally embedded employees maintain close contact with the farmer before, during and after the loan <b>Channels</b> Motor vehicles and bicycles	<b>Customer Segments</b> Small scale rural farmers Farmer organisations
<b>Cost structure</b> Transport & logistics Human resources Defaulting clients Training of farmers			<b>Revenue Streams</b> Debt & equity from social investors (and soon commercial investors) Pro-bono services offered by 'friends' (e.g. assistance, training of staff, marketing) Client intake (registration fee and passbook) Loan interest from clients Grants (approx. 50,000 USD/year)		

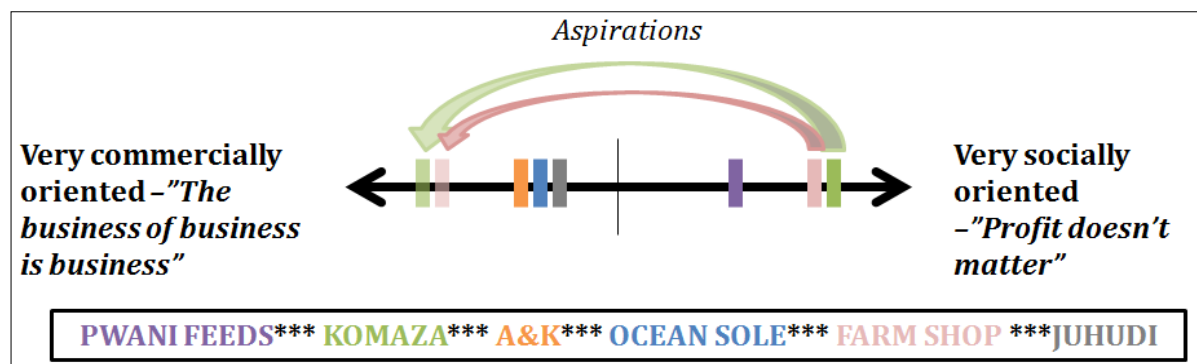
Source: Adapted from Osterwalder et al. (2010)

**Table 1. Summary of Cases**

	<b>Pwani Feeds</b>	<b>KOMAZA</b>	<b>A&amp;K</b>	<b>Ocean Sole</b>	<b>Farm Shop</b>	<b>JUHUDI</b>
<b>General company facts</b>						
Industry	Agro processing: Feed production	Agro-processing: Micro-forestry	Football production	Recycling of waste and production of crafts	Agro-vet franchising	Micro Finance Institution (MFI) within farming
Years of operation	11 (est. 2002)	8 (est. 2005)	9 (est. 2004)	8 (est. 2005)	2 (est. 2011)	9 (est. 2004)
Number of employees (approx.)	130	112	60	85	7	72
Approx. Yearly revenue, USD.	Confidential	1m. (2012)	489,462 (GDP 321,860) (2011)	150,000 (2012)	200,000 (2013, est.)	1.896.050 (financial revenue and revenue from interest) (2012)
Autonomy from state	Yes	Yes	Yes	Yes	Yes	Yes
Transparent accounts	No	Yes (so far)	Yes	No	No	Yes
<b>Commercial viability</b>						
Being an SME	Yes	Yes	Yes	Yes	Yes	Yes
Profitable (has reached its point of break-even or has plans to reach it within 10 years of operations)	Yes	Yes (estimated)	Yes	Yes	Yes	Yes
Positive future outlook: big and/or growing market	Yes	Yes	No	Yes	Yes	Yes

Source: Enterprise managers/owners and company websites.

**Figure 3. Social/Commercial Orientation Scale**



Source: Authors' own construction