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## Profit or Purpose: The Dilemma of Social Enterprises

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## Profit or Purpose: The Dilemma of Social Enterprises

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### Abstract

This paper examines the literature and practice in the field of social entrepreneurship. We specifically examine the diverse organisational forms under which Social Enterprises are undertaken and the dilemma they face when these enterprises grow.

The literature is ambiguous on what constitutes a social enterprise. While each of the definitions talk about solving a problem that has not been hitherto examined effectively either by the market or the State, the orientation of the enterprises are not very clear in the literature. We examine the three strands of enterprises that are classified as social enterprises and their organisational form.

Each organisational form has its own imperatives on growth and pressures it may have to yield to in an attempt to remain relevant. Using several examples from literature, we examine these pressure points and its implication on the purpose that the organisations are striving to serve. In the process we examine as to how much the motive for profits puts pressure on the purpose of the organisation.

Each of these three strands provide interesting counter examples to the economic argument of an organisational form. We finally conclude the paper by emphasising on the importance of [a] hard-coding some elements in the choice of the client group or the 'purpose' and [b] having a governance structure that helps the organisations to remain focussed on the 'purpose'. We also conclude that of the three forms of enterprise, by design, it appears that the co-operative form might be the best form of incorporation for a social enterprise, subject to certain caveats.

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## Profit or Purpose: The Dilemma of Social Enterprises<sup>2</sup>

### Defining a Social Enterprise

Social Enterprise/Entrepreneurship has had an elusive definition, because it represents different things, depending on the vantage point from which one is looking at an enterprise. However, such enterprises are considered “socially oriented” and “different” from mainstream enterprise. Often it is difficult to describe the difference. For instance, Leadbeater (1997)<sup>3</sup> described social entrepreneurship as *“The use of entrepreneurial behaviour for social ends rather than profit objectives, or alternatively, that the profits generated from market activities are used for the benefit of a specific disadvantaged group.”* In such a definition the stand about profits is rather agnostic. Alternately Dees (1998)<sup>4</sup> lists five attributes of what could be defined as social enterprise which includes [1] adopting a mission that creates social value; [2] pursuing opportunities to serve the mission; [3] innovating; [4] not being tied down by lack of resources; and [5] exhibiting accountability to the “constituencies”. All the definitions of social enterprise tend to put profits either as secondary or as incidental to the cause or problem that one is trying to address. Yunus and Weber [2009]<sup>5</sup> for instance, propogate a distinct concept of social business, where enterprises to run as businesses that earn profits, but redeploy the profits in furthering the mission of the enterprise, rather than pay out the investors. For them the mission of the enterprise should address a large scale social problem. One of the most elegant definitions of such enterprises was given by Thompson and Doherty (2006)<sup>6</sup> *“Social enterprises – simply defined – are organisations seeking business solutions to social problems.”*

We see that all definitions discussed above are about finding a solution for a social problem. Usually the solutions are to be found in the economic space. A detailed review

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<sup>2</sup> This is a revised version of the TS Rajan Memorial Lecture delivered on 21<sup>st</sup> January 2011 at the Institute of Rural Management, Anand. Thanks are due to Prof. Ankur Sarin of IIM-A for providing useful feedback on the manuscript.

<sup>3</sup> Leadbeater, C (1997): *The Rise of Social Entrepreneurship*, London: Demos.

<sup>4</sup> Dees, J.G., (1998): *The Meaning of Social Entrepreneurship*, Available at [http://www.caseatduke.org/documents/dees\\_sedef.pdf](http://www.caseatduke.org/documents/dees_sedef.pdf) accessed on 14th August 2011.

<sup>5</sup> Yunus, Muhammad and Karl Weber [2009]: *Creating a World Without Poverty: Social Business and the Future of Capitalism*, New York: Public Affairs

<sup>6</sup> Thompson, J., & Doherty, B., (2006), ‘The diverse world of social enterprise: A collection of social enterprise stories’, *International Journal of Social Economics*, 33(5/6), 399-410

of 41 definitions by various authors by Roy [2010]<sup>7</sup> shows that almost all the definitions talk about “solving” or intervening in a social problem, a problem that has not been addressed effectively by the markets. While several definitions locate the social enterprise in the economic space, none of these definitions put earning profits as a primary goal. The theoretical world sees “social” enterprise as an enterprise with a purpose that helps a large number of people in a positive way. While doing so, it may or may not earn surpluses.

In practice social enterprise in day-to-day parlance finds three strands of thought. All strands deal with the poor/ the bottom/base of the pyramid or deprived communities and problems related to them. The difference is in how they look at this target segment.

The first strand is led by the development oriented practitioners like Yunus [Yunus and Weber, 2009]<sup>8</sup>. The market or the state may have failed in providing some essential services. This failure is to be addressed so that the poor have access to a decent livelihood. The social enterprise [business] should serve this need. In the process if the business makes profits, that is incidental. He further argues that when we make surpluses out of such businesses, these should be applied back into the business to continue to solve the problem and not enrich the entrepreneurs. The primary goal of such businesses should be to exist for a “purpose” as an end in itself, extending beyond the concept of economic benefits sought by a regular business enterprise.

The second strand of social enterprises are the commercial enterprises promoted and managed by the communities themselves. Practitioners like Kurien [Kurien and Salvi 2005]<sup>9</sup> advocated such enterprises. Literature on social enterprises, in general tends to ignore co-operatives. It may be because the logic of co-operatives [if successful in spirit] is embedded in the commercial sector [like Amul] that we take it as a part of the market solution and not as an intervention in a situation of a market failure. However, when co-operative principles are violated, we see that co-operatives get embedded in the State. The credit/ agricultural/ handloom and other co-operatives stand as examples of this phenomenon. In mapping “social enterprises” we need to recognise this distinct form of

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<sup>7</sup> Roy, Parthasarathi [2010]: “Social Entrepreneurship: Literature Review and Operational Definition” Unpublished manuscript. Anand: Institute of Rural Management.

<sup>8</sup> Yunus and Weber [2009]: Op.Cit.,

<sup>9</sup> Kurien, Verghese and Salvi, Gouri [2005]: I too had a dream. Delhi: Roli Books

organisation for economic exchanges. This form provides an alternative when there is a failure of a capital led model. Co-operatives are based on commonality of purpose with patronage being primary and capital contribution being incidental [ICA, 2011]<sup>10</sup>.

The third strand may be loosely called as the Bottom of the Pyramid [BoP] [Prahalad 2005]<sup>11</sup> model. Thinkers advocating this strand would look at this community waiting to be integrated with the market system. They are consumers who should rightfully have access to goods and services enjoyed by the privileged. Providing access to services and making markets inclusive could be a mission in itself. Therefore, any enterprise that targets the poor and provides exclusive solutions to the poor is a social enterprise. Usually such enterprises are also for-profit enterprises that provide returns to their investors. The level of returns and the patience of the investors vary widely but the idea is to subject themselves to all the rigours of a market based institution. This strand looks at the poor as consumers of goods and services at accessible price points. The non-negotiable in this model is the bottom line. That an enterprise is working with the poor, or a challenged community is a niche that the organisation has chosen and it is okay to take the brownie points emanating out of that and extend the bottom line to a double bottom line. However, this school argues that even to achieve the second bottom line of serving the deprived community, there should be a breakthrough in the first bottomline [Akula 2010]<sup>12</sup>. If this segment of the society was to be served on a sustained basis, there should be an inherent economic logic for the organisation to exist and that logic is found only in the for-profit format. This school represents “profit”.

If we place the organisations/enterprises/businesses that have taken up the cause of providing access to goods and services that address the needs of the poor, coupled with the models discussed above, we then place the enterprises that serve the poor in-between purpose orientation and profit orientation with various mixes of purpose and profits. In this spectrum, social enterprises are not to be confused with Non Governmental Organisations [NGOs]. While there could be social enterprises that could be NGOs, not all NGOs can be classified as social enterprises. Since the words

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<sup>10</sup> ICA: Statement of Co-operative Identity, accessed from <http://www.ica.coop/coop/principles.html> on 6th August 2011.

<sup>11</sup> Prahalad, CK... Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits. Upper Saddle River, NJ: Wharton School Publishing.

<sup>12</sup> Akula, Vikram [2010]: A Fistful of Rice: My Unexpected Quest to End Poverty through Profitability. Boston: Harvard Business Press.

enterprise and entrepreneurship represent economic exchanges, we restrict our discussion of the Social Enterprise to the economic sphere of activity.

### **Mapping Social Enterprises**

Social enterprise is not only fuzzy from a definitional point of view, but falls between three organisational forms. Ideally the organisational form would define the orientation of the organisation.

If the form is a not-for-profit entity [Society, Trust, company incorporated under Section 25 of the Companies Act], then it would be non-exploitative towards its constituency as it does not have the pressure of servicing the investor. Theoretically it has no incentive to retain any benefits accruing on account of efficiency gains either with itself nor does it have the mechanism to pass it on to somebody else.

If the form is a co-operative, ideally it should maximise the returns on patronage and would have no pressure to service the shareholder in any other form. By definition all efficiency gains go to the shareholder member as per patronage and de-coupled from the capital contribution.

If the organisational form is for-profit firm where investors and the consumer are de-coupled, it is likely that efficiency gains will disproportionately go to the investors, unless a large number of players enter the fray and the competitive forces make the business customer friendly. [If this indeed happens, then the purpose is achieved where market failure would have been addressed].

Having laid out the definitional and organisational form issues we delve on the issue of the schism between purpose and profit picking up a series of examples that have been called as social enterprises.

## Not-for-profits

The not-for-profit form of organisation would not be attracting investors. This form of organisation – even in the economic space – is used when the promoters want to signal that they are in it for a purpose. Traditionally such organisations have emerged in areas that could be roughly termed “entitlements”. Health, Education, Water, Nutrition, and anything to do with services that should not be denied to somebody on the basis of affordability. Forming a not-for-profit is a powerful signalling mechanism in areas where larger public interests are involved.

However, being a not-for-profit throws some challenges the principal problem being the ability to grow beyond a certain size. This is a result of the limitation on retention and reinvestment of surplus. Not-for-profits usually drive down the revenues to generate only reasonable level of surpluses, the resources available for reinvestments could not be substantial.

In a for-profit organisation residues [after paying off all the service/factor providers] on a current basis are paid as dividends; the investors are also eligible to get residual claims on liquidation after paying out all outside liabilities. Neither is possible in a not-for-profit organisation. These resources are termed as public purpose [or charitable] funds, and all surpluses by definition further the ‘purpose’. In such a situation, the firm can grow on the basis of internal accruals or further infusion of funds from donors. At scale, it is difficult to access large scale donor funds. The donors will have conflicting demands on their resources and they would like to contribute to causes that are more pressing.

Another aspect that determines the availability of continued funding pertains to traceability and monitoring of the funds. In a small organisation, it is much easier to trace the grant funding to a particular usage. As the organisation becomes larger, this becomes difficult and the signalling ability of non-profit status starts fading as they become big [Sarin 2011]<sup>13</sup>.

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<sup>13</sup> Sarin, Ankur [2011]. Personal Communication.

Enterprises working in this format may not have delusions of size and growth. But how do such enterprises keep their staff and workers motivated? A ‘purpose’ may be a good motivator to carry on and the ‘purpose’ translates to growth or diversification. Let us examine a small hospital in Vallabh Vidyanagar as an example. While this is run by the Nagar Panchayat [local self government] and thus an enterprise of the Government, it could very well be a hospital run by a not-for-profit organisation [Sriram, Jairath and Sinha, 1995<sup>14</sup>, Sriram, 2000<sup>15</sup>]. This hospital was set up as a primary healthcare centre. When this hospital becomes efficient and starts delivering services to the poor and at a price that is far lower than any alternative source, it serves its purpose, but possibly does not earn resources for redeployment in making the hospital modern and sophisticated. The Chief Medical Officer [Dr. Balchandani] came up with this problem as a student project. The students suggested cross subsidization through a pharmacy, found suppliers of generic medicines, ensured that the inventory management system was in place and created a win-win situation. The hospital grew in services, donations poured in the hospital became profitable while serving the purpose. If it were a primary healthcare centre, should it be dispensing medicines? Should it have a pathology lab and a radiology unit? Should it have visiting obstetricians and ophthalmologists? Should it have a dental unit? Each one of these questions could be answered in the positive because there is a micro-argument as to why the poor need to be served with these specialised services. How and where is the line that distinguishes the primary healthcare centre and a multi-speciality hospital drawn?

The personnel in the hospital were compensated below the market rates as they were governed by the rules of the Panchayat. In an organisation where compensation levels are no on par, how do we get passion? The explanation is complex, but the team got an intangible “pride” in extending the ‘purpose’ of serving people at an affordable cost, with greater sophistication.

While being in the health sector, we shift to Christian Medical College and Hospital in Vellore as an example, which started like the Nagar Panchayat Hospital in the early 20<sup>th</sup> century. Where is it now? It continues to serve the poor, but not exclusively. It is no

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<sup>14</sup> Sriram, MS, Jairath, Divya and Sinha, Prashant [1995]: *Nagar Panchayat Hospital (A)* Vikalpa, the Journal for Decision Makers, Vol.20, No.4. October-December 1995 Ahmedabad: IIMA.

<sup>15</sup> Sriram, MS [2001] *Nagar Panchayat Hospital (B)* Vikalpa, The Journal for Decision Makers, Vol. 26, No.1 January-March. Ahmedabad: IIMA

longer a primary hospital. Patients come to CMC from across the world. The medical care it offers is so sophisticated that the primary medicare facility is an insignificant part of its activities.

In such organisations, the driving forces are employees – the skilled and knowledge workers and not the governing board. The board believes in the purpose hires employees who serve the purpose more than for pecuniary considerations. The employee's position in such organisations comes with moral superiority. They would therefore seek alternative forms of compensation like autonomy. It is common in specialised institutions like hospitals, educational institutions, which are run by knowledge workers, who are well qualified with lucrative alternative careers. Here, growth gradually may lead to a mission drift. If the drift does not happen through employees seeking autonomy, then pressures on market linked compensation would grow, leading to skimming of finances above the line, leaving little for reinvestments. The pressure to distribute of surpluses will move above the line - to people who call the shots from within.

But not all organisations need to drift. There are institutions, that have grown and avoided the pitfalls of a drift. The Bhagwan Mahaveer Vikalng Sahayata Samiti [BMVSS] that produces the famous Jaipur Foot and Aravind Eye Hospital are two such instances.

BMVSS [Pralhad, 2005]<sup>16</sup> never had a corpus. It is run by the Mehta brothers, and has survived, and grown. In spite of the growth, the organisation is on a hand to mouth existence, cutting down plans if it cannot generate resources. The focus of BMVSS is on providing artificial limbs to all without a charge. Whether the recipient is poor or not is not of concern for them. The single minded concern is, if a person comes with a problem that could be solved s/he should return with a solution. Resources would incidentally flow. The unwavering focus on 'purpose' has helped the organisation to focus on the critical aspects – cutting costs and increasing the effectiveness of the solution through research.

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<sup>16</sup> Prahalad, CK [2005]: Op.Cit.,

Aravind Eye Care [Prahalad,<sup>17</sup> Rangan<sup>18</sup>, ] focuses on eliminating avoidable blindness. It is structured as a not-for-profit but works on a model of cross subsidisation by charging patients who want extra benefits. Nobody in Aravind asks whether the patient is poor or not. If certain physical facilities like a cot, a private ward are desired, the charges are higher. The actual quality of the service is maintained for both segments by rotating the people who attend to the non-paying and paying patients and pro-actively looking for poor patients who may otherwise not come to the hospital. The focus thus is on 'purpose'. In BMVSS the risk of a drift from purpose was avoided by ensuring a grant based revenue model. Once free service has been made non-negotiable, there isn't no discretion at client level. The case of Aravind is more complex. The cross subsidization is applied through physical demarcation of the spaces and porting the discretion to the customer rather than the professionals. Aravind was run by a closely knit family with deeply shared values might have helped it to serve the 'purpose'.

These organisations are hierarchical; have standardised systems; and are cost-efficient. Unlike CMC which is a multi-speciality hospital Aravind focusses on eyecare specifically on cataract and lens implants. The end-service is non-discriminatory, after they have developed low-cost of Intra-ocular lenses. The staff would not be able to differentiate between paying and non-paying customers in its core product. The case of BMVSS is similar, the product-service is standardised – focussing on lower limb replacements for its beneficiaries. The customisation to be done for each patient is through standardised process that does not need much of intellectual inputs.

Narayana Hrudayalaya [NH] [Rangan, Khanna and Manocaran, 2005]<sup>19</sup> is another organisation that also serves the poor. It is a for-profit model. Because NH is structured as a for-profit entity, the model articulates the double bottomline imperative. So, unlike Aravind, NH does not actively go looking for the poor. Instead they provide service to the poor who walk in. They specifically earmark a part of their revenue and raise funding through a foundation for this purpose. In addition NH focusses on cutting costs, to make healthcare less expensive. Serving the poor is not their main business, but they actively

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<sup>17</sup> Prahalad CK [2005]: Op.Cit.,

<sup>18</sup> Rangan, V. Kasturi. "Aravind Eye Hospital, Madurai, India: In Service for Sight, The." Harvard Business School Case 593-098. Boston: Harvard Business School.

<sup>19</sup> Khanna, Tarun; Rangan, V Kasturi and Manocaran, Merlina [2005]: *Narayana Hrudayala Heart Hospital: Cardiac Care for the Poor*. HBS Case Series N9-505-078, Boston: Harvard Business School

resources to serve the poor. While literature has termed both these enterprises [Aravind and NH] as social enterprises, we see the difference between the primacy of purpose and profits. They are driven by their incorporational imperatives and how the promoters have articulated their “social enterprise”.

While this debate goes on, Professor Yunus [Yunus and Weber2009]<sup>20</sup> has suggested a new design of a social enterprise – the Social Business. The formulation of a social business is similar to that of a not-for-profit enterprise, with a proviso for the promoters to take out their investments without any premium or return. He proposes that an investor put in the initial capital and the business operates in the market like any other business, but after carefully picking up a large social problem [Grameen-Danone for instance, tries to work on malnutrition by selling fortified Doi]. Having identified a problem/opportunity, approach commercially through a social business. This business will repay the initial capital provided by the investors as it generates internal accruals, and will continue to grow by reinvesting profits. There is no other take out for the promoters.

### **Co-operatives**

Theoretically co-operatives are elegant social enterprises. Infact, one variation of social business suggested Yunus is the co-operative model. He argues that if the community owns the business, then they should be allowed to share the returns [Yunus and Weber, 2009]<sup>21</sup>. That is how Grameen Bank is structured.

Co-operatives function on the principle of mutuality –people with common needs gather and the residues are shared on the basis of patronage rather than capital. However, like the not-for-profit enterprises discussed above, they suffer from a possibility of drift. Co-operatives do not allow for residual claims on liquidation. The members get only their share capital back. Accumulated profits are not distributed, because the co-operatives operate on a principle of open membership. Therefore the set of people who have a common cause could be dynamic. This results in the ‘horizon’ problem. Since there are

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<sup>20</sup> Yunus and Weber [2009]: Op. Cit.,

<sup>21</sup> Yunus and Weber [2009]: Op.Cit.,

no claims on accumulated profits members do not tend to invest more in the business thus hampering growth.

The may emanate as in the case of Dairy co-ops through heavy outside investments and through internal accruals. Internal accruals are denial of distribution of current income. Thus the resources in the co-operative are not necessarily the member identifiable “stakes”. Such structuring results in member apathy making the co-operatives vulnerable to a capture. This is even more pronounced in federal co-operatives where the primary stake holder is represented through a representational democracy.

In a co-operatives there is little dilemma between profits and purpose. The pay-offs of the profits are fully aligned with the purpose. We therefore argue that co-operatives are the most elegant form of social enterprise. In case of co-operatives like in not-for-profits, there are issues of growth and drift but not dilemma. However co-operatives may be unsuitable to run certain activities which do not have a regularity of aggregation.

### **For-Profit Social Enterprises**

The for-profit social enterprises deal with issues pertaining to the poor and vulnerable while being structured as investor oriented firms. These firms face several questions, because of the structuring. When a not-for-profit enterprise moves away from its mission, it is not often that the drift is recognised and questioned. However, the for-profit enterprises have to be ready for the accusation of drifting or even profiteering.

The logic of the for-profit social enterprise is as follows. Any problem needs a sustainable and scalable solution. These solutions come from models that work in their own self-interest. There is no greater self-interest than profits. The organisational form that is most suited is a for-profit enterprise. There are additional arguments – these problems need the the best talent who are paid market salaries and have the best practices to run the business efficiently. Even social enterprises need modern management tools and these tools best reside from where the emanated – in the corporation.

A double bottom line of doing good and doing well has a subjective proportionality on how much 'good' and how 'well'. Even the performance benchmarks will be subjective. Organisations like Aravind, BMVSS and the co-operatives overcome this by keeping employee compensation far lower than the comparable peers, signalling austerity and identification with the 'beneficiary'. They may be accused of 'inefficiency' by modern day management parameters. If the internal management and systems of some of the social enterprises may have scope for professional inputs to come in. The call then is, whether the additional inputs will also bring in a cultural change. This dilemma is real and stark.

Fabindia [Khair and Prabhakar, 2007]<sup>22</sup> is an example where we can examine this in greater detail. When John Bissel set up Fabindia as an export house and a single store in Greater Kailash in Delhi, it was an enterprise that helped the artisans to find international and upper-end markets. Once his son William Bissel took over the operations and decided to grow, there are questions on whether there is a mission creep.

Under William Bissel, Fabindia has professionalised, revamped its supply chain, innovated the way it connects with its weavers and helped them to set up localised companies. However, over a period, Fabindia has moved from 'handlooms only' to getting bits and pieces of power loom material, storing organic food and continuing their original line of furniture. From being exclusively handlooms to gradually stocking some material from powerlooms is a case in point. While the intent of working with artisans is in tact, the internal norms was modified from exclusive artisanal products to products with artisanal elements. A block print on a power loom fabric, a button that comes from areca shells, or even an embellishment on the corner of a dress would have an artisanal element. This is a shift from what Fabindia had articulated in the past.

Two aspects drive this shift. Fabindia got significant professional inputs and started planning like any other large corporation involving targets of number of outlets, topline and bottomline numbers. Fabindia also went in for an acquisition of a UK based label – East. It modified its image of being only in heritage and exclusive buildings to move into malls and corner shops. A non-charitable way of looking at this change is to say that

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<sup>22</sup> Khair, Mukti, and Prabhakar (PK) Kothandaraman [2007] "Fabindia Overseas Pvt. Ltd." Harvard Business School Case 807-113. Boston: Harvard Business School

they are driven by profits and turnovers and lament that it is taking the focus away from the artisans by focussing on the growth. A charitable analysis is: If the market is expanding, it is a good idea to occupy the market and pass on the efficiency of the expanded market to the artisans through better pricing. Was the growth in the non-artisanal segment coming from the shrinkage of the artisanal segment in absolute terms?

Fabindia having positioned itself as a social enterprise is called to answer these questions on drift. If for instance, and other mainstream label like Shoppers' Stop stocked artisanal material, it would have been hailed as an organisation that showed social consciousness.

The location of ITC's E-Choupal in the popular imagination, is to be understood from this perspective. The analysis of the position depends on which end of the enterprise segment the business has emanated. If the enterprise is moving from the far end of the for-profits perspective towards 'social' it is seen as a shift in the direction of responsibility. It also depends on how the business articulates itself – if the business is constantly packaging itself by articulating issues of poverty and vulnerability or about artisans rather than the markets such enterprises will be scrutinised more rigorously on that part of the bottom line.

The milk co-operative movement in India did not attract criticism of 'drift' because of the alignment between the beneficiaries and growth pay offs. The more Amul commercialised, the more it benefitted the milk producers who were small and marginal players. In spite of the alignment, there was criticism from social scientists led by Baviskar and George [1988]<sup>23</sup>. They held that the success of the dairy movement and its commercialisation made selling milk so lucrative that it deprived nutrition for the family members of dairy farmers.

What this indicates is that, while there could be alignment of pay-offs, there is an underlying question of "fair" distribution that a social enterprise will be called to

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<sup>23</sup> Baviskar and George [1988]: Development and Controversy, National Dairy Development Board. *Economic and Political Weekly*, Vol. XXIII, No.13, Mumbai: Sameeksha Trust.

address. In all the three models growth is a goal. But the question to deal with is how the benefits of the growth are distributed in the alternative structures.

It important to understand the process of distribution. In case of co-operatives it is codified. In for-profits it is left to the discretion of owners of capital. A co-operative cannot grow without its members unless it drifts, while a for-profit can grow irrespective of the beneficiary. Therefore growth in for-profits needs to be scrutinised carefully [Sarin 2011].<sup>24</sup>

The question of whether for-profit social enterprises be designed to stay on course to the ‘purpose’. There are two instances we would like to illustrate. SELCO Solar systems specialises in providing solar lighting solutions to the rural poor. SELCO is structured as a for-profit organisation because the promoter Harish Hande believes that you need to stand out in a world that is constantly driven by subsidies<sup>25</sup>. He believes that subsidies build inefficiencies, and therefore the positioning as a for-profit is necessary. However Hande had the passion and not resources for investing in a cause he believed. Capital and entrepreneurship were fully de-coupled. In a mainstream corporation, the interests of the entrepreneur and that of the investor converge on returns. It is complex in a social enterprise which is structured as a for-profit company. As growth happens, the corporation may take a direction that the original promoter/mission did not want to head in, just out of the inevitability of the situation that the entrepreneur did not have enough capital to invest.

At one stage, SELCO became vulnerable to this pressure from the investors and it took some serious juggling to get SELCO back to what it was designed to do, provide customised solar lighting solutions for the poor<sup>26</sup>. This instance just indicates the conviction of the leadership is as important as the organisational structure. In this instance the mission creep was prevented because of the conviction of the entrepreneur. When we examine the for-profit model closely it is possible to see the vulnerability of the purpose when profits take over.

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<sup>24</sup> Sarin, Ankur [2011]: Personal Communication.

<sup>25</sup> Hande, Harish [2010]: Personal Communication.

<sup>26</sup> Choosing Investors: Matching Money with Mission, a section from the multimedia case on SELCO, under the Design and Social Enterprise Case Series of the Yale School of Management, available at <http://nexus.som.yale.edu/design-selco/?q=node/95>, accessed on 14<sup>th</sup> August 2011.

A former investment banker Dhruv Lakra set up a courier company that works exclusively with the deaf. He insists that it was important for him to set the company up [Mirakle Couriers] as a for-profit because he wanted to make a statement about mainstreaming the challenged and what better way to do that than to set up a for profit enterprise?<sup>27</sup> Mirakle's objectives and mission, like Aravind Eye Care is codified in its business. It does not matter whether it is eventually a for-profit or an not-for-profit enterprise. As long as the employment conditions are not onerous to the deaf, Mirakle will be regarded as a 'social enterprise' irrespective of the profits it earns. Mirakle works in a highly competitive industry of couriers. While Mirakle has to compete with the mainstream couriers, its administrative overheads are bound to be higher because the challenges of working with people with disabilities. At the same time, nobody will pay Mirakle a premium for its services [Bansal, 2011]<sup>28</sup>. Mirakle will always be less profitable than the industry peers unless they find some super-efficient means of cutting costs. In case of Mirakle the purpose overwhelms because it is entering into employment generation in a highly competitive market. His beneficiaries are not the beneficiaries of the service and thus his parameters will be measured not on the price he charges for the couriers but for the compensation his employees get. In this example we find a fine balance between purpose and profits.

### **In Conclusion: Ultimately it is Governance**

In summary the following issues help in understanding the space between purpose and profits.

1. Enterprises articulating double bottom line invite scrutiny. While the profits can be measured, measuring the purpose becomes subjective and contentious.
2. The scale applied will be subject to the positioning of the enterprise. If the enterprise starts at the profits end and moves towards the purpose, it is usually seen in a positive light. If it is obverse, it is seen with suspicion.
3. Even not-for-profits are subject to capture and skimming above the line and subject to mission drift. Being incorporated as a not-for-profit does not assure

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<sup>27</sup> Lakra, Dhruv [2011]: Personal Communication.

<sup>28</sup> Bansal, Rashmi [2011]: The Sound of Silence – in I Have a Dream: The Inspiring Story of 20 Social Entrepreneurs who found news ways to solve old problems. Chennai: Westland.

the adherence to purpose. In this form of organisation vulnerability usually comes from the employees.

4. Co-operative form of incorporation appears to be the ideal form for social enterprises.
5. For-profits that have double bottom line have a great vulnerability to tilt disproportionately towards profits and get questioned on purpose. However, when the activity is well defined and focussed as in case of Mirakle couriers it is likely to last without this dilemma.
6. As long as the management/governance remains steadfast about the purpose, the form does not matter. For-profits are vulnerable when the governance blinks or when succession happens.

Good Governance will negate the advantages/disadvantages of organisational forms. However, good governance is not codified and is difficult to implement. It is possible to prescribe the characteristics of what makes an ideal board that results in good governance. However, the people on the board should understand the mission, should be independent and vigilant against mission drift. However, history proves that while the governance might appear to be independent, it still might not keep the organisation from drifting.

Board decisions are largely dictated by the facts, figures and proposals that the management makes. It is rare that the governance structure takes suo-motu steps to steer the organisation. It could happen with a set of individuals sitting on the board at a given time, but not by their CVs. While prescriptions on the board structure and the governance structure can prevent certain profiles of people coming on, it does not assure that the right profile of people actually come in. Experience shows that even the so called independent board members turn out to be from a familiar circle of the promoter/management and true independence is rarely exercised.

Neither the orientation towards profits nor the commitment to purpose can be genetically engineered. However, we can certainly keep examining and re-examining this issue, to arrive at our conclusions.