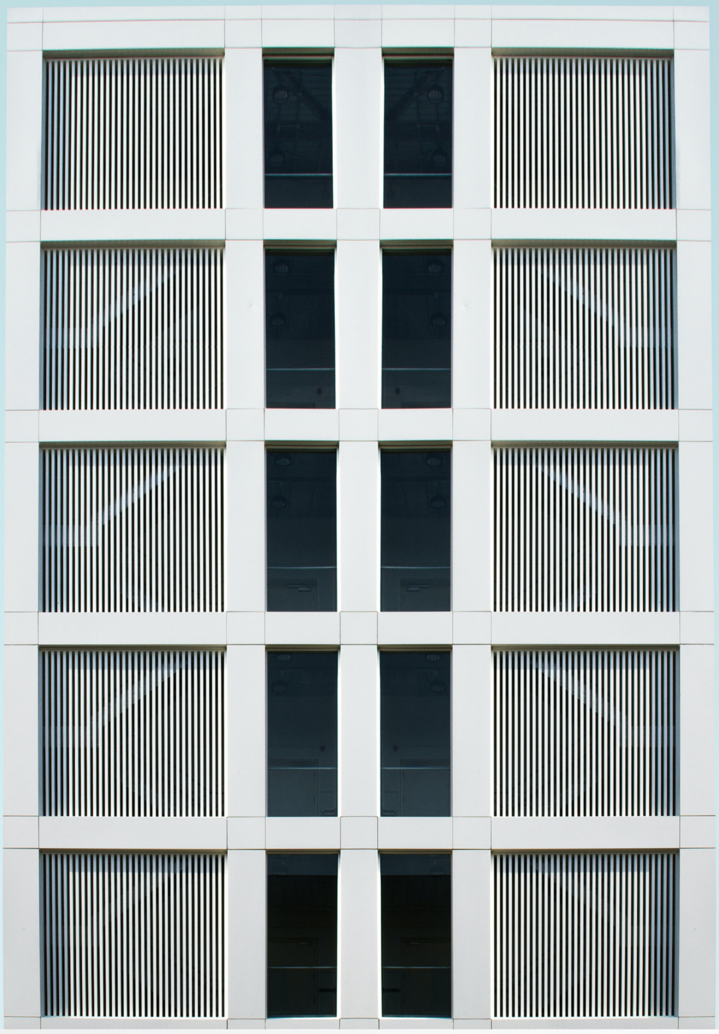
INNOVATE 4 GOOD

Bridging the trade-off between capitalism and social impact to drive transformational change for shared prosperity



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Abstract

With a high expectancy of recorded failure of 90 per cent,[1] start-ups already face an uphill climb to success. As for social enterprises, the stats reveal that out of those that remained operational, 38.3 per cent survived less than one year and only 5.2 per cent lasted more than 10 years as a company.[2] There is an urgent need to change this scenario and put new ideas to work. The case proposes the concept of 'transformational entrepreneurship' as a way to help purpose-driven start-ups to scale and be successful for profit and for social impact. The case examines the changing face of 'business as normal', and the emergence of a new socioeconomic model that promotes stakeholder capitalism, purpose-driven leadership and private sector engagement alongside government policy to help foster social impact innovation and strategies for sustainable growth.

The case analyses the MENA region and finds that a high youth demographic and unemployment, coupled with regional instability, has resulted in chronic socioeconomic issues. As jobs become increasingly difficult to find, entrepreneurial activity, along with social impact is seen as the way forward, however, start-ups struggle to survive in an ecosystem that is not mature or supportive, yet. The case finds that one significant reason for this is simply the erroneous default in the minds of private investors, financial institutions and policy makers, assuming that any entity with a social agenda must be an NGO and would fall under the purview of philanthropy and cannot be profitable.

The case was being developed as the Covid19 pandemic hit the world, and early surveys and learnings showed that though this was projected to be an even more challenging time for start-ups and social entrepreneurs, it was also a time for different start-up opportunities, innovative business models, new job creation, more local collaborations, philanthropy and policy changes.

The case reveals that we are at a defining moment in history, and the future of the business industry hinges on whether or not it is able to go through a paradigm shift in its role in society. Globally, and in the MENA region, social entrepreneurs are on the rise; therefore, investors and institutions need to align accordingly and understand their imperative role in supporting social impact start-ups, which can rise to the challenge of delivering high returns in many sectors, like healthcare, education, alternative energy, etc. In addition, there is ample evidence that these social impact start-ups need robust business strategies and technology to scale up and be sustainable.

"Do we really just have binary choices – between public or private provision of education, health and other social services; between charities and aid agencies focused only on dire needs, or corporations focused only on maximizing profits; between investors who can choose only to maximize their returns or make philanthropic donations? Is there a middle way? Is there a model that embraces the financial disciplines of market capitalism but also provides opportunity and support for the vulnerable, the dispossessed and the downright unfortunate?"

Nick O'Donohoe, CEO, Big Society Capital, UK
Vice Chair of the Global Agenda Council on Social Innovation[3]

On a bitterly cold winter morning, in January 2020, a group of experts and leaders from around the world huddled around a roundtable, deep in discussion. The snowy, grey view from the glass windows in Davos mirrored the sombre mood in the room. As the much-needed coffee was brewing, they were reading an open emergency letter demanding action, backed by 2000 global influencers, listing the most pressing problems of our times: "Our climate is heating up; natural disasters are increasing; millions flee their homes; children suffer without vital food and healthcare; girls and women are refused an education and subjected to discrimination and violence, etc."[4]

The group knew they had some big issues to tackle and the debate was heating up with many frustrated voices calling out persistent poverty, inequality and the climate crisis. "Economic inequality is out of control. In 2019, the world's billionaires, only 2,153 people, had more wealth than 4.6 billion people. This great divide is based on a flawed economic system that values the wealth of the privileged few."[5]

A small voice of optimism tried to remind them that the Global Goals for Sustainable Development (SDG) adopted at the UN in 2015 with 193 signatory countries, was making progress. Though there was truth to this fact, upon examining the evidence, everyone accepted that they were nowhere close to achieving the goals set for 2030: "The world must go faster and farther, redouble its efforts,[6] with major transformations needed."[7]

The overarching consensus was that the business community would need to play a critical role. "The situation that we find ourselves in is an economic system that leaves too many people behind,"[8] said one leader, and another boldly stated, "I believe businesses that are only targeting profits will die."[9]

The group highlighted research that revealed, "Despite clear opportunity, CEOs in 2019 acknowledged that business execution was not measuring up to the size of the challenge, that systemic change was key, and they needed to raise corporate ambition, collaborate in new ways, and elevate the responsibility of leaders."[10]

After many hours of discourse, a twilight hue glimmered through the windows as they read the last - more optimistic - lines of the letter: "…we still dare to hope that in 2020 you will act decisively and courageously … to find the finance, to track implementation, to unlock radical solutions."[11]

As they concluded their meeting, the heavy-weight group acknowledged it was crunch time for delivery within the next decade, but as they walked out through the big double doors a nagging big question lingered in their minds: How do you shift the values at the heart of business and the economy?

The Arab World: MENA (22 countries)[i]

Echoes from Davos were heard closer to home, in the Arab World, where the latest data of the 22 countries revealed an average low SDG score of 58 out of 100.[12] Besides facing similar challenges to the rest of the world and the crisis of those facing extreme poverty as a result of conflict in the Middle East, the most pressing problems (common in all the MENA countries) related to sustainable food production and gender equality.[13]

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The Arab World consists of 22 countries in the Middle East and North Africa: Algeria, Bahrain, the Comoros Islands, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Mauritania, Oman, Palestine, Qatar, Saudi Arabia, Somalia, Sudan, Syria, Tunisia, the United Arab Emirates, and Yemen.

Here are some stats for this region:[14]

- 1 in 4 children experiences acute poverty.
- 25 per cent of children aged 5 to 17 are not enrolled in school or have fallen two grades behind.
- Among young women, unemployment rates at 48 per cent, are the highest in the world.
- The region has the fewest laws protecting women from domestic violence of any region in the world.
- 14 of the world's 20 most water-stressed countries are in this region.
- Rapid urbanization, expected to exceed 68 per cent by 2050, is putting pressure on energy and other natural resources.
- 28 per cent of all residents in the region are living in slums or informal settlements.

Business leaders in the region confirm these findings. Jose Rubinger, COO and co-founder of Key2Enable Assistive Technology MENA Ltd, warns that "There is a serious problem of people with disabilities in the MENA region, as well as girls not being literate, which will cause employment challenges." Meanwhile Marc Aoun, CEO & General Manager, Compost Baladi SAL, underlines, "Water and food scarcity, and economic challenges are significant problems in this region." And Priya Sarma, Senior Sustainability Manager, Unilever North Africa Middle East, Turkey, Russia, Ukraine & Belarus emphasizes that, "Diversity and inclusion of women in the workforce, health and well-being, and sustainability and inclusive prosperity are key challenges in this region."

Nazareth Seferian, an independent social entrepreneurship consultant in the region, explains, "The education system in the MENA region lags significantly behind the rest of the world, and is not producing creative, critical thinking problem-solvers, innovators and entrepreneurs. There is an urgent need for reformation as well as wider accessibility to good quality education. Furthermore, our society and future generations are harmed by the cultural trend of irresponsible consumerism, and of course the ongoing discourse of hate and divisiveness that has been prevalent for too long in our region. This makes it very difficult to build communities and establish harmonious and sustainable economic growth."

Mona Itani, Coordinator of the Entrepreneurship Initiative and Senior Instructor of Innovation and Entrepreneurship at the American University of Beirut laments on the instability and uncertainty in Lebanon caused by the political environment. "It is very difficult to plan ahead, and entrepreneurship is not a priority."

Referring to the many acute and chronic challenges in the region, UN Deputy Secretary-General, Amina Mohammed said to the Arab Forum in 2019, "Equitable, inclusive and sustainable development is the surest way to avert such tragedies."[15]

She outlined three focus points for transformation to occur:[16]

1. Break down the silos that constrain policy action across sectoral lines - recognize the interdependence of these issues and act on them in a holistic way.
2. Match intentions with finance - both public and private - mobilize the investments.
3. Take partnerships to the next level - it is a collective responsibility.

The MENA region can move forward towards transformation with these guiding principles, and by unlocking the potential of its dynamic and large youth demographic.

The Arab Youth: Unemployment and Entrepreneurship

As the MENA region looks ahead on this path of transformation, it must recognise that its biggest asset is its youth. They comprise over 32 per cent of the population, with over 100 million youth between the ages of 15 and 24.[17] Another survey found that 65 per cent of the Arab youth are under the age of 30.[18] Notwithstanding the power of the youth, the challenge, according to the World Bank, is that in 2015 this region also had the world's highest youth unemployment rate, standing at 27.2 per cent in the Middle East and 29 per cent in North Africa.[19]

A recent UNICEF report, 'MENA Generation 2030' states that "The adolescents and youth of the Middle East and North Africa have the potential to become changemakers, by actively contributing to addressing the region's most pressing issues, and to reaping the demographic dividend."[20]

So, how can we materialize the great potential of the youth into a dividend? And can these future leaders be better equipped and unleashed in order to deliver on the SDGs and create a better tomorrow? To answer these questions, let us get to know the youth of the Arab world a little better.

Interestingly, a 2017 report found that Arab youth comprised of the highest proportion of millennial entrepreneurs (who are known to be motivated by purpose and not profit alone) in the world, with 63 per cent of business owners aged 35 or under; also 46 per cent of these entrepreneurs started their businesses while at school or university, the highest number of any country or region in the world.[21] Other notable findings regarding characteristics of Arab millennial entrepreneurs are that they are hardworking, brand loyal and very creative. "Many of the millennial activists that shaped the Arab Spring are now putting their energy into NGOs rather than political parties; Arab millennials will elevate the region to new levels of dynamism, using notions of personal rights, freedom and enterprise to challenge authoritarianism, poverty and stagnation that had afflicted their societies."[22]

However, Mohamed Talab, Chief of Staff, Picture Group, exhorts, "Parents here are unable to accept that their children might not want to pursue a typical career path, or may even opt out of university to start their own business; potential investors are unwilling to fund start-ups by young entrepreneurs; and the latter themselves need to overcome psychological barriers of failure. Additionally, setting up a new business in this region is still very challenging - even opening a bank account is a major obstacle. The MENA region not only has to hold on to its talented population but has to work really hard to attract global talent."

In some MENA countries like Lebanon, the geopolitical instability has made it very difficult for innovation and a sustainable entrepreneurial ecosystem to flourish. To encourage start-ups in the region, there has been an explosion of incubators and accelerators, but they face a funding and equity gap at a critical stage in their growth journey.

Maria Carolina Romero, Head of Portfolio Products, Go Beyond Investing, explains, “Incubators and accelerators help an entrepreneur start their venture, but once their role ends (normally a year or two after start-up phase), these entrepreneurs are on their own looking for additional funds to grow, and herein lies a serious problem. Investors in the region need to be educated to think differently from the traditional portfolios of bonds and real estate. In the developed world, there are more sophisticated business institutions and angel investor networks which understand the entrepreneur’s journey and how to invest, with processes such as staggered payments, co-investing, mezzanine loans, entrepreneur funds, repayment via equity and cash, etc. Furthermore, investors in the MENA region often don’t understand ‘impact investing’ and how to evaluate this business model.”

Krsytel Khalil, Projects Lab Director, Berytech Innovation Park, confirms Maria’s experience; “Small enterprises need access to funds where funding mechanisms are adapted for social impact and profit. And they need access to the market and a supporting ecosystem that links them to various stakeholders, partners, networks, digital platforms, B2B events, and other programmes for visibility, mentoring, capacity building, structuring their operations, integrating technology, etc. There just isn’t enough help for them to really grow and succeed long-term, and this isn’t just about funding.”

“The entire entrepreneurship ecosystem needs a wholistic perspective,” says Deema Bibi, CEO Injaz & My StartUp in Jordan. “Finding investors for start-ups in the region is a big challenge, especially for social start-ups, with a culture for a quick ROI and the small pool of investors are interested in more tech-focussed start-ups such as bio-tech, fin-tech, or real estate and bonds.”

With high youth unemployment, Jordan - like the rest of the MENA region - is concerned about many socio-economic problems. “It takes over one year for 70 per cent of our graduates to even get a job. This is a huge problem,” Bibi warns. So, naturally, encouraging and equipping young entrepreneurs is the goal of organisations like Injaz, who also focuses on helping social and environment impact start-ups.

However, the regulatory framework in the region does not make it easy for these start-ups. “There is a huge disconnect between the policies on paper and its implementation on the ground,” Bibi contends, continuing, “There is a general lack of awareness and an inability demonstrated by service providers and the public sector to understand and execute the rules on the ground, so that they can efficiently serve start-ups. Too many complicated rules, and excessive bureaucracy, prolong the process and the pain for entrepreneurs, especially social start-ups.”

There is an additional barrier for social enterprises to overcome in many countries in the MENA region, where there isn't a space for them within the current rules. Bibi explains, "We are working with the government to create a new law or modify the existing company law. At present, you can either register as a non-profit entity or as a private business. The former means you are fined if you are profitable, and the latter means you cannot avail of the much-needed grants and funding you need in order to grow."

It's a complex challenge for policy makers, but one they have to deal with because the young entrepreneurs in the region are not really interested in starting NGOs, nor are they satisfied with financial success alone. As the next generation and future leaders of the region, they are far more motivated by start-up strategies that place social and environmental purpose at the core.

The changing face of Business: Social Enterprises are here to stay

"Social enterprises balance a social mission with financial viability and sustainability, existing between the public sector and private markets in both the developed and developing world. We need to unleash a whole new wave of social entrepreneurs and help existing models with proven impact grow to scale much more effectively. If we get this right, the economic historians of the future will look at this generation of leaders and be grateful. They took the risk and transformed the prevailing model. They helped create a world that enriched the many and not just the few," expounds Nick O'Donohoe, CEO, Big Society Capital, UK; Vice Chair of the Global Agenda Council on Social Innovation.[23]

Globally, social entrepreneurs working with the Schwab Foundation for Social Entrepreneurship[ii] have "improved the lives of more than 622 million people in 190 countries; distributed US$6.7 billion in loans or value of products and services to improve livelihoods; mitigated more than 192 million tonnes of CO_2; improved education for more than 226 million children and youth; improved energy access for 100 million people; and driven social inclusion for over 25 million people who have disabilities, or are homeless, or who have refugee status."[24]

[ii] The Schwab Foundation community includes around 400 social innovators and entrepreneurs operating in more than 190 countries worldwide.

Social entrepreneurs in the MENA region are educated and young, with 66 per cent between the ages of 20 and 35.[25] Surveys have revealed that over half of these founders started their companies with their own personal savings, while others received financial support from grants, competition funds, family and friends. Unfortunately, only a few went on to generate revenue from sales, and very rarely were they able to raise funds from investors to grow their businesses.[26]

The Arab world is still evolving in its understanding of integrating ‘private sector principles’ and ‘social impact’. There is, in fact, no accurate Arabic phrase that would translate to ‘social enterprise’ because traditionally, charities looked after social needs and businesses grew the economy. There is still distrust that a single entity can adequately do both (i.e., be profitable and do-good).

A May 2019 report by Social Enterprise UK, ‘Hidden Revolution’ showed that despite challenges, there are more than 100,000 social enterprises contributing £60 billion to the UK economy and employing two million people. It also showed that 47 per cent of social enterprises grew their turnover year on year compared with 34 per cent of small and medium-sized enterprises. Social enterprises in the UK are doing better than most, because many of them have embedded commercial sustainable business models right from the outset.[27]

Though still relatively nascent, there is also some evidence showing that the social enterprise ecosystem is expanding somewhat in the MENA region. A 2016 report by Thomson Reuters gave mixed results, ranking the UAE, Egypt and Saudi Arabia high in the ‘gaining momentum’ category, but all the nations in the region scored poorly on access to funding, public understanding of a social enterprise, and government policy support. But there are increasing numbers of enabling incubators, accelerators, hubs and intermediaries that are sprouting in the region,[28] yet social enterprises find it difficult to scale and survive without an enabling ecosystem and the best principles of capitalism woven into their business to become financially feasible and independent.

“In the UAE, it was a challenge when I had to obtain my start-up licence, but I can see that efforts are being made now to create new policies that facilitate opening of bank accounts, issuing visas, etc. And there are increasing numbers of entrepreneurs from around the world who are participating in this rapidly evolving new ecosystem. Having purpose embedded in your start-up doesn’t guarantee that you will be profitable, and there is a particular challenge of the importance and dependency on neighbouring countries aligning better in the region,” Rubinger relates.

Agreeing with Rubinger, Dina Abdul Majeed, Founder and CEO, 360Moms, expounds, “Most start-ups have great ideas but lack business and marketing knowledge. When expanding into new markets, start-ups need to partner with organisations that help them reach the right audience; and obtaining the relevant market research is critical.”

While Aoun feels that “There is a need for the regulatory environment to change and embrace innovation in the public sector, and for investors to fund sustainable social impact initiatives,” Seferian makes a pertinent observation; “This region lacks a strong and sizable middle class, which makes it especially difficult for start-ups to find large customer segments and become profitable. Furthermore, start-ups don’t have enough understanding about measuring and reporting social impact, which makes them less credible for investors.” Majeed’s experience reveals, “Start-ups in the MENA region are struggling because there aren’t enough interested investors, and it is difficult to find mentors here who can give them right guidance.”

Talab takes a wholistic view, “Today, businesses that are solely profit-driven or purpose-driven are sustainable in the long run. The old style of ‘capitalism’ with focus only on financial gain, without taking into consideration all relevant stakeholders i.e., employees, customers, suppliers, environment, etc., is no longer viable. At the same time, a social impact start-up that does not ensure generation of wealth to sustain itself becomes a value destructing business rather than a value generating business. The greatest challenge for entrepreneurs is to firmly believe that there should be no compromise between being profitable as well as having a purposeful impact on society.”

Challenges of Scaling Social Start-ups (Social Enterprises)

The current market mechanism for growth through investments based on financial results alone is a stumbling block to scaling social enterprises. Being neither a conventional business nor a traditional charity, social enterprises face a multitude of challenges along their path to growth.

There is a need to reform policy with regulations that recognise dual-purpose business models. To scale social start-ups, governments can create an ecosystem that helps build capacity, attract capital, increase demand for their products and services, and provide technological assistance, etc.

Furthermore, the impact investing space in the region is much smaller compared with other regions. In 2016, the market was valued at an estimated US$1.8bn in the MENA region out of US$114bn globally.[29] However, over the next few decades, there will be an intergenerational wealth transfer of US$30 trillion from baby boomers to millennials,[30] making the latter the key drivers of the future of impact investing.[31] A 2019 Morgan Stanley Institute for Sustainable Investing survey of high net worth investors says that 95 per cent of millennials are interested in sustainable investing. Accenture believes that this transfer of wealth will force wealth management firms to make difficult but necessary decisions about the right business model for long-term success.[32]

The Morgan Stanley poll revealed that almost 9 out of 10 respondents (88 per cent) agreed it was possible to balance financial gains with a focus on social and environmental impact. Almost as many (86 per cent) believed that companies embracing ESG practices may potentially be more profitable and better long-term investments.[33]

Considering the emerging millennial leadership mindset, this is an opportune moment for the private sector to invest into achieving the SDGs. A UN report indicates, “In emerging markets alone, the UN estimates US$3.9 trillion per year will be required to reach all 17 goals by 2030. At the current rate of investment, the UN has calculated a gap of US$2.5 trillion per year.”[34]

Rubinger's advice for start-ups to succeed is to have a lot of patience and to understand the importance of living in the region for a period of time to truly understand the local challenges. "Programmes that seek to bring entrepreneurs into the region with the condition that they must live here will be successful."

Aoun shares his learning and encourages social entrepreneurs, "While our region faces many challenges, it also offers great opportunities for impact. Even if some interventions may not seem feasible at first, through the right business models, stakeholder engagement and perseverance, impact can be achieved. In parallel, it is easy for an entrepreneur to fall in love with their ideas and solutions, leading them to ignore early signals that they need to pivot, or sometimes entirely abandon certain initiatives. Therefore, it is crucial for the innovator to be passionate about the issue they seek to address rather than solely focus on the solution they may have to offer. Only then can they truly create a scalable market, drive solutions that rely on a win-win scenario and prosper."

Some practical tips from Majeed include, "Keep listening, and receive as much feedback as you can from mentors, other entrepreneurs, your target audience, colleagues, investors… [but] also follow your intuition, and do what you feel is right."

Seferian shares the important lessons he has learned on his journey, as well those that he has picked up along the way from others. "Be creative and stand out from the crowd," he exhorts, "If we don't do things differently, we will be wasting our time and resources." He also advises, "Be bold and think big, but do not be afraid to start small. The lean start-up approach still works, and most business ideas can be boiled down to a minimal viable product that allows you to test your idea and validate your business model. Customers, investors, partners, employees; everyone likes to see an idea that works, and it is great to be able to prove that you have paying customers for your start-up, no matter how small it is at the moment. If you can couple that with a vision, then you can do a great job of selling your idea and yourself."

And finally, Seferian suggests, "Collaborate and be open – many start-ups are still afraid to talk about their idea or product in public because they are afraid 'it may get stolen'. We need to be as open as possible and work with as many other stakeholders as we can. In the end, we're not just trying to build a company, we're often trying to build a community."

Romero talks about the challenge of 'passporting' in this region. "Basically, start-ups tend to push for expansion quite quickly because of market size and volatility in each country, but often before they have understood each market properly. This sense of urgency is because they don't feel they will survive if only in one market. However, unlike the European Union, there isn't common ground and regulation in areas of pricing, ease of movement, and consolidated markets between the nations in the MENA region. Saudi Arabia and Bahrain have created some 'passporting' regulations to overcome this so that entrepreneurs can expand more easily, and investors are motivated to take risks. The rest of the nations need to follow suit."

"The ideal way to scale is to conduct proper market validations, benchmarking and research to identify opportunities to grow locally and regionally," advises Khalil, adding, "Start-ups should definitely leverage technology to make their business model more agile and linear; focus on partnerships and synergy of stakeholders who can help with networks, markets and knowledge."

The bottom-line is that being an entrepreneur is not easy, and can be a long, lonely and arduous journey. And being a social entrepreneur could be even more challenging. Talab explains, "Most investors are solely profit-driven, and so my advice to social entrepreneurs is to persevere. Also, entrepreneurs should really focus on the operational aspect of the business. There is a lack of deep operational expertise in the region and a move towards integrating the market at every step in the economy will build the necessary clusters."

Investors need to go beyond traditional valuation formulas

A study done by Horacio Falcão, INSEAD Senior Affiliate Professor of Decision Sciences, along with Rony Stefano, CEO of Sanctuary Properties and Vivakey, reveals an important truth, "In the start-up world, traditional formulas for calculating financial value often fail investors. Several classic models, such as discounted cash flow, multiples, the sum of parts or net asset value, could hardly anticipate that Amazon's strategy of burning capital for years would yield so much value. Indeed, could such conventional models justify WhatsApp's purchase price of more than US$19 billion? Could they have foreseen the lack of value behind WeWork? The answer is no."[35]

They go on to explain, "Start-ups are in a different world. Not the world that is, but rather in a world that may be." In brief, this study suggests that investors take a different approach and ask these more pertinent questions:

1. How well will the start-up business model generate or improve customers' lives? Is it proposing a solution that will bring superior benefit to consumers? How important is their service or product for customers and are they willing to pay for it?
2. How well does the start-up team know how to execute its operations so as to become profitable and sustainable?
3. What is the start-up's capacity to differentiate itself, conquer and maintain a dominant, sustainable and profitable market position over time?

The writers suggest that investors look “beyond the overreliance on existing assets and allow [their] imagination to more accurately capture a future that goes beyond a projection of what exists today.”[36]

“Investments in people may have short-term costs,” says Mark Weinberger, Global Chairman and CEO, EY, “but that kind of long-term thinking is critical in a world of inclusive growth. Indeed, one of business’s most important contributions to society is driving sustainable, long-term growth while investing in solutions for the challenges of tomorrow.”[37]

Learnings from Others[38]

The MENA region can leapfrog ahead by taking some lessons from others who have been ahead of the growth curve in this space.

Example 1: The Impact Investing Working Group of the Presidential Investment Council in Senegal resulted from the tenth session of the Council, at which over 400 representatives from government, the private sector and development partners met to discuss the question, “What reforms are needed to strengthen the social impact of private investment?”

Example 2: The Investment and Contract Readiness Fund in the United Kingdom is a cross-sector fund managed by a third party, The Social Investment Business, providing grants for technical assistance to social enterprises seeking new forms of investment or competing for public service contracts.

Example 3: Big Society Capital (BSC) in the United Kingdom is a cornerstone in the development of a UK market for social enterprise and innovation. Leveraging a combined £600 million (over US$ 900 million) in funding from dormant bank accounts and four of the largest High Street Banks, BSC invests in financial intermediaries that provide funding to social enterprise.

Example 4: Social Benefit Bonds in Australia modified a social investment product first implemented in the United Kingdom, creating a similar product tailored to the local context in the state of New South Wales. As the Social Benefit Bonds policy continues to be developed in Australia, evaluation and refinement have been key to its implementation.

Example 5: An important experience by Upaya Social Ventures in India worth noting is that, besides investments, social start-ups need significant business training. Upaya CEO Kate Cochran explains, “Capital is only part of the acceleration puzzle,” she said. “As we continue to support more entrepreneurs building socially responsible businesses that create jobs for those in poverty, we have learned that other support is also needed – namely supporting management with strategy skills to enable scaling. In fact, new research shows that investments in the people behind the enterprises might actually be the most effective way to support young businesses in a growth stage.”[39]

Technology Meets Societal Impact

The Fourth Industrial Revolution (4IR) describes the current anticipated phase of technological advancements that are bringing rapid and disruptive change to every industry and society. "The Fourth Industrial Revolution is fundamentally different. It is characterized by a range of new technologies that are fusing the physical, digital and biological worlds, impacting all disciplines, economies and industries, and even challenging ideas about what it means to be human," explains Professor Klaus Schwab, Founder and Executive Chairman of the World Economic Forum.[40]

Ernest Darkoh of BroadReach Healthcare says, "Technology, and the tools of the Fourth Industrial Revolution offer solutions to issues including job creation and solving problems in health, education, security and food. It's critical we get this right…The social entrepreneur model is needed more than ever to meet the big challenges with practical on the ground solutions. If these can be quickly scaled-up, we really do have a chance of changing the world in our lifetimes."[41]

For social entrepreneurs, technology is increasingly a critical tool and enabler for scaling up impact. The WEF – Schwab Foundation 2020 Impact Report[42] shows that technology impacts in the following ways:

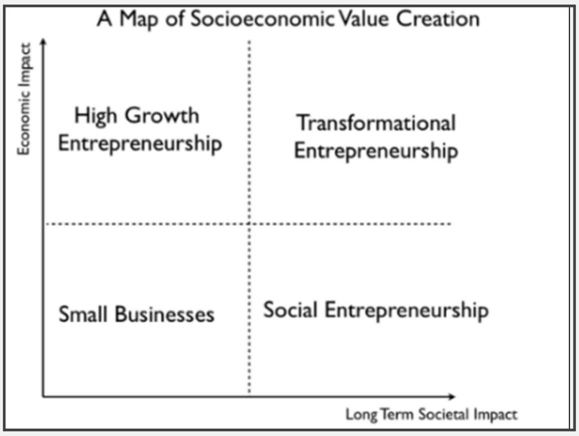
- Social entrepreneurs become visible beyond borders, which facilitates collaborations.
- It is a tool to track developments and trends.
- It enables prediction, response and adaptation to dynamic operating environments.
- It has the ability to humanize development and can provide beneficiaries with direct access to the services and facilities needed to improve their lives.
- It removes intermediaries, providing safer and faster solutions.

With the understanding that deep tech solutions are the way forward for growth and social impact alongside the imperative of economic success, some new business models are emerging for the next decade. One interesting concept worth examining is 'Transformational Entrepreneurship'.

Transformational Entrepreneurship: A new movement?

Entrepreneurs create jobs, wealth, and innovation — and are a global force for good. As research from the Kauffman Foundation and others have extensively documented, most new jobs come from start-ups and scaleups.[43]

So, keeping in mind the current fourth industrial revolution, it is worthwhile examining the entrepreneur ecosystem where technology and social impact meet, creating the potential of a new business model – transformational entrepreneurship. This was a term coined by Start-up Genome and their thinking behind it: “Two movements of Technology Entrepreneurship and Social Entrepreneurship are beginning to converge into a promising solution. An increasing number of entrepreneurs are awakening to the possibility of combining the scalable tools and methodology of Technology Entrepreneurship with the world-centric value system of Social Entrepreneurship. Together they create a new type of entrepreneurship that could become our primary source of socioeconomic value creation. What do we call this movement? We propose we call it "Transformational Entrepreneurship."[44]



Source:
Start-up Genome Blog: Transformational Entrepreneurship - Where Technology Meets Societal Impact

The Y-axis looks at economic impact and obviously the entrepreneurs that have the greatest impact are those that have products and/or services that have scalable business models. Whereas the X-axis looks at entrepreneurs that create the most social impact and help solve the world’s most pressing problems. Transformational Entrepreneurship aims to find convergence, so that start-ups and small businesses can be both scalable, sustainable and profitable, as well as purposeful and inclusive for impact.

These companies would approach problems systematically, such as (suggested by Start-up Genome)[45]:

- Teach men to fish rather than giving them fish
- Focus on unlocking human potential
- Create more value than they capture
- Seek to empower people
- Improve people's relationships, their ability to create and ability to learn
- They nurture ecosystems and platforms

To help start-ups scale and be transformational, they need funding (investors or corporations as incubators), - mentorship (support of business and tech experts) and customers (to buy their product or service). The private sector plays a crucial role in building the ecosystem for transformational entrepreneurship to succeed, aiding an exponential delivery of both social and economic impact.

Voices from the region, share their concerns and counsel. Aoun feels, “Business is key to sustainable social impact, as market-driven solutions are usually those that are sustainable and prosper beyond the funding stage. It is vital that this sector is given the appropriate regulatory support to create fair play so that social impact solutions are available.”

“I think public and private sectors can help each other with shared goals. The public sector should invest in projects already offered by the private sector, and collaborate towards smart and beneficial solutions for society,” says Majeed.

Seferian dives deeper, “Business plays an important role in society, and social issues need to become an integral part of a company’s responsible strategy. The days of philanthropy where a company just donates money for a cause are ending, and instead business is looking at social and environmental problems related to their core business, finding solutions that are both financial lucrative as well have positive social impact.”

“Society and business cannot be separated,” says Talab philosophically. “Economies and nations are and should be built by the private sector, with the government providing an ecosystem for more effective engagement and collaborations. This is especially important when a country needs to explore unchartered industries or big projects. In the MENA region, there is a need for a bankruptcy law, which protects business owners and entrepreneurs from failure due to genuine reasons.”

Sarma speaks from experience, “Businesses have the scale and know-how to address social, economic and environmental issues. Many larger organisations have an international footprint with their purpose integrated into their strategy, and goals aligned to the SDGs. So, for social start-ups to engage with the private sector it depends on the value that can be delivered to help meet both their purposes.”

Stop Press: Covid-19 Crisis

A recent survey by Startup Genome, projects a decline of up to US 86.4 billion in global VC investments due to this crisis.[46] This isn't just numbers and dollars but a reality felt harshly on the ground too, as Itani reports from Lebanon, "The revolution started in October 2019 after the economy was on the verge of collapsing. Although the people's shout was legitimate, it accelerated the collapse process and now with Covid-19 we find ourselves on the brink of hyper-inflation and many more people will be under the poverty line soon. Priorities are shifting quickly from innovation and entrepreneurship to survival and fighting poverty and hunger."

This pandemic caused the entire world to go into lockdown quarantine from March 2020 onwards and continues at the time of writing this case, causing all to pause. Will we be able to create a different future – World 2.0 – as it has been dubbed.

Itani continues, "In the light of all this, the necessity for social innovation and entrepreneurship becomes more relevant than ever. Nevertheless, without the proper enabling environment, any such initiatives have a very slim chance in succeeding, and collaborations beyond country borders are critical."

Understandingly, this is an especially challenging time for start-ups. According to a global survey by Startup Genome, about 65 per cent of all companies have less than six months before they run out of money; 74 per cent of start-ups have had to let go of full-time employees; and 12 per cent have seen their revenues increase by 10 per cent or more since the beginning of the crisis.[47] These are disturbing figures and calls for governments and investors to step-up, with grants and instruments to boost investment. According to another report by Startup Genome, "Governments stand to make money by injecting six months' worth of cash in start-ups or, if we assume a negative 10 per cent return on the equity, the cost per job saved will be 41 per cent lower for start-ups than for SMEs, respectively costing USD14,766 and USD24,928."[48]

I4G conducted a few webinars during the Covid19 crisis and participant polls revealed some interesting findings. With the current crisis and economic disruption, most entrepreneurs plan to reinvent their start-up business model, including a flexible working culture and technology as essential components. They also felt that their start-up business needed to be purpose-driven to survive the crisis and would be willing to make the necessary changes.

Almost everybody agreed that there would be a shift in the dominant corporate culture of seeking global low cost suppliers to a re-localisation of supply chains due to COVID19 disruption. This is echoed throughout the world, bringing back Schumacher's thoughts from 1973, 'Small is Beautiful', in which he highlighted the benefits of more regional supply chains, to better protect companies from future disruptions. However, many did not quite know how to navigate their business through this crisis, nor did they know how to apply for any stimulus package that might be available for SMEs.

A majority felt that the slow-down of investments for start-ups (especially seed and early stage) would last between 3-6 months, and that mergers with local and regional incubators and accelerator would help sustain and make their business stronger. Becoming sector-focussed was the trend with certain industries on the rise, such as agriculture technology and new foods, robotics and artificial intelligence, life sciences and health, edutech, gaming and marketing.

Writer Douglas Rushkoff, author of Team Human, says poignantly, "The post-Covid economy we create could turn out to be a whole lot more resilient than the old one Beyond exposing the brittle nature of global supply chains, top-down monetary policy, and a vanquished domestic manufacturing sector, the Covid crisis is also unleashing a powerful drive by local and networked communities to rebuild business from the bottom-up… augur a new era of sustainable commerce and much better distributed prosperity. Think local farms, worker-owned factories, and companies for whom the bottom line has more to do with selling products than selling shares of its stock."[49]

"The innovations we're seeing emerge are digital in spirit, but local in their execution. The temporary paralysis of globally scaled financial and business institutions is creating the need and room for alternatives to just-in-time global supply chains and centralized, debt-based monetary monopoly," adds Rushkoff.[50]

Will the multitude of companies that have risen to meet the crisis in innovative ways, continue the transformation journey or go back to business as normal? Looking to the future, Sahba Sobhani of UNDP suggests, "As we shift towards resilience, recovery and reimagination, [business must] come together with government at a national or city level. [We must consider] what do more resilient financial, health, energy, and education systems look like? What does the future public-private partnership look like to get back on course to economic growth and achieving SDGs?"[51]

Believing that the work of social entrepreneurs is even more critical during the COVID-19 pandemic, as they reach those who the market and governments are unable to account for, 40 leading global organizations collectively supporting more than 15,000 social entrepreneurs have united to launch the COVID Response Alliance for Social Entrepreneurs. The aim is to share knowledge, experience and resources to coordinate and amplify social entrepreneurs' response to COVID-19.[52] The Alliance has also set up a searchable database of emergency funds available to non-profit and for-profit entrepreneurs during COVID-19 and contains global capital relief offers worth over USD 1 trillion.[53]

Klaus Schwab, who established the WEF believes that companies that practice stakeholder principles are better equipped today to survive this pandemic crisis and need "to create necessary reserves to survive future crises, because, in this interconnected global economy, we will have more crises of different nature in the future."[54]

A New Manifesto

It seems that at Davos then, in January 2020, unbeknownst to the 3,000 global leaders, including 53 heads[55] of state, there was a type of prophetic declaration of sorts, because at the end of the five snowy days, the defining question was: What kind of capitalism do we want?

The main three pillars of the new Davos manifesto 2020 give a clue[56]:

1

The purpose of a company is to engage all its stakeholders in shared and sustained value creation. In creating such value, a company serves not only its shareholders, but all its stakeholders – employees, customers, suppliers, local communities and society at large.

2

A company is more than an economic unit generating wealth. It fulfils human and societal aspirations as part of the broader social system. Performance must be measured not only by the return to shareholders, but also by how it achieves its environmental, social and good governance objectives.

3

A company that has a multinational scope of activities not only serves all those stakeholders who are directly engaged but acts itself as a stakeholder – together with governments and civil society –in our global future. Corporate global citizenship requires a company to harness its core competencies, its entrepreneurship, skills and relevant resources in collaborative efforts with other companies and stakeholders to improve the state of the world.

> *“We can't solve problems by using the same kind of thinking we used when we created them.”*

—Albert Einstein

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